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Effect of Financial Performance, Good Corporate Governance and Corporate Size on Corporate Value in Food and Beverages

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ABSTRACT

This study aims to determine the effect of financial performance, good corporate governance, and company size as an independent variable on company value as a dependent variable on food and beverage companies listed on the Indonesia Stock Exchange in 2015-2017. This study uses a quantitative approach. Sources of data in this study came from the company's financial statements obtained on the website page www.idx.co.id. The population in this study were 26 manufacturing companies in the food and beverage industry which were listed on the Indonesia Stock Exchange in 2015-2017. Based on the specified sample selection criteria, there are 16 companies that meet these criteria and qualify as a research sample. Based on the results of the chow test and the Hausman test, the most appropriate model used in the panel data regression of this study is the fixed effect model. Based on the results of regression in the company used as a sample in this study showed the adjusted R^2 value of 0.977623. This means that 97.7623% of the dependent variable is the value of the company can be explained by the independent variables, namely financial performance, institutional ownership, managerial ownership and company size. While the remaining 2.2377% is explained by other factors outside the independent variables in the study.

Keywords: Financial Performance, Good Corporate Governance, Company Size, The Value of the Company
JEL Classifications: E10, E32, E60

1. INTRODUCTION

Company value is a level of success of a company in managing its resources which is reflected in the company's stock price. The higher the company's stock price, the higher the company's value, this is due to the company's excellent performance and always proper management. Company value can provide maximum shareholder wealth if the share price increases.

Company value is very important because the goal of financial management is to maximize the value of the company. If the company runs well, the company's value will increase or can be said to maximize stock prices.

Indonesia is a developing country that has the potential to become a developed country because of its improved economic growth. Economic growth during 2018 of 5.17% is quite good because world economic growth is at 3% (Von Geibler, 2013). Every company from various sectors can be said to influence this growth. This condition causes arousal for entrepreneurs to manage their companies. The role of finance is very important in managing a company. The more efficient and effective use and management of funds the better for the company. Need a precise determination so that the source of funds in accordance with what is expected.

It is clear that company competition is increasingly open and barrier-free after the formation of the World Trade Organization (WTO). To maintain the viability of food and beverage industry companies, Indonesia needs additional funding.

This study uses food and beverage companies as research because stocks originating from food and beverage products are stocks that are in great demand by investors. The food and beverage industry market is estimated to grow 7-10% in 2012. Secretary General of the Association of Food and Beverage Entrepreneurs (GAPMMI) Franky Sibarani expects the turnover of the food and beverage industry to grow 8-10% in 2012 or greater. The growth is certainly driven by the realization of new investments and an increase in people's purchasing power in line with national economic growth (Rani, 2015).

2. LITERATURE REVIEW

2.1. The Value of the Company

Definition of Value Company (Company Value) is investor perception of the level of success of the company that are often associated with stock prices. High stock prices make the value of the company also high and increase market confidence, not only to the company's current performance but also to the company's prospects in the future.

The company's value can be determined from the results of the comparison of company performance on the company's financial statements. The right financial decision can maximize the value of the company so that it can increase the prosperity of the company owner. Shareholders and company assets are represented by share prices which reflect investment, funding and asset management decisions.

Company value is also a certain condition that has been achieved by a company as an illustration of public trust in the company after going through a process of activities for several years, i.e. since the company was founded until now. The community considers that they are willing to buy company shares at a certain price in accordance with their perceptions and beliefs. Increasing company value can be said to be an achievement, which is in accordance with the wishes of the owners, because by increasing the value of the company, the welfare of the owners will also increase, and this is the duty of a manager as an agent who has been entrusted by the owners of the company to run the company (Ferreira et al., 2010).

Company value can be measured using stock prices using a ratio called the valuation ratio. According (Sukirno and Siengthai, 2011), the ratio assessment is a ratio related to the performance appraisal company stock has traded in the market of capital (go public). Valuation ratios provide information on how much the community appreciates the company, so that people are interested in buying shares at a higher price than the book value.

2.2. Financial Performance

Financial performance is an analysis conducted to see the extent to which a company has carried out using the rules of financial implementation properly and correctly (McNally et al., 2011). Financial performance is an illustration of the achievement of the company's success can be interpreted as the results that have been achieved for various activities that have been carried out.

The company's financial performance is an achievement achieved by the company in a certain period that reflects the level of health of the company (Marketline, 2014).

Financial performance can be done by evaluating financial statement analysis. Financial ratio analysis is the basis for assessing and analyzing company operating performance or company performance. Financial ratios are designed to evaluate financial statements, which contain data about the company's position at a point and the company's operations in the past. The real value of financial statements lies in the fact that financial statements can be used to help estimate future income and dividends.

According to (Makri et al., 2014), financial ratios which are important forms of accounting information for companies during a certain period can be seen that can reveal financial position, financial condition, and future economic performance in other words accounting information, namely liquidity ratios, activities, Solvency, Profitability.

2.3. Good Corporate Governance (GCG)

Based on (Mutmainah, 2015), GCG is a process of structure used by SOE organs to enhance business success and corporate accountability in order to realize shareholder value in the long term while still paying attention to the interests of stakeholders others are based on laws and ethics. GCG is s ne systems, processes and a set of rules built to direct and control the enterprise in order to create the relationship is good, fair and transparent among the various parties involved and have interests (stakeholders) in the company.

GCG in Indonesia began to be known in 1997, when the economic crisis hit Indonesia. There are many bad consequences of the crisis, one of which is the number of companies that fell because they were unable to survive. Poor GCG was pointed out as one of the causes of the Indonesian political economy crisis that began in 1997 whose effects are still felt today. Realizing this situation and condition, the government through the Ministry of State Enterprises began introducing the concept of GCG within the SOE environment. Kep-117/M-MBU/2002 dated August 01, 2002 concerning the Implementation of GCG Practices in State-Owned Enterprises, emphasizes the obligation for SOEs to implement GCG consistently and/or make the principles of GCG the operational basis, which basically aims to increase business success and corporate accountability in order to realize shareholder value in the long term while still taking into account the interests of other stakeholders, and based on legislation and ethical values.

GCG commitment also applied to the sector private non-SOEs. In 2000, the Jakarta Stock Exchange (now Indonesia Stock Exchange) enforces decision Directors of Jakarta Stock Exchange Inc. Number Kep-315/BEJ/062 000 regarding the Regulation on Stock Registration No. IA which among other things regulates the obligation to have an Independent Commissioner, Audit Committee, assign roles active Secretary Company in information disclosure obligations and requires listed companies to deliver material and relevant information. The purpose of implementing corporate governance is to create added value for all stakeholders (Grayson, 2011).

In Law No. 40 of 2007 by the Ministry of Law and Human Rights of the Republic of Indonesia concerning Limited Liability Companies and the principles of GCG in running a company, and in the Decree of the Minister of SOEs of 2002 concerning the principles of GCG must reflect transparency, independence, accountability, responsibility and fairness. To realize the creation of GCG, companies need good cooperation from various parties in accordance with applicable standards and regulations to provide benefits to the company's financial condition.

2.4. Company Size

Company size is an indicator that can show a condition or characteristics of an organization or company where there are several parameters that can be used to determine the size (large/small) of a company, such as the large number of employees used in the company to carry out company operational activities, the number of assets owned by the company, total sales achieved by the company in a period, as well as the number of shares outstanding. This means that the size of the company is a comparison of the size of the business of a company or organization. Thus the size of the company is something that can measure or determine the value of the size of the company.

The size of the company is considered able to influence the value of the company. The larger the size of the company, the easier it will be for companies to obtain funding sources, both internal and external, so that companies tend to have more funding sources to support their operational activities. So companies can get more opportunities to obtain higher profits. The higher profitability will increase the company's stock price which in the end will increase the company's value.

(Baltes, 2015), states that company size is an increase from the fact that large companies will have large market capitalization, large book values and high profits. Whereas a small company will have a small market capitalization, a small book value and low profits.

According to (Siahaan et al., 2016), company size has a different effect on the firm value of a company. In terms of company size seen from the *total assets* owned by the company, which can be used for company operations. If the company has a large total assets, the management is more flexible in using the assets in the company. The freedom that this management has is proportional to the worries that the owner has over his assets.

Company size is the average of total net sales for the year up to several years. In this case the sale is greater than the variable costs and fixed costs, then the amount of income before tax will be obtained. Conversely, if sales are smaller than variable costs and fixed costs, the company will suffer losses (Gasalla et al., 2010).

The size of the company describes the size of the company. The size of the business in terms of business fields that are run. Determination of the size of the company can be determined based on total sales, total assets, average sales level (Renneboog and Spaenjers, 2013).

Based on a review of research above, then variable independent research is the performance of financial, *corporate governance,* and the size of the company. While the dependent variable is the value of the company.

The research design is a simple plot that describes the pattern of relationships of research variables. In this study, the simple plot can be described as follows in Figure 1:

3. METHODOLOGY

This study uses a quantitative approach. Quantitative research methods are research methods based on the philosophy of positivism, used to examine populations or specific samples, collecting data using research instruments, analyzing quantitative or statistical data with the aim of testing established hypotheses (Sugiono, 2014). Sources of data in this study come from the company's financial statements are available on the website pages www.idx.co.id. The population in this study were 26 manufacturing companies in the food and beverage industry which were listed on the Indonesia Stock Exchange in 2015-2017. Based on the specified sample selection criteria, there are 16 companies that meet these criteria and qualify as a research sample.

The following are the variables that will be defined in this study:

1. Company value (Y)
   Company value can be measured with the price earning ratio (PER). This indicator is a comparison between the share price and the company's net profit, measured from the company's current stock price, calculated using the formula (Hirshleifer and Teoh, 2003):

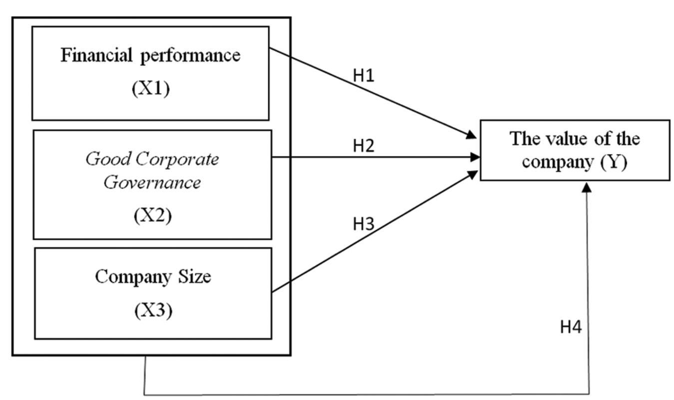
$$\text{PER}=\frac{\text{Share Price per Share}}{\text{Earnings per Share (EPS)}}$$

2. Financial performance (X1)

- Return on assets (ROA)
  Financial performance measured by ROA. This indicator is used to measure the ability of total assets to generate profits or the ability of the analyzer to assess overall company performance. This ratio is used to determine the effectiveness and efficiency of a company in managing all of its wealth in generating profits. According to (Simatupang and Franzlay, 2016) systematically, ROA can be calculated using the formula:

$$\text{ROA}=\frac{\text{Net Income after Tax}}{\text{Total Assets}}\times 100\%$$

Figure 1: Research paradigm



Research hypothesis		
H1	:	There is an influence of Financial Performance on Company Value
H2	:	There is an influence of GCG on Company Value
H3	:	There is an effect of Company Size on Company Value
H4	:	There is a joint influence of Financial Performance, GCG and Company Size on Company Value

3. GCG (X2)
- Institutional ownership (KI) (X2 a)
  Measured by using an indicator of the percentage of share ownership owned by institutions from all total capital shares in circulation (Davidson and Vaast, 2010; Haw et al., 2004).

$$KI=\frac{\text{Number of Shares Owned by the Institution}}{\text{Number of Shares Outstanding at the End of the Year}}\times 100\%$$

- Managerial ownership (KM) (X2 b)
  Measured using an indicator of the number of percentages of share ownership owned by management of the total amount of share capital in circulation (Burkart and Panunzi, 2006).

$$KM=\frac{\text{Number of Shares Owned by Directors, Managers and Commissioners}}{\text{Number of Shares Outstanding at the End of the Year}}\times 100\%$$

4. Company size (X3)
   The size of the company is a reflection of the size of the company that appears in the total value of the company's assets at the end of the year balance sheet.

Company Size = Total Company Assets at the End of the Year

4. RESULTS AND DISCUSSION

4.1. Descriptive Statistical Analysis

The results obtained by the authors using descriptive statistical tests of processing E-views version 9 in Table 1 are:

a. Company value (Y): The samples studied amounted to 16, the value of the mean (average - average) of −30.35917, standard deviation value of 210.0635, the value of a maximum of 237.9900 and the value of the minimum of −900.0700.
b. Financial performance (X1): The samples studied amounted to 16, the value of the mean (average - average) amounted to 7.791250, the value of a standard deviation of 12.37177, value maximum of 52.67000 and the value of the minimum of −26.04000.
c. Institutional ownership (KI) (X2 a): The samples studied amounted to 16, the value of the mean (average - average) of 27.98617, standard deviation value of 19.86517, value maximum of 86.84000 and the value of the minimum of 3.670000.
d. Managerial ownership (KM) (X2 b): The samples studied amounted to 16, the value of the mean (average - average) of 72.01383, standard deviation value of 19.86517, value maximum of 96.33000 and the value of the minimum of 13.16000.
e. Company size (X3): The samples studied amounted to 16, the value of the mean (average - average) of 14.67773, standard deviation value of 1.587948, the value of a maximum of 18.33547 and the value of the minimum of 12.32841.

4.2. Panel Data Regression Analysis

The variable experiences the phenomenon of near singular matrix error with the raw data attached. This near singular matrix is explained by as something that might happen when the independent variable has almost perfect multicollinearity with the data being tested where if it is balanced with reason and a strong theoretical basis, the data has no theoretical problems and can still be a model the good one. This is not a problem because there is always a correlation between variables. So the conclusion of the near singular matrix events that occurred in this study, it can be concluded that the trigger is the presence of multicollinearity that occurs in the research variables being tested. The method used by (Trucco et al., 2008) to treat the phenomenon of multicollinearity with variable transformation with natural logarithms to reduce the linear relationship between independent variables.

a. Chow test (Common effect vs. Fixed effect)
   Decision making in this chow test uses a significance level of 5% (0.05). If the $P > 0.05$ is accepted, which means that the most appropriate model used in panel data regression is the common effect model. However, if the $P \leq 0.05$, it is accepted which means the fixed effect model is the most appropriate model for panel data regression.
   The results of the chow test show a Chi-square value of 155.366675 with a probability value of 0.0000. Because the probability value of 0.00 <0.05 is rejected and accepted. Then it can be concluded that the common effect model is not the right model to be used as a panel data regression model, so a special test must be performed to determine the best model between the fixed effect model and the random effect model.
b. Hausman test (Fixed effect vs. Random effect)
   Decision making in the Hausman test uses a significance level of 5% (0.05). If the $P > 0.05$ is accepted, which means that the most appropriate model used in panel data regression is the random effect model. But if the $P \leq 0.05$, then rejected and accepted, which means the fixed effect model is the most appropriate model for panel data regression.
   Hausman test results showed a Chi-square value of 86.493706 with a probability value of 0.0000. Because the probability value is 0.0000 <0.05, it is accepted and rejected. It can be concluded that the fixed effect model is the right model as panel data regression model in an appeal to the random effect model. Because the chosen fixed effect model is chosen, there is no need to do a Lagrange multiplier test.
   Based on the results of the chow and Hausman tests before, the most appropriate model used in the panel data regression of this study is the fixed effect model.

4.3. Hypothesis Testing

The t test statistic is used to partially test whether each independent variable has a significant effect on the dependent variable. The

Table 1: Descriptive statistics analysis results

	Y	X1	X2a	X2b	X3
The mean	−30.35917	7.791250	27.98617	72.01383	14.67773
Median	18.1700	7.230000	19.47000	80.53000	14.38371
Maximum	237.9900	52.67000	86.84000	96.33000	18.33547
Minimum	−900.0700	−26.04000	3.670000	13.16000	12.32841
Std. dev.	210.0635	12.37177	19.86517	19.86517	1.587948
Skewness	−3.459464	0.969606	1.016968	−1.016968	0.724179
Kurtosis	13.68495	6.885440	3.639502	3.639502	2.741363
Jarque-Bera	324.0795	37.71437	9.091716	9.091716	4.329263
Probability	0.000000	0.000000	0.010611	0.010611	0.114792
Sum	−1457.240	373.900	1343.336	3456.664	704.5311
Sum sq. dev.	2073953.	7193.853	18547.38	18547.38	118.5142
Observations	48	48	48	48	48

t-test was used to test the research hypothesis, i.e. H_1, H_2, H_3, H_4 criteria for acceptance or rejection of the hypothesis is to look at the probability values as follows:

1. If the probability value is ≤0.05, then it is H_0 rejected, which means that the independent variable partially has a significant effect on the dependent variable.
2. If the probability value >0.05, it is H_0 accepted, which means that the independent variable partially has no significant effect on the dependent variable.

1. Effect of financial performance against corporate values
   Financial performance variables have a regression coefficient of −0.663762, a negative sign on the coefficient value indicates that financial performance has a negative effect on firm value. Probability value of 0.4791 is >0.05, this means that financial performance partially does not have a significant effect on firm value. Then it can be concluded that financial performance has a negative and not significant effect on firm value.
2. Effect of institutional ownership on company value
   Variable of institutional ownership has a value of regression coefficient of 17.82937, positive mark on the value of the coefficient indicates that the company's performance has a positive effect on the value of the company. Probability value of 0.6153 l is >0.05, this means that institutional ownership partially has no significant effect on firm value. It can be concluded that institutional ownership does not have a significant positive effect on firm value.
3. Effect of managerial ownership against corporate values
   Managerial ownership variable has a regression coefficient of 42.76467, a positive sign on the coefficient value indicates that managerial ownership has a negative effect on firm value. Capital structure probability value of 0.2951 is >0.05, this means that managerial ownership partially does not have a significant effect on firm value. Then it can be concluded that managerial ownership does not have a significant positive effect on firm value.
4. Influence of company size against corporate values
   Variable of Total Assets have value regression coefficient of 111.7155, positive signs on the value of the coefficient indicates that company size affects positively on the value of the company. The probability value of the capital structure of 0.0008 is smaller than 0.05, this means that the size of the company partially has a significant influence on the value of the company. It can be concluded that company size has a significant positive effect on firm value.

F test aims to test the effect of independent variables collectively - together or simultaneously to the variable dependent. Note the value of Probabilities (F-statistics), i.e. 0.000 <0.05, it can be concluded that all independent variables, namely financial performance, managerial ownership, institutional ownership and size of the company, simultaneously influence significantly to the value of the company.

4.4. Coefficient of Determination

Based on the results of the regression in the company that is used as a sample in this research shows an adjusted value of 0.977623. This means that 97.7623% of the dependent variable is the value of the company can be explained by the independent variables, namely financial performance, institutional ownership, managerial ownership and company size. While the remaining 2.2377% is explained by factors - other factors beyond variable free in the study.

5. CONCLUSIONS

This study aims to determine the effect of financial performance, GCG, and company size as an independent variable on company value as a dependent variable on food and beverage companies listed on the Indonesia Stock Exchange in 2015-2017. Based on the above results, following are conclusions obtained from this study:

1. The results provide empirical confirmation that the financial performance influential negative not significant to firm value. Implications for companies is company have to apply a lot of other factors that influence the relationship with the company's financial performance, because the maximum results in the financial performance of the rate of profit will increase on wealth of investors to invest their shares so that the company's value will also increase. Increasing the attractiveness of the company makes the company more and more attractive to investors. The implication for prospective investors is that investors will invest their shares in companies whose financial performance has maximum results and has high company value.
2. The results of this study provide empirical confirmation that institutional ownership does not have a significant positive effect on firm value. Implications for companies is company must meet the demands of the stakeholders to obtain the return of investments that have been issued so requires management to maximize profit so that the value of the company is

getting better and profitable for investors. High institutional ownership will affect the value of the company, because it is able to become a mechanism of shareholder supervision of management. The implications for potential investors is the investor will benefit from the return on investment that is incurred in companies with enterprise value high.

3. The results provide empirical confirmation that managerial ownership affect positively not significant to firm value. The implication for the company is that the company must optimize the company's value that occurs due to its control, because managerial ownership is able to influence the running of the company which ultimately affects the company's performance in achieving company goals. The implications for potential investors is the investors will invest their shares in the company that owns the company's performance is able to achieve its objectives and have firm value high.
4. The results of this study provide empirical confirmation that company size has a significant positive effect on firm value. The implication for the company is that the company must have more stable conditions because the size of the company can show the development of a company, so many investors pay attention to the company. The implication for potential investors is that investors will respond positively and invest their shares in companies that are developing and have high company value.

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