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Good Corporate Governance Affects on Corporate Value Through Return on Equity and Return on Asset of Manufacture Company

Dewi Kumalasari and Heri Pratikto

Faculty of Economics, Universitas Negeri Malang

Abstract

This study aims to determine the direct effect of GCG on Corporate Value, GCG of the ROA, ROE on Corporate Value, ROA of the Corporate Value and to determine the indirect effect of the GCG on Corporate Value through ROE and ROA. By using path analysis research show that: 1) the condition of Corporate Values and ROA variables are classified low, while the variable conditions of GCG and ROE are medium, 2) GCG has a significant positive effect on Corporate Value, 3) GCG has a significant positive effect on ROE, 4) ROE has a significant positive effect on Corporate Values, 5) GCG has a positive effect significantly on ROA, 6) ROA significant positive effect on the Corporate Values. Thus in this study, ROE and ROA is a mediating variable between GCG influence on the value of the Company.

Keywords: *good corporate governance, Tobin's q, return on equity, return on asset*, corporate value.

Corresponding Author:
Dewi Kumalasari
dewikuumala@gmail.com

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The manufacturing industry is experiencing rapid growth so that the investment competitiveness in the manufacturing sector is getting tighter. The rapid growth and tight competition is attracting the attention of potential investors, as well as important and interesting to investigate. Company managers are required to be more effective and efficient in carrying out their duties. It is intended that the company can provide the maximum value for the prosperity of the company to suit its purpose. Measurement of corporate value needs to be done to find out how the company performance when viewed from the side of investment that reflects the market assessment of a company [15]. A high increase in corporate value is a long-term goal that should be achieved by the company that will be reflected from the market price of its shares because investors' valuation of the company can be observed through the movement of stock prices of companies traded in exchange for companies which are already gone public. Investors will dare to buy stocks at high prices against highly rated companies.

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The value of the company is the investor's perception of the company, which is often associated with the stock price, as the current stock price reflects investors' valuation of the company in the future. If the company makes a bad decision, then the stock price will go down. Therefore, the goal of management is to take decisions that can raise the price of the stock, because this will generate wealth for shareholders, thus increasing the value of the company (Brigham and Houston, 2010: 8)

The higher the stock price, the higher the value of the company is. High corporate value is the desire of the owners of the company because with a high value shows the shareholder prosperity is also high. The wealth of shareholders and the company is presented by the market price of the stock which is a reflection of investment decisions, financing, and asset management.

Corporate value is a reflection of market appraisal of a company that reflects how well management is managing the company. The value of companies in this study is measured by Tobin's that is Equity Market Value (EMV). The value of the corporate with the EMV indicator is calculated how the market value of equity is summed with the book value of total debt. EMV is generated from the price at the closing price of the stock five days after the published financial statements multiplied by the number of shares outstanding. While the book value of debt generated from total debt plus inventories minus current assets. Thereafter, the result of the sum of EMV and the book value of debt relative to total assets.

There are several factors that influence the rise and fall of corporate value, one of which is Good Corporate Governance (GCG). Recent developments show that management is not enough just to ensure that the management process runs efficiently. A new GCG instrument is required to ensure that management is running well. There are two points emphasized in this concept, firstly, the importance of shareholder rights to obtain timely and accurate information and, secondly, the company's obligation to disclose accurately, timely and transparently to all company performance information, ownership, and stakeholders. From various studies conducted by various independent national and international research institutes, showing low understanding of the importance and strategic application of GCG principles by business people in Indonesia. In addition, organizational culture also influences the implementation of GCG in Indonesia

The Indonesian Institute for Corporate Governance (IICG) defines GCG as the structure, system, and process used by the company in an effort to add value to the company sustainably over the long term, while maintaining the interests of stakeholder companies, based on morals, ethics, culture, and rules applicable others.

The influence of GCG on corporate value can occur directly or indirectly through the profitability of the company. The influence of GCG on the value of the company directly occurs through investors' reaction by looking at the GCG mechanism applied by the company that makes a positive impact for both internal and external parties, attracting investors who view the company as having good prospects in the future which then affect the increase of company value [14].

The influence of GCG on corporate value may be mediated by profitability. Profitability in this study is represented by the variable Return on Equity (ROE) and Return on Assets (ROA). ROE is the ratio to measure the company's net income with total corporate equity (Harahap, 2011: 305). Return on Asset (ROA) is a ratio to measure how much net profit can be obtained from all assets owned and invested in a company [18].

This study aims to determine the condition of Company Value, GCG, ROE, ROA. This study also aims to determine the effect of Good Corporate Governance (GCG) on Corporate Value through Return on Equity (ROE) and Return on Assets (ROA)

1. METHOD

According to research objectives, the design of this study is using a quantitative approach that is categorized in descriptive and explanatory research. The research population is manufacturing companies listing in IDX year 2013 - 2014 as many as 141 companies. Samples determined through the technique of purposive sampling. The criteria used in determining the sample of this study can be seen in the following table.

Table 1: Sample Criteria.

No	Category	Quantity
1.	Manufacturing Companies listing in IDX period 2013-2014	141
2	Companies with independent managerial ownership and commissioner data	48
3	Companies experiencing an increase in earnings per share for the period 2013-2014	15
	Samples	15

Based on these criteria, obtained 15 companies, so that obtained a sample of 30 companies in 2 periods. The type of data is secondary data obtained from official websites such as www.idx.co.id and www.sahamok.com. Using path analysis techniques with the help of SPSS21.0 software with a significance level of 0.09. In order to get the value of unbiased examiner or BLUE (Best Linear Unbiased Estimator), it is necessary to test to find out the regression model generated meet the requirements of classical assumptions. Classical assumption test consisting of normality test, auto-correlation test, heteroscedasticity test, and collinearity test show the whole meets the requirements of classical assumptions.

2. FINDINGS AND DISCUSSION

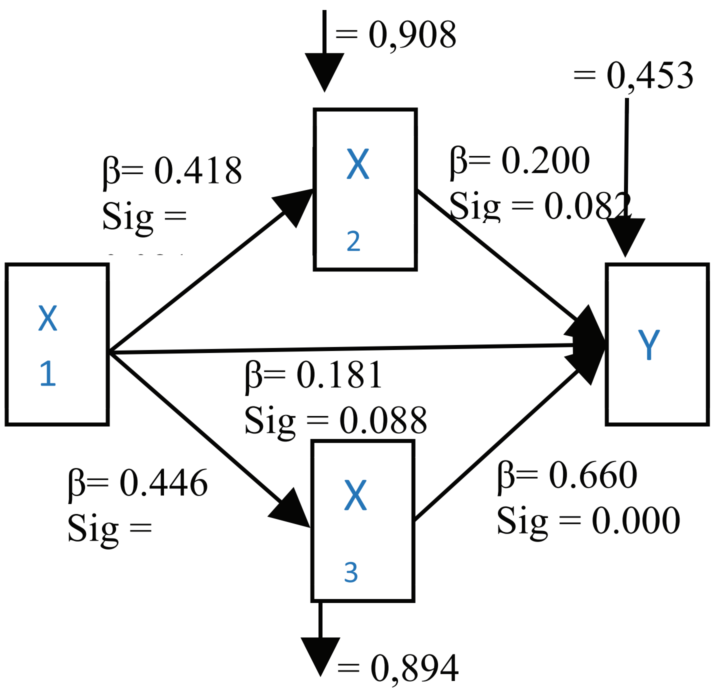
2.1. Variable Description

Based on the calculation that has been done, then obtained the calculation results Company Value (Y), GCG (X1), ROE (X2) and ROA (X3) as follows:

Table 2: The calculation results.

Variables	Mean (%)	Std. Deviation (%)
Company value (Y)	119.44	89.32
GCG (X_1)	3.69	0.84
ROE (X_2)	9.09	14.16
ROA (X_3)	8.36	8.03

2.2. Statistic Test



Based on the result of SPSS statistic test that has been done, the result of the influence of Company Value (Y), GCG (X1), ROE (X2) and ROA (X3) as follows:

Table 3: Test Results on Influence between Variables.

The influence of...to...	Beta	Sig	Note
GCG → NP	0.181	0.088 *)	Significant
GCG → ROE	0.418	0.021 *)	Significant
GCG → ROA	0.446	0.013 *)	Significant
ROE → NP	0.200	0.082 *)	Significant
ROA → NP	0.660	0.000 *)	Significant
Note: *) Significance $\alpha \leq 0{,}09$			

Based on the results of data processing using descriptive statistics shows that the condition of corporate values in manufacturing companies in the period 2013-2014 the majority occupy a low classification with an interval of 42.87 s / d 148.56 which can be seen by 67% of the sample company. The result of data processing by using descriptive statistic shows that good corporate governance condition in manufacturing company in the period of 2013-2014 mostly occupy medium classification with an interval of 3.08 s / d 3.95 which can be seen by 60% sample company. The result of data processing by using descriptive statistic shows that the condition of return on equity at manufacture company in the period of 2013-2014 mostly occupies the middle classification with interval 1.79 s / d 18.75 which can be seen equal to 67% sample company. The results of data processing using descriptive statistics indicate that the condition of return on assets in manufacturing companies in the period 2013-2014 the majority occupies a low classification with intervals of -1 to 8.97 which can be seen by 53% of sample companies.

2.2.1. The Effects of Good Corporate Governance towards Corporate Value through Return on Equity

Good corporate governance directly or indirectly influences the value of the company, return on equity status as intervening variable that function as mediator or intermediary in relation influence good corporate governance to company value. Good corporate governance has a significant positive effect on corporate value, good corporate governance has a significant positive effect on return on equity and returns on equity has a significant positive effect on corporate value. So the return on equity is an intervening variable in terms of the influence of good corporate governance on corporate value. The discussion of the influence between variables is as follows.

2.2.2. The Effects of Good Corporate Governance towards Corporate Value

The results of multiple regression tests showed GCG have a significant positive effect on the value of companies in manufacturing companies listed on the IDX in 2013 - 2014. This means that if GCG has increased then the value of the company will also increase. A survey conducted by Mc Kinsey & Co. in Windah & Andono (2013) stated that investors tend to avoid companies that have the bad predicate in corporate governance. In contrast to that has been stated by Prasinta (2012) that the Indonesian market has not paid attention to the implementation of GCG in the company so that shareholders and investors are less active in its empowerment. A survey by Mc Kinsey & Co. is evident with the results of research that investors in Indonesia in assessing the company to consider whether the company has a good GCG value or not.

The influence of GCG on corporate value is a reflection that companies that implement GCG practices will affect the market's assessment of the company. This is due to the existence of GCG practices within the company, investor confidence will increase to the management of the company where they invest so that affect the value of the company in the eyes of investors [8]. In addition, Herawaty (2008) noted that the implementation of GCG within the company would have more benefits in developing countries than in developed countries where GCG would be beneficial to countries with a poor legal environment.

It can be concluded that the implementation of GCG is able to give a good influence on Indonesia that is to improve the legal governance that is still not built strongly, especially in the case of fraud in public companies. GCG can also protect the rights investors should have, so investors will feel secure in investing in companies that then build a sense of investor confidence. So the better the application of GCG, the better the market valuation of the company then GCG can affect the ups and downs of the company's value. The results of this study supported research conducted by Nguyen & Aman (2007) and Susanto & Subekti (2011) which states that GCG positively significant of company value. So the recommendation for the company is to increase the value of the company then the company must apply GCG practice well and consistent in its implementation.

2.2.3. The Effects of Good Corporate Governance towards Return on Equity

The results of multiple regression tests showed GCG has a significant positive effect on ROE on manufacturing companies listed on the IDX in 2013 - 2014. This means that if GCG has increased then ROE will also increase. Kaihatu (2006) points out the collapse of public companies due to the failure of strategies and fraudulent practices of top management that went undetected due to the lack of independent oversight. With the implementation of GCG, the company will be managed well based on existing regulations (Surya & Yustiavandana, 2008: 24). It can be concluded that the implementation of GCG in which there is an independent commissioner role acting as a supervisor of top management performance is the right way to overcome the problems of fraudulent practices so that the company is able to provide efficient returns. In addition, according to Maksum (2005), the values contained in the GCG system will make the company instill performance that also emphasizes the interests of its shareholders so as to create a good and healthy working environment.

The ratio of ROE is very attractive to shareholders and prospective shareholders because the ratio is an important measure or indicator of shareholder value creation (Munawir, 2002: 84). So with the implementation of GCG system, the company will try to provide high ROE because it is an obligation for the company to provide the best results and satisfaction for its shareholders. The results of this study are supported by research conducted by Prasinta (2012) which states that good corporate governance has a significant positive effect on return on equity. So the recommendation for a company that is to be able to increase return on equity company should implement and apply GCG practice correctly and be consistent.

2.2.4. The Effects of Return on Equity towards Corporate Value

The result of multiple regression test show ROE has a positive significant effect on corporate value at manufacturing company listing in IDX year 2013 - 2014. It means that if ROE has increased then company value will also increase. The selection of capital in the form of higher debt can provide benefits to the company that is lowering the tax burden as has been stated in MM theory with tax (Atmaja, 2009: 254). In theory, the company should use the debt as much as possible. With a large debt will reduce the imposition of tax so that EAT will have high value. More debt usage may also signal managers to investors which are in accordance with those mentioned in signaling theory [9]. With the increase in debt can be judged that the company has good prospects for the future. Therefore, investors are expected to be able to capture the signal is a signal that reflects the company's good prospects in the future. So with the addition of debt then it is a good signal from the company.

Fakrudin in Takarini and Hendrarini (2011) stated that the higher the proportion of debt then the ROE will also be greater. While the company has a high ROE then it will co-exist with the proportion of large debt. So high ROE is a positive signal that will be captured by investors that will affect the market valuation of the company.

The results of this study supported research conducted by Black (2006) and Mardiyati, et al (2012) which states that the return on equity has a significant positive effect on the value of the company. So the recommendation for the company that is to be able to increase the company's value should the company increase sales followed by the emphasis of the burden of the company so it will provide a good return on equity.

2.2.5. The Effects of Good Corporate Governance towards Corporate Value through Return on Asset

Good corporate governance directly or indirectly influences the value of the company, return on asset status as intervening variable that function as mediator or intermediary in relation influence good corporate governance to company value. Good corporate governance has a significant positive effect on corporate value, good corporate governance have a significant positive effect on return on asset and return on asset have the positive significant effect on company value. So the return on asset is an intervening variable in terms of the influence of good corporate governance on corporate value. The discussion of the influence between variables is as follows.

2.2.6. The Effects of Good Corporate Governance towards Return on Asset

The results of multiple regression test show GCG has a significant positive effect on ROA on manufacturing companies listed on the IDX in 2013 - 2014. This means that if GCG has increased then ROA will also increase. Good performance will give good results as well. The implementation of GCG will make the company well-managed based on existing regulations (Kaihatu, 2005). Management will manage the company more structured other than the values contained in the GCG system will make the company inculcate an honest performance, transparent, and full responsibility.

According to Maksum (2005), the implementation of GCG will make the decision-making process take place better so that will result in an optimal decision and can improve work efficiency. Work efficiency makes the company manage its assets well and as efficiently as possible so as to produce a high return on assets. In addition, efficient asset management is a form of corporate responsibility to be able to provide high returns. High earnings will affect the increase in return on assets. So the application of GCG will give a good effect on increasing return on assets.

The results of this study are supported by research conducted by Tjondro & Wilopo (2011) stating that good corporate governance has a significant positive effect on return on assets. So the recommendation for a company that is to be able to increase return on asset company should implement and apply GCG practice correctly and consistently.

2.2.7. The Effects of Return on Asset towards Corporate Value

The result of multiple regression test show ROA has the positive significant effect on corporate value at manufacturing company which listing in IDX year 2013 - 2014. It means if ROA has increased then company value will also increase. The higher ROA hence signifies better asset productivity in obtaining net profit. This can increase the attractiveness of investors who make the company more attractive to investors because of the greater profits [12]. Then Wulandari (2014) reveals the company's ability to improve EBIT can be a signal that the market responds positively that the company is able to deliver more value. So with the high value of ROA in the company is a sign that the company has a good performance and prospects so as to attract investors.

As more and more investors are interested then the law of the market also applies, when the fixed supply and increasing demand will cause the market price to increase. The market price, in this case, represents the value of the corporation which is a description of the market valuation of the company [3]. In addition, MM theory argues that the value of the company is determined by the earning power of the company's assets [20]. It can be concluded that the higher ROA then the market believes that the company has been managing its assets well so that investors consider it is a signal that the company has a good prospect in the future then the higher earning power signifies the more efficient rotation of assets in the company which then impact on the value of the company.

The results of this study are supported by research conducted by Ratih (2011) and Wulandari (2014) which states that the return on assets has a significant positive effect on corporate value. So the recommendation for the company that is to be able to increase the company's value should the company increase sales followed by the suppression of the existing burden so as to provide a good return on assets.

3. CONCLUSIONS AND SUGGESTIONS

3.1. Conclusions

Based on the discussion of the results of research that has been done, the conclusions that can be taken is as follows. Tobin's Q proportion of the companies listed on manufacturing companies listed on the Indonesia Stock Exchange in 2013 - 2014 shows that most of the sample companies are classified as low. GCG which is proxied by the independent commissioner and managerial ownership in manufacturing company listing on BEI year 2013 - 2014 shows that most sample companies are classified as medium classification. Return on Equity at manufacturing companies listing on IDX year 2013 - 2014 shows that most sample companies are classified as moderate. Then Return on Asset at manufacturing companies listing on IDX year 2013 - 2014 shows that most sample companies are classified as low classification.

GCG has a significant positive effect on the value of companies in manufacturing companies listing on the BEI in 2013 - 2014. This means that if GCG has increased then the value of the company will also increase. GCG positively significant effect on ROE on manufacturing companies listed on the IDX in 2013 - 2014. This means if GCG has increased then ROE will also increase. ROE has a significant positive effect on the value of companies in manufacturing companies listed on the IDX 2013 - 2014. This means that if the ROE has increased the value of the company will also experience an increase. GCG has a significant positive effect on ROA on manufacturing companies listing on BEI year 2013 - 2014. It means that if GCG has increased then ROA will also increase. ROA has a significant positive effect on the value of the company on manufacturing companies listed on the IDX in 2013 - 2014. This means that if ROA has increased then the value of the company will also increase.Thus in this study, ROE and ROA is a mediating variable between the influence of GCG on the value of the company.

3.2. Suggestions

Based on the above conclusions, suggestions given in relation to the results of this study are as follows: 1) for the company, they should implement good and consistent

GCG practices to increase its sales by suppressing the existing burdens which will, in turn, increase the profit of the company; 2) before taking a decision in investing, investors should consider how well the company implements GCG practices and also how efficient the company in managing assets and equity and 3) for the next researchers, in the sample selection should use proportional sampling method so that later generalization can more be accountable and produce a more representative sample.

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