# CHAPTER I

# INTRODUCTION

## 1.1 Research Background

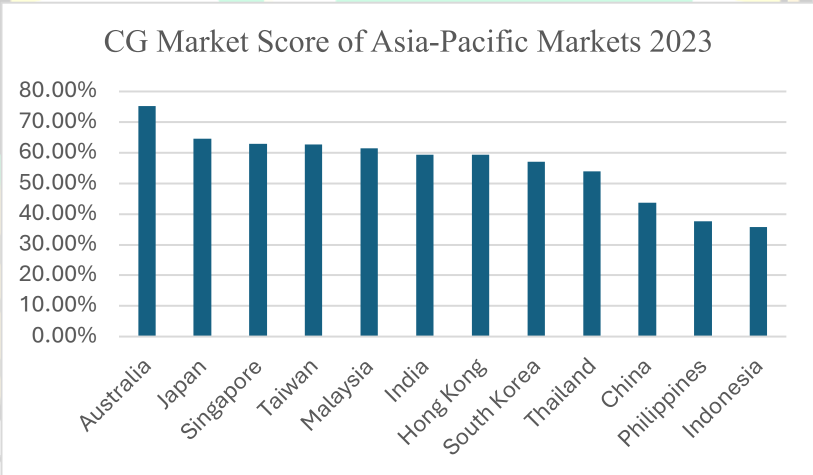
Current developments have had a major impact on today's life. This is illustrated by the development of the current business sector which shows the intense competition between companies. Every business is fighting to meet its objectives. The primary goal of the business is generally to boost earnings to enhance the well-being of its owners and shareholders (Zulhilmi, 2022). The company's worth reflects the health of its owners and shareholders.

Investors consider a company's value as a key indicator in their evaluation of it. The worth of the firm and its share price are related, and the value assessment is influenced by changes in share prices on the Indonesia Stock Exchange. A rise in a company's long-term stock price indicates sustainable growth (Jumady, 2022). Companies with elevated share prices tend to also possess higher overall values, which boosts market confidence in their performance and enhances prospects (Harningsih, 2018). Conversely, low stock prices reflect a diminished company value.

When a company's worth is high, it indicates that it is performing well and that investors have faith in its bright future (Ayu, 2017). Since investor happiness and corporate worth are positively correlated, businesses strive to maximize their value (Murnita, 2018). Maximizing company value aligns with achieving the company's objectives.

To mitigate declines in stock prices, which negatively affect company value, implementing effective corporate governance systems is crucial. Corporate governance refers to the interplay between entities involved in managing the company despite differing interests (Lusmeida, 2021). Good corporate governance includes a methodical management structure designed to maximize shareholder value while considering the interests of stakeholders, such as businesses, governments, consumers, and employees (Jumady, 2022).

However, many companies in Indonesia still have a low awareness of the implementation of corporate governance, causing Indonesia to rank low among Asia Pacific countries. This opinion was issued by the Asian Corporate Governance Association in 2023, which is shown in Figure 1.




Source: The Asian Corporate Governance Association (ACGA)

**Figure 1 2023 CG Market Scores of Asia-Pacific Mark**

As illustrated in Figure 1, Indonesia ranks last among 12 countries with an index of 35.7%, which highlights the need to improve the implementation of Good Corporate Governance (GCG) in many companies in Indonesia. This corporate governance mechanism will strengthen supervision of the company, so that it is expected that through this supervision the company's performance can improve. Managerial Ownership, Independent Commissioners, and Audit Committees are one of the good corporate governance mechanisms that reflect the principles of good corporate governance itself. With the implementation of this mechanism, good corporate governance is expected to increase the value of the company.

Managerial Ownership refers to a scenario where company managers also hold shares, as indicated by their reported percentage of ownership each year (Lusmeida, 2021). Managerial Ownership is aligned with the principles of Good Corporate Governance. Managerial ownership of shares can increase transparency because managers must align their interests with those of shareholders, this encourages more accurate and timely disclosure of information. In addition, managers who own shares tend to pay more attention to the interests of all stakeholders, including employees, customers, and the community, because the long-term success of the company depends on good relationships with stakeholders. According to agency theory, managerial ownership can reduce the potential for agency conflicts in the company (Meckling, 1976). Managerial ownership is expected to increase the value of the company as part of the GCG framework by encouraging management to actively participate in GCG practices (Dewi, 2019). However, Rahmasari's study (2022) shows that, contrary to previous claims, managerial ownership has no real impact on business value.

In a business, the presence of management ownership might be crucial. Judging from the phenomenon of inflation conditions that occurred in Indonesia in January 2023, it showed a figure of 5.28% lower than in December 2022 the previous month of 5.51%. In this instance, management's function in making wise choices to raise the company's worth and financial stability. Because basically inflation is a very disturbing threat to the company, starting from all aspects such as operational and financial aspects. Many companies are forced to restructure or layoffs to survive the turmoil of the inflation rate, because the increase in raw material prices, decreased demand, and weakening people's purchasing power are the main factors that greatly affect company performance during this high inflation period.

The Independent Board of Commissioners plays an important role in setting the company's strategy and overseeing its operations. In addition, they are responsible for ensuring that the company's managers improve performance to meet the organization's goals (Adil Ridlo Fadillah, 2017). This is in accordance with the principles of Good Corporate Governance related to the principle of responsibility. It is estimated that a larger percentage of independent commissioners gives the board more authority to properly supervise and advise the board of directors, thereby increasing the company's value. This view is supported by research by Zulhilmi et al. (2022), which shows that independent commissioners have a positive impact on company value. It is the responsibility of Independent Commissioners to uphold accountability and transparency in financial reporting while encouraging good corporate governance standards and ensuring that management acts in the best interests of shareholders. Their independence allows them to offer objective oversight and direction, which is essential to improving business performance and protecting shareholder interests.

Even though independent commissioners have been shown to have a good impact in a few studies, Indonesian businesses are nevertheless subject to fluctuations. Fluctuating performance is an unstable change in an entity's results. In a business context, performance fluctuations can affect efficiency, productivity to the company's financial results. The crucial function that independent commissioners play in oversight is crucial and essential in addressing the issues this organization is facing. Strict supervision of management decisions and ensuring that decisions made by management are not detrimental or deviate from the interests of the company are expected to minimize performance fluctuations. Because significant fluctuations in performance are a sign of problems in management decisions or in management itself and these problems will affect company value.

The Indonesian Audit Committee Association (IKAI) claims that the audit committee is formed as an independent body by the board of commissioners. Because of its significant and strategic functions, especially in monitoring external audits and financial reporting processes, this committee is very important for a business. The audit committee should be able to improve the quality of revenue and the overall value of the company (Evinda Sari Tumangger, 2023). In accordance with the principles of Good Corporate Governance, the Audit Committee increases transparency through supervision of the audit process and financial reporting, ensuring accurate and reliable financial reports. According to Rouf's research (2011), the audit committee and ownership by managers have a positive influence on company value.

The audit committee is crucial to the preparation and submission of financial reports. Any errors or delays in these reports can adversely affect the company, particularly its value and the confidence of investors and stakeholders. In June 2020, the Indonesia Stock Exchange (IDX) reported that 80 companies were late in submitting their financial reports, highlighting issues in the financial statement preparation process that are closely linked to the audit committee's effectiveness. Such delays can lead to significant losses for companies, including regulatory sanctions from the Financial Services Authority (OJK) and damage to their reputation, which ultimately impacts investor confidence and company value. Therefore, it is crucial for companies to have a competent audit committee capable of fulfilling its responsibilities to ensure long-term sustainability.

In addition to GCG, firm value may also be impacted by the company's financial performance. Financial value and GCG are thought to be moderately correlated with company performance. The organization needs to be operating at its best financially to enhance strategy and performance. Using financial ratios at a specific period, financial performance may be quantified by examining the firm's financial statements. Providing financial data that describes the company's present state is the aim of financial performance. The company's valuation will be deemed favorable with strong financial results.

The researcher employe Return on Assets (ROA), a metric for financial achievement, as a moderating variable in this investigation. The return on assets (ROA) of a business indicates its capacity to use its assets to produce after-tax profit. An organization may generate more profits with the same amount of activity if its operations are more efficient, as shown by a higher ROA. Return on Assets (ROA), a percentage that is computed by dividing net profit by total assets, quantifies profitability in relation to total assets. Greater returns on assets are considered a sign of a company's success. This is because the business is now better able to make money off of its assets. A greater ROA number suggests that the business is making better use of its resources, which boosts profitability. This reflects an improvement in the company's performance, as the funds invested in assets yield greater after-tax profits.

In addition to GCG, company value can also be influenced by the company's financial performance. Financial value and GCG are considered to be quite strongly correlated with company performance. Organizations need to operate as well as possible financially to improve strategy and performance. By using financial ratios in a certain period, financial performance can be measured by examining the company's financial statements. Providing financial data that describes the current state of the company is the goal of financial performance. Company valuation will be considered profitable with strong financial results.

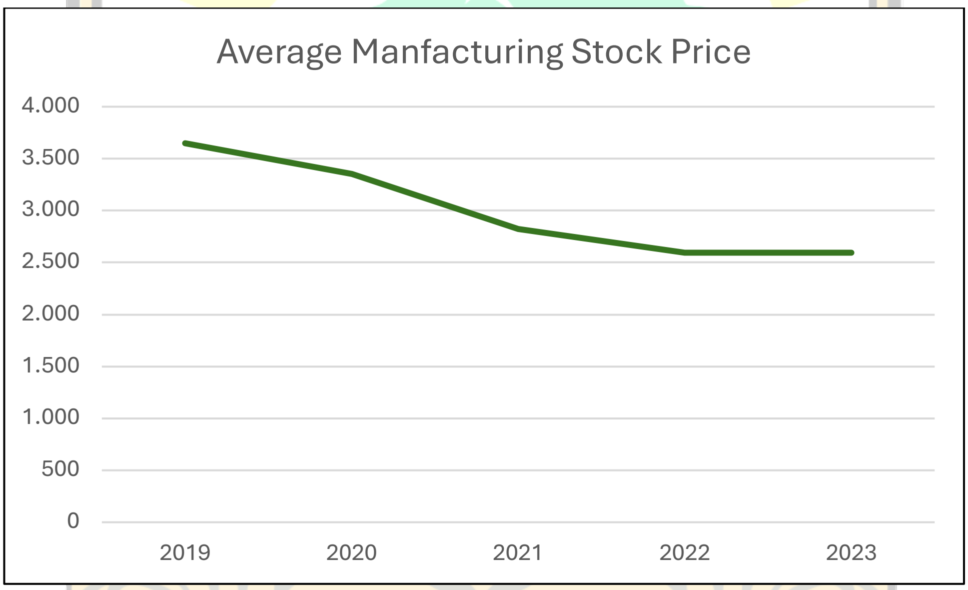
Researchers use Return on Assets (ROA), a metric for financial achievement, as a moderating variable in this study. A business's Return on Assets (ROA) indicates its capacity to use its assets to generate after-tax profits. An organization can generate more profit with the same amount of activity if its operations are more efficient, as indicated by a higher ROA. Return on Assets (ROA), a percentage calculated by dividing net income by total assets, measures profitability in relation to total assets. A higher return on assets is considered a sign of a company's success.

This is because the business is now better able to generate money from its assets. A higher ROA figure indicates that the business is utilizing its resources better, which increases profitability. This reflects an increase in company performance, because funds invested in assets generate greater after-tax profits.

In this study, Return on Assets (ROA) was chosen as a moderating variable because of its ability to reflect the company's efficiency in generating profits from its assets. ROA provides a comprehensive picture of how companies manage existing resources to create value (Gitman & Zutter, 2015). In addition, ROA is also sensitive to changes in Good Corporate Governance (GCG) practices, where good GCG implementation is expected to improve the company's operational efficiency and profitability (Claessens & Yurtoglu, 2013). Thus, ROA can moderate the relationship between GCG and company value by showing the extent to which financial performance, as measured by ROA, can strengthen or weaken the influence of GCG on company value. Previous research also shows that ROA has a significant role in moderating the relationship between corporate governance practices and market performance (Bhagat & Bolton, 2008). Therefore, the use of ROA as a moderating variable is expected to provide deeper insight into how the effectiveness of GCG in increasing company value is influenced by the company's financial performance.

Manufacturing firms that are listed on the Indonesia Stock Exchange are among the fascinating industries to study. This is because manufacturing is a large corporate sector and Indonesia has many companies engaged in this sector. Moreover, from 2019 to 2023 there has been a decline in stock prices in the manufacturing sector due to the Covid-19 pandemic that hit Indonesia and paralyzed the country's economy, not only manufacturing, but several industrial sectors were also hit hard by the impact of the pandemic, which resulted in manufacturing and trading activities experiencing a lot of damage, some even decided to stop.

This phenomenon is illustrated by the stock price fluctuations of manufacturing businesses listed on the Indonesia Stock Exchange, as depicted in the chart in Figure 2 below.




*Source:* Refinitiv Eikon

**Figure 2 Manufacturing Company in Indonesia Stock Price 2019-2022**

Figure 2 shows a graph of stock price movements decreasing every year from 2019 to 2023. In this way, it can be said that manufacturing companies are very affected by the Covid-19 pandemic that hit Indonesia, which resulted in a decline in stock prices. This decline in stock prices also indicates that the value of these companies is also declining and reduces investors' confidence to invest in companies.

**Table 1 ROA and Closing Price in the Manufacturing Sector in 2022-2023**

| Company Code | 2022 Closing Price | 2023 Closing Price | 2022 ROA | 2023 ROA |
|---|---|---|---|---|
| INDF | IDR 6.325 | IDR 6.000 | 3,41% | 4,37% |
| UNVR | IDR 4.300 | IDR 4.000 | 29,29% | 28,81% |
| MYOR | IDR 2.700 | IDR 2.460 | 8,72% | 13,38% |
| KLBF | IDR 1.600 | IDR 1.500 | 12,42% | 13,33% |
| SIDO | IDR 1.300 | IDR 950 | 27% | 24,43% |

*Source:* Refinitif Aikon

In table 1, manufacturing companies including INDF, UNVR, MYOR, KLBF, and SIDO experienced a decrease in closing price shares, which reflects the company's value from the end of 2022 to the end of 2023. In table 1, PT Indofood Makmur Tbk (INDF) at the end of 2022 has a closing price of IDR 6,325 shares and decreased at the end of 2023 to IDR 6,000, where PT Indofood Makmur Tbk decreased by IDR 325. At PT Uniliver Indonesia Tbk (UNVR) in 2022 the share price per share was IDR 4,300 and in 2023 it decreased by IDR 300 which made the share price IDR 4,000. Likewise with PT Mayora Indah Tbk (MYOR) where in 2022 the company's share price is IDR 2,700 and has decreased in 2023 to IDR 2,460. Then at PT Kalbe Farma Tbk (KLBF) in 2022 the share price per share was IDR 1,600 and in 2023 it decreased by IDR 100 which made the share price IDR 1,500. And the last is the company PT Industri Jamu dan Farmasi Sido Muncul

Tbk, in 2022 the share price for each share was IDR 1,300 and in 2023 it decreased by IDR 350, which caused the company's share price to IDR 950.

These 5 companies are some examples of companies that implement good corporate governance, these results are obtained through annual reports published by each company. Judging from the results obtained and the description explained, the conditions experienced by these 5 companies are inversely proportional to the existing theory. This highlights a discrepancy between theoretical expectations and empirical evidence - while Good Corporate Governance (GCG) is theoretically linked to increased company value, the data in Table 1 shows no such positive relationship, contradicting the theoretical framework. This situation shows that there is a gap in phenomena related to good corporate leadership in the company's worth.

Fajriah et al.'s (2022) previous study found that financial performance may simultaneously influence corporate governance and business value. According to Harahap (2022), this shows that financial performance can moderate corporate leadership on company value. Meanwhile, according to Sari, et al. (2023), it shows that Return on Asset (ROA) cannot strengthen the relationship between corporate governance and company value.

This study differs from numerous others in that it uses corporate governance as an independent variable, with management ownership, an independent board of commissioners, and an audit committee serving as its indicators. Furthermore, the independent factors that are used include financial performance and business value, which are measured using ROA as a moderating variable that moderates GCG with company value.  Apart from factors, the study's objects also vary the sample period is five years, from 2019 to 2023, and the study's objects are industrial companies listed on the Indonesia Stock Exchange.

Based on the current phenomena and research gaps that have been clarified and substantiated by the numerous prior studies that serve as the research's backdrop, this study is backed by theories and elements that explain the impact on the companies' worth.  Therefore, the researcher intends to conduct a test by examining **"The Influence of Corporate Governance on Corporate Value with Financial Performance as a Moderating Variable in Manufacturing Companies Listed on the Indonesia Stock Exchange for the 2019-2023 Period"**.

## 1.2 Problem Formulation

This research investigates the valuation of manufacturing firms on the Indonesia Stock Exchange in connection to sound corporate governance, concentrating on the following issue formulation:

1. Does Managerial Ownership affect the Value of Manufacturing Companies listed on the Indonesia Stock Exchange in 2019-2023?
2. Does the Independent Board of Commissioners affect the Value of Manufacturing Companies listed on the Indonesia Stock Exchange in 2019-2023?
3. Does the Audit Committee affect the Value of Manufacturing Companies listed on the Indonesia Stock Exchange in 2019-2023?

4. Do Managerial Ownership, Independent Board of Commissioners, and Audit Committee together have a significant effect on the Value of Manufacturing Companies listed on the Indonesia Stock Exchange in 2019-2023?
5. Can financial performance strengthen the relationship between Managerial Ownership and the Value of Manufacturing Companies listed on the Indonesia Stock Exchange in 2019-2023?
6. Can financial performance strengthen the relationship between the Independent Board of Commissioners and the Value of Manufacturing Companies listed on the Indonesia Stock Exchange in 2019-2023?
7. Can financial performance strengthen the relationship between the Audit Committee and the Value of Manufacturing Companies listed on the Indonesia Stock Exchange in 2019-2023?

## 1.3 Research Objectives and Benefits of Research

### 1.3.1 Research Objectives

Depending on the previously given issue formulation and backdrop, the following are the study's aims:

1. To investigate and assess the impact of managerial control on the worth of manufacturing companies listed on the Indonesia Stock Exchange between 2019 and 2023.

2. To investigate and evaluate how the Independent Board of Commissioners affects the worth of manufacturing firms that are listed on the Indonesia Stock Exchange between 2019 and 2023.
3. To research and assess how the Audit Committee affects the share valuation of manufacturing companies listed on the Indonesia Stock Exchange between 2019 and 2023.
4. To assess how the Independent Board of Commissioners, Management possession, and Audit Committee affect the value of manufacturing companies listed on the Indonesia Stock Exchange between 2019 and 2023.
5. To assess and evaluate the extent to which financial performance can strengthen the correlation between Managerial Ownership and the valuation of manufacturing firms listed on the Indonesia Stock Exchange from 2019 to 2023.
6. To assess and examine whether, from 2019 to 2023, financial performance may improve the connection between the value of manufacturing companies listed on the Indonesia Stock Exchange and the Independent Board of Commissioners.
7. To assess and investigate how much the value of manufacturing businesses listed on the Indonesia Stock Exchange between 2019 and 2023 may rise due to financial performance and the connection between the companies and the audit committee.

### 1.3.2 Benefits of Research

1. For companies: This study is planned to give insights for manufacturing companies in designing and implementing effective corporate governance strategies to enhance company value and improve overall performance in the long term, especially after going public.
2. For investors: Investors will find the research's findings to be useful in determining how well corporate governance and business value are related.. This can help investors make more informed decisions regarding their investments in manufacturing companies.
3. For the researcher: The findings from this research are anticipated to deepen the researcher's understanding of the impact of corporate governance and financial performance on company value, contributing to academic knowledge in the field of corporate finance.
4. For readers: The results of this study are expected to improve readers' comprehension of the importance of good corporate governance and its impact on business value, especially in view of Indonesia's manufacturing sector and stock market dynamics.



## 1.4 Scope of Research

A selection of manufacturing companies that were listed on the Indonesia Stock Exchange between 2019 and 2023 will be the subject of this research. The study will examine the effects of independent variables on the dependent variable, corporate value, including the size of the board of directors, the number of audit committees, and the size of the board of commissioners. A moderating element in this association will also be investigated: financial performance.

### 1.5 Writing Systematics

The systematics of this writing consist of five chapters, namely:

Chapter I: Introduction

This chapter consists of: background, problem formulation, research objectives, research benefits, and writing systematics.

Chapter II: Literature Review

This chapter consists of: theoretical basis, previous research, hypothesis development and framework of thought.

Chapter III: Research Method

This chapter consists of: the methods that will be used in this study, namely: research design, population and sample, types and sources of data, operational definitions of variables, data collection methods and data analysis methods.

Chapter IV: Analysis And Discussion

This chapter contains the results of the analysis and discussion in predicting the effect of Good Corporate Governance on Company Value with Moderating Financial Performance in Manufacturing Companies Listed on the Indonesia Stock Exchange in the 2019-2023 Period.

Chapter V: Closing

This chapter contains conclusions from the results of the research conducted, limitations, suggestions given, and implications of the research for further research.