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THE EFFECT OF GOOD CORPORATE GOVERNANCE ON STOCK PRICE THROUGH CORPORATE VALUE IN THE FINANCIAL SERVICES CLUSTER OF INDONESIAN BUMN COMPANIES

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ABSTRACT

A good financial services company can be assessed by the quality of the performance of its issuers as assessed by good corporate governance and the value of its profitability. Thepurpose of this study is to identify the effect of good corporate governance, which is proxied by institutional ownership, managerial ownership, the audit committee, and the board of commissioners, and profitability, which is proxied by return on assets, on share prices in BUMN companies in the financial services cluster for 2017–2021. The data used is secondary data from the financial statements of the BUMN companies in the financial services cluster and is analyzed using multiple linear regressions. The results of the study show that simultaneously, the institutional ownership, managerial ownership, audit committee, board of commissioners, and return on assets variables have a significant effect on stock prices. Meanwhile, only the audit committee variable partially has no effect on the stock price, while the institutional ownership, managerial ownership, board of commissioners, and profitability variables have a significant effect on the stock price.

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1. INTRODUCTION

Financial services companies are foundation companies that build the economy and finance because banking/financial services have a very important role as intermediary institutions, namely, financial institutions that connect funds owned by economic units that have a surplus to economic units that need financial assistance (deficit). [1].

The stock price is a reflection of a company. Stock prices in the capital market reflect investors' judgments in view of the company's future prospects and the quality of the issuer's management[2]. Good corporate governanceis an assessment of the quality of the issuer's management that is seen by an investor in addition to the profitability expected by an investor for the dividends he will get.

The formation of stock prices is influenced by external and internal factors. One of them is the company's financial information. The company's internal factors that affect stock price movements are reflected in its financial statements by looking at its own financial ratios. Before investing in a company, investors examine its financial condition. If the company achieves good performance, investors will be more interested. This is consistent with signaling theory.[3].

One of the causes of the banking crisis in Indonesia in 1997 was the lack of implementation of good corporate governance, so the efforts were made to restore confidence in the Indonesian banking world through (1) adherence to the precautionary principle, (2) implementation of good corporate governance, and (3) effective supervision by the bank's authority[4]. The implementation of good corporate governance was an effort to escape from the economic crisis that hit Indonesia at that time. Strong banking with strong capital and appropriate institutions based on good corporate governance will be meaningless if the environment outside of banking continues to applybad practices. Professionalism and integrity can be carried out so that banks can apply the principles of good corporate governance[5].

The roles and demands of foreign investors and creditors regarding the application of corporate governance principles are one of the factors in making investment decisions in a company. Corporate governance, according to the Indonesian Institute for corporate governance, is defined as the processes and structures that are implemented in running a company with the main objective of increasing shareholder value in the long term while taking into account the interests of other stakeholders. Mechanisms of corporate governance that are expected to increase oversight for companies include managerial ownership, institutional ownership, the board of commissioners, the size of the board of directors, the existence of an audit committee, and independent commissioners.[6].

In addition to seeing the performance of issuer management, as stated in "Good Corporate Governance," information related to company finances is important for an investor. Investors require pertinent information as well as appropriate performance measurement tools in order to determine whether the company whose shares are being purchased has strong financial performance and a high corporate value. So that investors can make investment choices in the capital market that have positive returns in the form of dividends that will be obtained by investors.[7].

Therefore, investors will see a healthy, strong, and efficient banking system in accordance with the indicators set out in Bank Indonesia Regulation No. 13/1/PBI/2011[8]regarding Commercial Bank Health Assessment, Risk-Based Bank Rating (RBBR) using risk profile (through non-performing loans and loan-to-deposit ratio), Good Corporate Governance (GCG), earnings (through net interest margin, return on assets, and return on equity), capital adequacy ratio (through capital adequacy ratio), and efficiency (through operating expenses to operating income).

Return on assets is a ratio used to assess bank management's ability to generate overall profit and demonstrates the level of performance efficiency[9]. The relationship between the quality of issuers as assessed by good corporate governance and the profitability generated by a company has an effect on stock prices. This was stated in Sofiani's research[10] that returns on equity, institutional ownership, managerial ownership, the audit committee and the board of commissioners have a significant effect on stock prices.

The purpose of this study is to identify the effect of good corporate governance, which is proxied by institutional ownership, managerial ownership, the audit committee, and the board of commissioners, and profitability, which is proxied by return on equity, on stock prices in BUMN companies in the Financial Services Cluster for 2017–2021.

2. METHOD

2.1 Type and Data Source

This type of research is known as causal comparative research. This research was conducted at Indonesian BUMN companies in the financial services cluster for 2017–2021. The criteria for selecting the sample using the purposive sampling include the following;

1. The financial services cluster companies in Indonesian BUMN companies throughout the year of observation
2. Publish the financial reports complete with variables observed during the observed year.

Based on these criteria, a sample of four companies was obtained for five years.

2.2 MethodAnalysis

This study uses a quantitative approach. Methods of data analysis in this study used descriptive statistics and multiple regressions. The following is the regression equation in this study:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \varepsilon$$

Annotation:
Y = Stock Prices
X_1 = Institutional Ownership
X_2 = Managerial Ownership
X_3 = Audit Committee
X_4 = Board of Commissioners
X_5 = ROA

3. RESULT AND DISCUSSION

3.1 Descriptive Statistics

Table 1. Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation
Y	20	1725.00	9900.00	5318.2500	2456.15461
X1	20	52.00	60.50	58.7585	2.54342
X2	20	.01	6.74	1.2384	1.96514
X3	20	2.00	10.00	5.0500	2.18789
X4	20	.50	.70	.5617	.05554
Z	20	.13	3.69	2.1570	1.08487
Valid N (listwise)	20				

Source: Research Results, 2022 (Data processed)

3.2 Classical Assumption Test

3.2.1. Normality Test

The Kolmogorov-Smirnov Z value is 0.200, and its significance at 0.200 is above = 0.05 (Asymp. Sig. = 0.200 > 0.05). So it can be concluded that the research data is normally distributed.

3.2.2. Multicollinearity Test

The multicollinearity test was carried out using the variance inflation factor (VIF). The Data is said not to experience multicollinearity if the VIF value is ≤10. The test results show that all independent variables have a VIF value ≤ 10, so the research data does not experience multicollinearity.

3.2.3. Heteroscedasticity Test

Based on the test results, it is known that the distribution of plots on the scatterplot graph does not form a specific pattern and spreads above and below the value 0 on the Y axis, so it is said that all variables in the study are free from the assumption of heteroscedasticity.

3.3 Hypothesis Test

There is an influence of good corporate governance and profitability on stock prices

The R-squared value is 0.516, which means that 51.6% of the stock price variable is explained by good corporate governance and profitability. The remaining 48.4% is explained by other factors outside the research model.

Table 2. ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	59092083.090	5	11818416.620	2.980	.049[b]
	Residual	55529130.660	14	3966366.476		
	Total	114621213.800	19			

a. Dependent Variable: Y
b. Predictors: (Constant), KI, DK, KA, ROA, KM

The F test value is 2.980, with a significance level of 0.049 (0.049<0.05). This means that the variables good corporate governance and profitability have a significant effect on stock prices at the same time.

Table 3. Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2383.261	2721.113		-.876	.39
	ROA	1485.979	502.148	.656	2.959	.01
	KM	362.191	129.943	.872	2.787	.01
	KA	126.226	89.512	.299	1.410	.18
	DK	-287.644	106.024	-.687	-2.713	.01
	KI	227.442	109.504	.545	2.077	.05

a. Dependent Variable: Y

The regression equation built for this hypothesis is:

$Y=-2383,3 + 227,4\ X_1 + 362,1\ X_2 + 126,2\ X_3 - 287,6X_4 + 1485,9\ X_5$

The effect of institutional ownership (X1) on stock prices (Y) is 227.4 with sig 0.05 = 0.05, indicating that institutional ownership (X1) has a significant influence on stock prices (Y). Institutional ownership, or the stock that is owned by institutions, is expected to provide more supervision to management[11]. Based on the research results obtained, the stock owned by institutions has carried out a good supervisory function for the management. So that management is motivated to improve performance for the benefit of shareholders.

The effect of managerial ownership (X2) on stock prices (Y) is 362.1 with sig 0.01<0.05, indicating that managerial ownership (X2) influences stock prices (Y) significantly. This proves that the greater the proportion of managerial share ownership in a company, the more the management tends to work actively for the benefit of shareholders, who are none other than themselves.[12].

The influence of the audit committee (X3) on the stock price (Y) is 126.2 with sig 0.18 > 0.05, indicating that the audit committee (X3) has no influence on the stock price (Y). It occurred as a result of the audit committee failing to carry out its responsibilities properly. The existence of an audit committee has not been able to reduce management fraud and has also not been able to improve the company's financial performance[11]. It is because the performance of the audit committee is confounded by the attitudes and practices of the board of directors[13] . The audit committee formed by the company's board of commissioners will tend to support management. Investors are less convinced that the existence of an audit committee will improve the quality of financial reports because the quality of the information contained in a company's financial statements is strongly influenced by the quality and characteristics of the audit committee[14].

The board of commissioners (X4) has a -287.4 influence on the stock price (Y) with a sig 0.01 0.05, indicating that the board of commissioners (X4) has a significant influence on the stock price (Y). This is consistent with the agency theory, where the role of the commissioner is to minimize agency problems that arise between the board of directors and shareholders. The board of commissioners plays an important role in directing strategy, overseeing the running of the company, and ensuring that managers really increase company value as part of achieving company goals[14]. This research is in line with research conducted by Syafatul (2014), which shows that the board of commissioners has an effect on stock prices[11].

Profitability (X5) has a 1485.9 effect on stock prices (Y) with sig 0.01 0.05, indicating that profitability (X5) has a significant influence on stock prices (Y). The positive results indicate that the higher the earnings power, the more efficient the asset turnover, and the higher the profit margin earned by the company. This has an impact on increasing the value of the company, which is the stock price.[15].

4. CONLUSION

Based on the research results, it is known that partially only the audit committee variable has no effect on the stock price, while the institutional ownership, managerial ownership, board of commissioners, and profitability variables have a significant influence on the stock price. Furthermore, simultaneously, good corporate governance (institutional ownership, managerial ownership, the audit committee, and the board of commissioners) and profitability have a significant influence on stock prices. This research is in line with research conducted by Sofiani (2013).[10].

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