

The Effect of Profitability and Corporate Size on Company Value with Good Corporate Governance as a Moderating Variable in Manufacturing Companies



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ABSTRACT: Manufacturing companies are chosen as the object of research because manufacturing companies listed on the Indonesia Stock Exchange (IDX) each year are developing and consist of various industrial sub-sectors so as to reflect the overall capital market reaction. This research aims to find out the effect of profitability and the size of the company on the value of the company with good corporate governance (GCG) as a moderator variable, as well as whether good corporate governance (GCG) is able to moderate the relationship between profitability and the size of the company to the value of the company. The population in the study was a company. The population in the study is a Manufacturing company listed on the Indonesia Stock Exchange (IDX) in the period 2018-2020. Samples collected using the purposive sampling method totaled 31 companies determined as samples. The methods used in this study are descriptively quantitative, and the nature of the research is explanatory. The data collection techniques used are documentation as well as the types and sources of data used are secondary data. The study used partial least square (PLS) data analysis methods. The results showed that profitability affects the value of the company, the size of the company has no effect on the value of the company, Good Corporate Governance (GCG) is not able to moderate the relationship between profitability and the size of the company to the value of the company.

KEYWORDS- Good Corporate Governance, profitability, Partial Least Square, firm size, manufaktur

I. INTRODUCTION

Manufacturing companies are companies engaged in the raw material management industry into finished goods that are ready to be used or sold to consumers. Based on the industry classification set by the Indonesia Stock Exchange called Jakarta Stock Exchange Industrial Classification manufacturing companies consist of the basic industrial and chemical sectors, the multi-industry sector, and the consumer goods industry sector. Manufacturing companies are the most listed companies on the Indonesia Stock Exchange (IDX). More than 190 manufacturing companies were listed on the Indonesia stock exchange in 2018-2020 which were grouped into several industry sub-categories.

Based on statistics of the Central Statistics Agency (BPS) for Indonesia's economic growth in the first quarter of 2020, the manufacturing industry sector still contributed the most to the structure of national gross domestic product (GDP) up to 19.98% followed by large-retail trade; car-motorcycle repair by 13.20% : agriculture, forestry and fisheries by 12.84%; and construction by 10.70%. In addition, the Ministry of Industry (Kemenperin) said that the non-oil and gas processing industry is still the sector that contributes the most to the achievement of national export value. During the first half of 2020, the total value of shipments of manufacturing products made up 60.76 billion US dollars or accounted for 79.52% of all national export figures which reached 76.41 billion US dollars.

According to Fahmi [1] the understanding of maximizing the value of the company is how the company's management is able to provide maximum value when the company enters the market. The value of the company is very important because it reflects the performance of the company which can affect the investor's view of the company. High company values lead to good company performance. According to Rodono and Ali (2014: 4) the higher the stock price the higher the value of the company. High company value becomes the desire of the owners of the company, because with high value shows the prosperity of shareholders is also high.

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Oktaryani and Mannan [2] stated that profitability has a significant positive effect on the value of the company. These findings suggest that profitability is considered a positive signal to investors that will increase the value of the company. High profitability gives an indication of a good company's prospects so that it can trigger investors to help increase the demand for shares that can increase the value of the company. Mahardhika and Roosmawarni's [3] research found that the size of the company proved to have a positive and significant influence on the value of the company in manufacturing companies listed on the IDX. These results show that the perusahaan with a large company size condition then the need for funds will also be greater.

One alternative to the fulfillment of these funds comes from external funding, namely debt. In addition, the larger the size of the company, the more transparent the company in disclosing the company's performance to outside parties, thus the easier the company gets a loan to enlarge the quantity of production and expansion of the factory so as to increase the value of the company. In this study Good Corporate Governance was chosen as a moderation variable of profitability, and the size of the company against the value of the company. Good Corporate Governance has information as a condition of the company's prospects. The determination of the number of independent commissioners as much as at least 30% of the total commissioners is considered good and reflects the value of a good company. The objectives of this study are to find out the effect of profitability on the value of the company on the company, to find out the effect of the size of the company on the manufacturing company, to find out the ability of Good Corporate Governance to moderate the relationship between profitability to the value of the company in the manufacturing company in the period 2018-2020.

II. METHODS

The criteria for sample selection criteria in this study are as follows (Table 1):

1. All manufacturing companies listed on the Indonesia Stock Exchange (IDX) for 3 consecutive years and publish consecutive annual financial statements from 2018-2020.
2. Manufacturing companies that earned positive profits for 3 consecutive years from 2018-2020
3. Manufacturing companies that have positive equity developments from 2018-2020.

Table 1. Sample Selection Criteria

No	Keterangan	Jumlah
1	T Manufacturing Companies Listed on the IDX	196
2	Total manufacturing companies that do not publish annual financial	(56)
3	Total manufacturing companies that did not make a positive profit	(73)
4	manufacturing companies that are positive equity developments in 2018-2020	(36)
Number of companies		31
Number of samples		93

A. Operational Definition

The study used 3 (three) variables, namely dependent variables, independent variables, and moderating variables (Table 2).

Table 2. Operational Definition

Variabel	Operational Definition	Parameter	Scale
Company value (Y)	Value that reflects the state of the company based on the company's performance and stock market price.	$PBV = \frac{\text{Market price per share}}{\text{Book value per share}}$	Rasio

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		Weston & Copeland (2010)	
Profitability (X1)	A ratio that measures a company's level of effectiveness to make a profit.	$ROE = \frac{EAT}{\text{Shareholders's equity}}$ Fahmi (2016)	Rasio
Size of the company (X2)	The size of a company based on the amount of assets obtained by the company.	Firm size = Ln total assets Kasmir (2016)	Rasio
GCG (Z)	The company's policy in determining independent commissioners.	$KI = \frac{\text{Commissioner Independet}}{\text{Total Commissioners}}$ Fahmi (2016)	Rasio

B. Data Analysis

This research uses partial least square data analysis methods (PLS). According to Haryono [4] there are two approaches in Structural Equation Modeling (SEM), namely SEM with covariance (Covariance Based SEM) abbreviated cb-SEM and SEM based variance (VARIANCE Based SEM (VB) SEM) abbreviated VB-SEM with partial least square path modeling (PLS-PM) technique. The PLS technique uses iterations of algorithms consisting of serial PLS which is considered an alternative model of Covariance Based SEM (CB-SEM). Data analysis in this study uses SmartPLS software version 3.0. The analysis using PLS through five stage processes in accordance with the Ghazali and Latan methods [5].

C. Hypothesis

The t test is performed to show how far the influence of one independent variable individually on in explaining the variation of the dependent variable. In hypothesis testing, the value analyzed is the value that exists on the t-statistics resulting from the PLS output by comparing it to the t-table value. PLS output is an estimate of latent variables which are aggregate linear of indicators. According to Ghazali and Latan [5] testing criteria with a significance level of (a) 5% are determined as follows:

1. If the table >t is more than 1.96, the hypothesis is accepted.
2. If the table <t count, which is less than 1.96, the hypothesis is rejected.

Hypothesis testing with PLS is carried out in two stages, namely directly calculating the influence of independent latent variables on dependent latent variables, and calculating the effect of independent latent variables on dependent latent variables with moderation variables.

III. RESULTS AND DISCUSSIONS

A. Descriptive Statistics

Based on Table 3. Descriptive statistical results can be explained as follows:

1. Profitability variables using ROE (X1) indicators have an average value of 2.124 Minimum value of 0.0006 in PT Chitose International in 2020 and maximum value of 2,244 in PT Merk Tbk in 2018 and standard deviation of 3,393
2. Company size variable using Ln TA (X4) indicator has an average value of 29.7555. The minimum value is 26,483 in PT Duta Pertiwi Nusantara Tbk in 2020 and the maximum value of 33,495 in PT Astra International Tbk in 2019 and the standard deviation of 1.7955.
3. Good Corporate Governance variables using the Independent Commissioner (Z) indicator have an average value of 4,280. Minimum value of 0.3 in some companies and maximum value of 0.8 at PT Unilever Tbk and standard deviation of 1,149.
4. The company value variable using the PBV (Y) indicator has an average value of 4,515. Minimum value of 0.219 in PT Indofood CBP Sukses Makmur Tbk in 2020 and maximum value of 23,286 at PT Unilever Indonesia Tbk in 2019 and standard deviation of 8,749.

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Table 3. Descriptive statistical results

	mean	minimum	maximum	Standard deviation
ROE	2,124	0,0006	2,244	3,393
Ln TA	29,7555	26,4831	33,494	17,955
GCG	4,280	3	8	1,149
PBV	4,515	0,219	61,827	8,749

*ROE = Returns on Equity; Ln TA = firm size; GCG = Good Corporate Governance; PBV = Price to Book Value

B. Evaluation of Inner Model

In Figure 1 presented path coefficient values between independent variables to dependent variables.

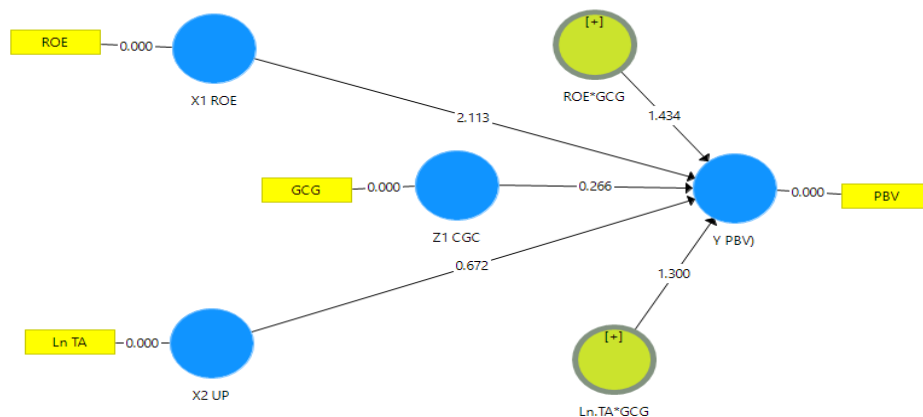


Figure 1. PLS Algorithm Calculation Results

C. Coefficient of Determination of Hlipotesis

Testing of structural models is done by looking at the Square value (R^2) which is a test for each variable as the predictive strength of the structural model. The coefficient of determination (R^2) for the enterprise value variable (Y) is 0.679. This suggests that the profitability variable, company size, and Good Corporate Governance as moderation variables can explain the company value variable of 67.9% and the remaining 32.1% explained by other variables.

D. Hypothesis Testing

The next analysis is the analysis of hypothesis testing by comparing the 1-statistical values resulting from the PLS ouput by comparing with the value of the t-table (1.96). In table 4 presented the results for the test of significance of influence.

Table 4. Hypothesis Testing

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics P (O/STDEV)	P Values
Profitability (X1) -> Company value (Y)	0,454	0,599	0,215	2,113	0,035
Firm size (X2)-> Company value (Y)	-0,026	-0,025	0,038	0,675	0,502
Good Corporate Governance (Z)-> Company value (Y)	0,020	0,008	0,074	0,266	0,790
Profitability* Good Corporate Governance -> Company value (Y)	0,265	0,237	0,185	1,434	0,152
Firm size * Good Corporate Governance -> Company value (Y)	-0.096	-0,083	0,074	1,300	0,194

Source: smartPLS processing results (2021)

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Based on the results the following models or equations are obtained:

$$Y = 0.454X_1 - 0.026X_2 + 0.020Z + 0.265X_1 * Z - 0.096X_2 * Z$$

1. The value of the profitability coefficient 0.454. The value can be interpreted that profitability has a positive effect on the value of the company. Profitability to the value of the company is known to have a T-Statistics value of 2,113 > 1.96 and the value of P-Values of 0.035 < 0.05, so profitability has a positive and significant effect on the value of the company.
2. The coefficient value of the size of the company to the value of the company is -0.026. The value can be interpreted that the size of the company negatively affects the value of the company. The size of the company against the value of the company is known to have a T-Statistics value of 0.672 < 1.96 and the value of P-Values of 0.502 > 0.05, so the size of the company has a negative and insignificant effect on the value of the company.
3. Good Corporate Governance coefficient value moderates profitability to company value of 0.265. This value can be interpreted that Good Corporate Governance moderates profitability to positively affect the value of the company. Good Corporate Governance moderates profitability to the value of companies known to have a T-Statistics value of 1,434 < 1.96 and P-Values value of 0.152 > 0.05, so Good Corporate Governance has a positive but insignificant influence in moderating the relationship between profitability to corporate value.

E. Effect of Profitability on the Value of the Company

The results showed that profitability was affected and significantly to the value of the company in the Manufacturing Company of the Indonesia Stock Exchange for the period 2018-2020. This means that the high low profitability ratio affects the value of the company. Profitability is considered a positive signal by investors that will improve the company's prospects in the future. The value of the company will be guaranteed to grow sustainably if the company is able to improve its financial performance by utilizing its assets to earn profits so that it will have an impact on the rising stock price and result in an increased value of the company as well. The higher the value of profitability of the company, the higher the value of the company.

The results of this study are in line with research conducted by Kusumawati and Rosady [6], Oktaryani and Mannan [2], Fajaria and Isnalita [7], Faozi and Ghoniyah [8], and Janice and Toni [9] with ROE as a profitability variable stated that profitability affects the value of the company. However the results of this study are different from the research conducted by Mahardhika and Roosmawarni (2016) states that profitability variables have no effect on the value of the company.

F. Effect of Company Size on Company Value

The results showed that the size of the company had no effect and was insignificant to the value of the company in the manufacturing company on the Indonesia Stock Exchange for the period 2018-2020. This means that the size of the company does not affect the value of the company.

The increase in corporate assets does not affect the increase in total sales significantly even in some companies total sales decreased and the value of shares decreased, especially in 2020, this is because the world conditions affected by the Covid-19 pandemic, large assets if not utilized optimally then the value of the company will fall or the stock price will be low compared to its book value.

The results of this study are in line with research conducted by Husna and Satria [10] which states that the size of the company negatively affects the value of the company. This study contradicts research conducted by Husna and Satria [10], and Aldi, et al [11], which showed that the size of the company had a significant positive effect on the company's value.

G. The Effect of Profitability on Corporate Value with Good Corporate Governance as a Moderating Variable

The results showed that Good Corporate Governance had no effect and was insignificant in moderating the relationship between profitability and profitability of companies in manufacturing companies on the Indonesia Stock Exchange for the period 2018-2020. This means that good good corporate governance is not able to moderate profitability to affect the value of the company.

H. The Effect of Corporate Size on Corporate Value with Good Corporate Governance as a Moderating Variable

The results showed that Good Corporate Governance had no impact and was insignificant in moderating the relationship between the size of the company and the value of the company in manufacturing companies on the Indonesia Stock Exchange for the period 2018-2020. This means that Good Corporate Governance is unable to moderate the relationship between the size of the company and the value of the company.

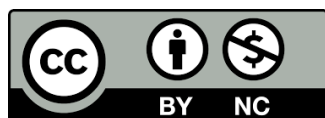
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CONCLUSIONS

Based on the results of hypothesis testing and discussions conducted, it can be obtained the following conclusions Profitability affects the value of the company in manufacturing companies on the Indonesia Stock Exchange for the period 2018-2020. Firm size has no effect on the value of the company in the manufacturing company on the Indonesia Stock Exchange for the period 2018 - 2020. Good corporate government is not able to moderate profitability to the value of the company in manufacturing companies on the Indonesia Stock Exchange for the period 2018-2020. Good corporate government is unable to moderate the size of the company to the value of the company in manufacturing companies on the Indonesia Stock Exchange for the period 2018-2020.

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