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Stock Prices Affected by Good Corporate Governance and Financial Performance

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Abstract

In this study, the authors propose to evaluate the application of Good Corporate Governance and Financial Performance to the stock prices of manufacturing companies listed on the Indonesia Stock Exchange. The research method used is descriptive method with a quantitative approach. In this statement, the population used in this study is the financial statements of manufacturing companies listed on the Indonesian stock exchange from 2016 to 2018, the technique of determining the sampling uses Purposive Sampling. This research data uses secondary data, financial statements of manufacturing companies listed on the Indonesia stock exchange from 2016 to 2018. All data sources were obtained from the website of the Indonesia Stock Exchange at https://www.idx.co. ID, company website as well as Google search. Our analysis reveals that Independent Commissioners and Managerial Ownership, PBV and NPM affect stock prices, while for Institutional Ownership does not affect stock prices. The value of implementing Good Corporate Governance and Financial Performance on the price of manufacturing companies listed on the Indonesia Stock Exchange is 64.5%, while 35.4% is explained by other factors which are not included in this study.

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Keywords: GCG, Financial Performance, Stock Prices
JEL Classification: O10, O14, A12, C11, C12

Precios de las acciones afectados por el buen gobierno corporativo y el desempeño financiero

Resumen

En este estudio, los autores proponen evaluar la aplicación del buen gobierno corporativo y el desempeño financiero a los precios de las acciones de las empresas manufactureras que cotizan en la Bolsa de Indonesia. El método de investigación utilizado es un método descriptivo con un enfoque cuantitativo. En esta declaración, la población utilizada en este estudio son los estados financieros de las empresas manufactureras que cotizan en la bolsa de valores de Indonesia de 2016 a 2018, la técnica para determinar el muestreo utiliza el muestreo con fines. Esta información de investigación utiliza datos secundarios, estados financieros de empresas manufactureras que cotizan en la bolsa de valores de Indonesia de 2016 a 2018. Todas las fuentes de datos se obtuvieron del sitio web de la Bolsa de Indonesia en https://www.idx.co. ID, sitio web de la empresa y búsqueda en Google. Nuestro análisis revela que los comisionados independientes y la propiedad gerencial, PBV y NPM afectan los precios de las acciones, mientras que la propiedad institucional no afecta los precios de las acciones. El valor de implementar el Buen Gobierno Corporativo y el Desempeño Financiero en el precio de las empresas manufactureras que cotizan en la Bolsa de Indonesia es del 64.5%, mientras que el 35.4% se explica por otros factores que no están incluidos en este estudio.

Palabras clave: GCG, desempeño financiero, precios de acciones
Clasificación JEL: O10, O14, A12, C11, C12

1. INTRODUCTION

The issue of Corporate Governance began to become an important discussion, especially in Indonesia which has experienced a prolonged crisis since 1998. The parties who said that the length of the process of repairing the crisis problem that occurred in Indonesia was caused by the very weak Corporate Governance implemented in companies in Indonesia, both the government and investors who began to give significant attention in the practice of Corporate Governance. Corporate governance as a process and structure used by company managers to improve business success and corporate accountability in realizing shareholder value in the long term still consider the interests of other stakeholders. Good Corporate Governance functions as a set of rules governing the relationship between stakeholders and shareholders relating to their rights and obligations. The implementation of good corporate governance has become an issue that has attracted the attention of economists and business people in Indonesia since the financial crisis that struck Asia in 1997-1998.

The implementation of Corporate Governance is one of the significant efforts to break away from the economic crisis that has hit Indonesia. The role and demands of foreign investors and creditors regarding the application of the principles of Corporate Governance are one of the factors in making investment decisions in a company (Ching, 2020; Esqueda & O’Connor, 2020; Greene, Intintoli, & Kahle, 2020). The implementation of Corporate Governance in Indonesia is very important, because the principles of Corporate Governance can provide progress towards the performance of a company, so that companies in Indonesia are not oppressed and can compete globally.Understanding financial performance is to assess the financial condition and performance of the company, the analysis requires several benchmarks used are ratio and index, which connects two financial data between one another (Al-ahdal, Alsamhi, Tabash, & Farhan, 2020; Bourke, Izadi, & Olya, 2020; Liu, 2020; Lussak, Abdurachman, Gautama, & Setiowati, 2020). For investors, information about the performance of the company can be used to see whether they will maintain their investment in the company or look for other alternatives. Good company performance, the business value will be high. With high business value, investors see the company to invest their capital so that there will be an increase in share prices.

This research provides a number of contributions. The results of the study identified the importance of current problems in Indonesia, the application of Good Corporate Governance and Financial Performance has a positive influence on the company's stock prices in Indonesia, which focuses its attention appropriately on the operations of manufacturing companies. Our findings indicate that the application of Good Corporate Governance and Financial Performance has an influence on the stock prices of manufacturing companies. Thus, this research broadens our knowledge of the application of Good Corporate Governance and Financial Performance with the stock prices of manufacturing companies in Indonesian.

The remainder of the study is organized as follows; The next section outlines relevant research and develops hypotheses. Section 3 details the sample, variables, and empirical model. Section 4 provides analysis and empirical results. Section 5 outlines the conclusions and implications of the study.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Stewardship Theory and Agency Theory

Stewarship theory is built on philosophical assumptions about human nature that is, in essence, humans can be trusted, able to act responsibly, have integrity and honesty with others. This is implied in the fiduciary relationship desired by shareholders (Cater, James, Kidwell, Camp, & Young, 2019; Chrisman, 2019; Pacheco, 2019; Till & Yount, 2019). In other words, stewardship theory views management as trustworthy to act in the best way for the public interest in general and shareholders in particular.

Agency theory developed by (Jensen & Meckling, 1976), explains that company management as an agent for shareholders, will act with awareness for their own interests, not as a wise and fair party to shareholders as assumed in the stewardship model. Contrary to stewardship theory, agency theory considers that management cannot be trusted to act in the best way for the public interest in general or shareholders in particular. Thus, managers cannot be trusted to do their jobs - which of course is to maximize shareholder value.

2.2 Stock price

Stock prices are prices that occur on the exchange at a certain time, stock prices can change up or down in a matter of time that is so fast, can change in a matter of minutes can even change in seconds. This is possible because it depends on the demand and supply between the buyer of shares and the seller of shares. Some conditions and situations that determine a stock will fluctuate include micro and macroeconomic conditions, company policy in deciding to expand (business expansion), such as opening a branch office, sub-branch offices both opened in domestic and abroad, change of directors suddenly, the existence of directors or commissioners of companies involved in criminal acts and cases have gone to court, company performance continues to decline at any time, systematic risk, which is a form of risk that occurs as a whole and has contributed to causing companies to get involved, The effects of market psychology that were able to suppress the technical conditions of buying and selling shares, the company went bankrupt, the withdrawal of shares by shareholders after creditors' rights were fulfilled (Hapsoro & Husain, 2019; Haris, Yao, Tariq, Javaid, & Ul Ain, 2019; Le, Mai, & Nguyen, 2020; Sharma, Cheng, & Leung, 2020).

2.3 Good Corporate Governance

The Asian Development Bank explains that Good Corporate Governance contains four main values namely accountability, transparency, predictability and participation (Crisóstomo, Brandão, & López-Iturriaga, 2020; Hilliard, Jahera, & Zhang, 2019; Melgarejo, 2019; Vo, 2019). Another notion comes from the Finance Committee on Corporate Governance of Malaysia. According to the agency Good Corporate Governance is a process and structure used to direct and manage business and corporate affairs in the direction of increasing business growth and corporate accountability. The final goal is to increase the value of shares in the long term but still pay attention to the various interests of other stakeholders. The principle of Good Corporate Governance consists of five principles, namely: transparency, accountability, responbility, independence and fairness

2.4 Company Financial Performance

Company performance can be assessed through various indicators or variables to measure the success of the company; in general the company focuses on performance information derived from financial statements keuangan (Al-ahdal et al., 2020; Bourke et al., 2020; Liu, 2020; Lussak et al., 2020). These financial statements are useful to help investors, creditors, potential investors and other users in order to make investment decisions, credit decisions, share analysis and determine the prospects of a company in the future. The company's performance appraisal is carried out aimed at motivating employees in achieving organizational goals and in complying with predetermined standards of behavior in order to achieve good corporate goals. Through performance appraisals, companies can choose strategies and its financial structure.

Financial ratios are the most commonly used financial analysis tools. The ratio can be understood as the results obtained from one amount to another. Financial ratio analysis is an instrument of analyzing company performance that explains various relationships and financial indicators, which are intended to show changes in financial conditions or operating achievements in the past and help illustrate trends in these patterns of change, to then show the risks and opportunities inherent in the company concerned (Boisjoly, Conine T.E., & McDonald M.B., 2020; Khoja, Chipulu, & Jayasekera, 2019; Lončarski & Vidovič, 2019; Sun, Zhou, Ai, & Li, 2019). The ratio describes a relationship or symbol between a certain amount with another amount, and by using analysis tools in the form of a ratio that will explain or illustrate to the analyzer whether the good or bad condition of the financial position in the company.

2.4.1 The Effect of Implementing Good Corporate Governance on Stock Prices

The implementation of good corporate governance is very useful and fundamental to be known by investors because it can see the prospect of stock prices in the future. The implementation of god corporate governance has a positive and significant effect on stock prices. This is the better the application of God corporate governance, the more investors are interested and the more investors who want to buy shares in a company, causing higher stock prices. This research is supported by (Crisóstomo et al., 2020; Hilliard et al., 2019; Melgarejo, 2019; Vo, 2019) who shows that the implementation of god corporate governance has a significant effect on stock prices in manufacturing companies on the Indonesia Stock Exchange. In stock trading the application of god corporate governance can affect stock prices, investors always pay attention to the implementation of good corporate governance corporate governance so that it can affect the ups and downs of stock prices.

H_1: The implementation of good corporate governance affects the stock price.

2.4.2 Effect of Financial Performance on Stock Prices

The financial performance of the company is very useful and fundamental to be known by investors because it can see the prospect of future stock prices. The financial performance of the company has a positive and significant effect on stock prices. The better the financial performance of the company, the more investors are interested and the more investors who want to buy shares in a company, causing higher stock prices. This research was supported by (Al-ahdal et al., 2020; Bourke et al., 2020; Liu, 2020; Lussak et al., 2020) who showed that the financial performance of the company had a significant effect on stock prices on manufacturing companies on the Indonesian Stock Exchange. In stock trading, a financial performance of the company can affect stock prices, investors always pay attention to the growth of the financial performance of the company so that it can affect the rise and fall of stock prices.

H_2: The financial performance of the company affects the stock price

3. RESEARCH METHODS

3.1. Type of Research Approach

This type of research in this study uses quantitative research with a descriptive approach based on the philosophy of positivism in certain populations or samples, data collection using research instruments, quantitative or statistical data analysis, with the aim to test the hypotheses that have been set. Descriptive approach is to determine the existence of an independent variable either on only one or more independent variables or independent variables making a comparison of variables and looking for relationships with other variables.

3.2. Definition of Variable Operations

Theoretically, the operational definition of a variable is an element of research that provides an explanation or explanation of the operational variables so that they can be observed or measured.

3.2.1. Variabel Independen (X)

Independent Commissioner (X_1)

Independent commissioners are members of the board of commissioners who are not affiliated with management, other members of the board of commissioners and controlling shareholders, as well as free business relationships or other relationships that can affect their ability to act independently or act solely in the interests of the company (Nasih, Harymawan, Paramitasari, & Handayani, 2019). This is measured by the proportion of the number of independent commissioners to the total number of commissioners.

$$\text{K.IND} = \frac{\textit{Proportion of number of independent directors}}{\textit{The total number of commissioners}}$$

Institutional Ownership (X_2)

Institutional ownership is ownership of company shares by financial institutions such as insurance companies, banks, pension funds, and investment banking (Akbaş & Canikli, 2019; Jebran, Chen, & Zhang, 2020), the percentage of certain shares held by institutions can affect the process of preparing reports financial that does not rule out the possibility of accrualization according to the interests of management. In this study, measured using a percentage is the number of shares owned by the institution of all outstanding share capital.

$$\text{KI (Percentage)} = \frac{\textit{Total institute shares}}{\textit{All outstanding share capital}}$$

Managerial ownership (X_3)

Managerial ownership is the number of shares owned by management from all the share capital of the company being managed (Salem, Ayadi, & Hussainey, 2019; Zhou, 2019). The indicator used to measure managerial ownership is the percentage of the number of shares owned by management from all of the company's share capital in circulation.

$$\text{KM (Percentage)} = \frac{\textit{Number of management shares}}{\textit{All outstanding share capital}}$$

Price to Book Value (X_4)

This ratio is useful to measure the ability of management in creating market value that exceeds investment cost expenditure. Rating ratios are the most complete measure of company performance, because they reflect risk ratios and return ratios (Indrayono, 2019; Kristanti & Iswandi, 2019). This ratio is very important because the ratio is directly related to the aim of maximizing the value of the company and the wealth of the shareholders. The formula used to calculate the PBV value is as follows:

$$PBV = \frac{Market\ Price\ Per\ Share}{Book\ Value\ Per\ Share}$$

Net Profit Margin (X_5)

Net profit margin is the company sales ability to make a profit (Smart, Briggeman, Tack, & Perry, 2019; Tee, 2019). The formula used to calculate the value of the Net profit margin is as follows:

$$NPM = \frac{Earning\ after\ taxes}{Net\ Sales}$$

Dependent Variable (Y)

Dependent Variable (Y) In this study the dependent variable is stock price, stock price is the value of evidence of capital participation in a limited liability company that has been listed on the stock exchange, where the shares have been circulating. Stock prices can also be defined as prices formed from interactions between sellers and buyers of shares which are motivated by their expectations of the company profits (Rusdiyanto & Narsa, 2019).

3.3. Population and Sample

The population in this study is the financial statements of manufacturing companies on the Indonesia Stock Exchange in 2016-2018. The sample in this study is the financial statements of manufacturing companies found on the Indonesia Stock Exchange in the period 2016-2018.

3.4. Data analysis method

The method of analysis in this study uses multiple linear regression analysis to determine the effect of partial or simultaneous between two or more independent variables on one dependent variable. In addition, to find out how much influence it has and to predict the value of the independent variable. Multiple linear regression uses two or more independent variables entered in the model. The multiple linear regression equation with three independent variables are as follows: The method of analysis in this study uses multiple linear regression analysis to determine the effect of partial or simultaneous between two or more independent variables on one dependent variable. In addition, it is proposed to find out how it affects how much the influence and to predict the value of independent variables. Multiple linear regressions use two or more independent variables entered in the model. The multiple linear regression equation with three independent variables is as follows:

$$HS = \beta 0 + \beta 1K.IND + \beta 2KI + \beta 3KM + \beta 4PBV + \beta 5NPM + \varepsilon 1t$$

4. RESULTS AND DISCUSSION

4.1. Test result

Descriptive Statistics reveal information about the characteristics and variables of GCG research and financial performance from the perspective of PBV and NPM. Data is taken from sample companies during the period 2016 - 2018. Descriptive statistics for the research variables can be seen as follows:

Table 1: Descriptive Statistics test results

Description	Minimum	Maximum	Mean	Std. Deiation
K.IND	0.20	1.00	0.4137	0.12726
KI	0.33	0.98	0.7046	0.18853
KM	0.00	0.89	0.0512	0.13528
PBV	0.07	46.63	3.3926	6.87296
NPM	0.01	1.55	0.1190	0.18666
HS	0.50	68650	6.7717E3	13692.18076

The table above shows that the value of the standard deviation of the stock price variable is greater than the average value compared to other variables. This shows that the stock price variable is not good enough. Stock price data has an average value of stock prices of 6.7717E3, with a minimum value of 0.50 which is at PT. Indo Acidatama. Inc, while the maximum value is 68650 located at PT. HM. Sampoerna Inc. While the standard deviation of 13692.18. Shows relatively large data deviations, because the value is greater than the average value.

Data from independent commissioners has an average value of 0.4137. The minimum value of an independent commissioner of 0.20 owned by PT. Alumindo Light Metal Industry Inc. while the maximum value of 1.00 owned by the company PT. Arwana Citramulia Inc. The overall average score indicates that the independent commissioner has met the recommended standard, which is 41% while the standard deviation is 0.12726 which shows a relatively small data deviation, because the value is smaller than the average value. Institutional ownership data has an average value of 70.46%, with a minimum value of 32% in PT. Lionmesh Prima Inc., while the maximum value is 98% which is at PT. HM. Sampoerna Inc. while the standard deviation is 0.18853 which shows a relatively smaller data deviation, because the value is smaller than the average value. Managerial ownership data has an average value of 5.12%, with a minimum value of 0,000% in PT. Akasha Wira International Inc. while the maximum value is 89% at PT. Betonjaya Manunggal Inc. While the standard deviation is 0.13528 which indicates a relatively larger data deviation, therefore this data is not good enough. Price book value data has an average value of 3.3926, with a minimum value of 0.07 located at PT. Jaya Pari Steel Inc. while the maximum value is 46.63 in PT. Unilever Inc. While the standard deviation is 6.87296 which shows a relatively larger data deviation, therefore this data is not good enough, Net profit margin data has an average value of 0.1190, with a minimum value of 0.01 located at PT. Pyridam Farma Inc. while the maximum value is 1.55 at PT. Budi Starch & Sweetener Inc. While the standard deviation is 0.18666 which indicates a relatively larger data deviation, therefore this data is not good enough.

4.2 The results of multiple linear regression analysis

Table 2: Results of multiple linear regression analysis

Variable	B	Std. error	Sig t
Constant	9.111	1.052	.000
Independent Commissioner	1.385	.646	.036
Institutional Ownership	-1.001	.513	.056
Managerial ownership	-.267	.063	.000
Price book value	.680	.186	.001
Net profit margin	.815	.155	.000

From the results of the above analysis, it can be seen the effect of the independent variable independent commissioner, managerial ownership, institutional ownership, PBV and NPV on stock prices with the following mathematical equation:

$$Y= 9.111 + 1.385X_1 – 1.001X_2 – 0.267X_3 + 0.680X_4 + 0.815X_5 + \varepsilon$$

The first test results show that the independent commissioner has a positive and significant effect on stock prices. Thus the first hypothesis is accepted. The second hypothesis testing results indicate that institutional ownership has a negative and significant effect on stock prices, so the second hypothesis is accepted. The third hypothesis testing results show that managerial ownership has a negative and not significant effect on stock prices, so the third hypothesis is rejected. The fourth hypothesis testing results indicate that the price book value has a positive and significant effect on stock prices, so the fourth hypothesis is accepted. The fifth hypothesis testing results show that net profit margin has a positive and significant effect on stock prices, so the fourth hypothesis is accepted.

4.3 Determination Coefficient Test Results (R^2)

Table 3: Regression of Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.804[a]	.646	.616	1,11339

Based on the Model Summary regression analysis table in the R square column, the values are obtained R^2 (R *Square*) of 64.6 %. This value indicates that the percentage of the relationship between the influence of independent variables (independent commissioners, institutional ownership, managerial ownership, price book value and net profit margin on stock prices is 64.6%. Or the variation of the independent variables used in the independent commissioner model, institutional ownership, managerial ownership, price book value and net profit margin) can explain 64.6% of the variation in the share price variable. While the remaining 35.4% is influenced or explained by other variables which are not included in this research model.

4.4 Simultaneous Significance Test Results (Statistical Test-F)

Table 4: F-Test Results (Anova)

Model	Sum of	D	Mean	F	Si
Regress	133,678	5	26,736	21	.00
Residua	73,138	5	1,240		
To	206,817	6			

F test results obtained results that the value of F = 21,567 with a significance value = 0,000 (p value <0.05), which means that the independent commissioner, institutional ownership, managerial ownership, price book value and net profit margin effects significantly on stock prices.

4.5. Significance Test Results for Individual Parameters (Test Statistics-t)

Table 5: Results of statistical test-t

Variable	t	Sig
Independent Commissioner	2.143	.036
Institutional Ownership	-1.951	.056
Managerial ownership	-4.270	.000
Price book value	3.657	.001
Net profit margin	5.260	.000

Based on the results of the t-test the following results are obtained:

The first hypothesis is obtained t-value = 2.143 with a significance value = 0.036 (p value <0.05), which means that the independent commissioner has a positive and significant effect on stock prices. Thus the first hypothesis is accepted. The second hypothesis is obtained t-value = -1.951, with a significance value = 0.056 (p value> 0.05), which means institutional ownership has a negative and not significant effect on stock prices. Thus the second hypothesis is rejected. The third hypothesis is obtained t-value = -4.270 with a significance value = 0.000 (p value <0.05), which means managerial ownership has a negative and significant effect on stock prices. Thus the third hypothesis is accepted.The fourth hypothesis is obtained t-value = 3.657 with a significance value = 0.001 (p value <0.05), which means the price book value has a positive and significant effect on stock prices. Thus the fourth hypothesis is accepted.The fifth hypothesis is obtained t-value = 5.260 with a significance value = 0.000 (p value <0.05), which means the net profit margin has a positive and significant effect on stock prices. Thus the fourth hypothesis is accepted.

4.6. Discussion

From the analysis results above obtained a significant level of t-test = 0.036 <α = 0.050 (level of significance). Thus the effect of independent commissioners on stock prices is partially insignificant. Because the regression results indicate a significance value of 0.036 is less than α = 0.05. It can be concluded that the Independent Commissioner does not affect the stock price. From the results of the analysis output above obtained a significant level of t-test = 0.056> α = 0.050 (level of significance). Thus the effect of institutional ownership on stock prices is partially insignificant. Because the regression results indicate a significance value of 0.056 is greater than α = 0.05. It can be concluded that institutional ownership does not affect stock prices. From the analysis output above obtained a significant level of t-test = 0.000 <α = 0.050 (level of significance).

Thus the effect of managerial ownership on stock prices is partially significant. Because the regression results show a significance value of 0.000 less than α = 0.05. It can be concluded that managerial ownership affects stock prices.

From the analysis output above obtained a significant level of t-test = 0.000 <α = 0.050 (level of significance). Thus the effect of price book value on stock prices is partially significant. Because the regression results indicate a significance value of 0.001 is smaller than α = 0.05. It can be concluded that the price book value affects the stock price. From the results of the analysis output above obtained a significant level of t-test = 0.000 > α = 0.050 (*level of significance).* Thus the effect of net profit margins on stock prices is partially insignificant. Because the regression results show a significance value of 0.000 being smaller than α = 0.05. It can be concluded that net profit margin affects stock prices.

5. CONCLUSION

The influence of independent commissioners has no influence on stock prices with a significance value of 0.036 less than significance α = 0.05, the influence of Independent Commissioners has no effect on stock prices with a probability value of 0.056 greater than α = 0.05, the effect of managerial ownership has an influence on stock prices with a probability value of 0,000 less than α = 0.05, the effect of price book value has an influence on stock prices with a probability value of 0.001 less than α = 0.05, the effect of net profit margin has an influence on stock prices with a probability value of 0,000 less than $\alpha = 0.05$.

The results of the F test analysis showed that the value of $F = 21.567$ with a significance value = 0.00 with a value of $p < 0.05$), this means that the independent commissioner, institutional ownership, managerial ownership, price book value and net profit margin have an influence on stock prices. The influence of independent commissioners, institutional ownership, managerial ownership, price book value and net profit margin can explain 64.6% of the share price. While the remaining 35.4% is influenced by other variables not included in this study.

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