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The Role of Good Corporate Governance as a Moderating Variable in Relationship Between Solvency, Company Size, Liquidity and Stock Price

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Abstract:

The purpose of this study is to see how liquidity, solvency, firm size, and corporate governance (GCG) affect consumer goods industrial sector businesses listed on the Indonesia Stock Exchange (IDX) from 2017 to 2022. This research employs multiple linear regression analysis with secondary data from the company's financial statements and annual reports. The current ratio, debt to equity, firm size, and corporate governance (GCG) are used as independent factors in this study, with stock prices as the dependent variable and corporate governance (GCG) as the moderating variable. According to the findings of this study, the Current Ratio (CR) and Debt to Equity Ratio (DER) have a partially negative and substantial influence on stock prices, and concurrently independent factors have a significant effect on stock prices using the previous year's stock price as a control variable. Meanwhile, stock prices are unaffected by business size or GCG. And GCG, as a moderating variable, cannot increase the company's size.

Keywords: Liquidity, Solvency, Firm Size, Corporate Governance, Consumer Goods

Introduction

The rapid development of technology and information has created a competitive edge in a country's economic activities. The internet plays an important role in all aspects of human life. Based on the AJPII survey results in 2022, the number of internet users in Indonesia is increasing from year to year. This proves that the internet has become the main reference for Indonesians in accessing news and information. The phenomenon of increasing internet users in Indonesia is also followed by the use of digital technology which has a positive impact on increasing investment and productivity in the industrial sector, so that it has a sustainable effect on the national economy (Amrah & Elwisam, 2019).

The importance of shares to a company cannot be underestimated in both financial and operational contexts. Shares are financial instruments that enable companies to raise capital from investors to support their growth, expansion and operations. In a few scholarly paragraphs, let us explain the importance of stocks to a company in more detail. First of all, shares act as a source of capital for the company. By issuing shares, a company can sell its shareholding to investors, either publicly through the stock market or privately through a private placement. The capital raised from the sale of shares can be used to finance various initiatives, such as research and development, asset purchases, business expansion, new product development, or debt replacement. Sufficient capital provides companies with the opportunity to grow and expand, as well as capitalize on business opportunities that may not be accessible without adequate financial support (Batubara & Nadia, 2018).

Shares give companies access to the capital market. By becoming a public company, companies can benefit from the liquidity of the stock market. Shares listed on the stock exchange can be traded by potential investors, which means the company can raise additional capital through the sale of additional shares or through the issuance of preferred shares or convertible bonds. Access to capital markets also gives companies the ability to raise their profile and reputation in the market, increasing visibility, as well as opening the door to wider cooperation and business opportunities. Furthermore, shares also provide incentives for company management and employees. Through share-based compensation programs, management and employees can be granted stock options or bonus shares as part of their compensation package. These incentives encourage employees to participate in the company's success and motivate them to achieve better performance. By having stock ownership, management and employees have a direct interest in increasing the value of the company's stock, thus encouraging collaborative efforts and long-term focus (Tannady et al., 2023).

Investment has an important role in national economic growth (Investment Coordinating Board, 2019). Reporting from OJK.go.id, Investment is an investment activity or purchase of shares and securities in the capital market with the aim of making a profit. This makes the capital market an alternative for the community in investing their funds. In its development, investors who want to buy shares in the capital market need information that supports them in making decisions. There are several influences on investors in making investments including financial information, conditions outside the company, technical information. In Indra Listyarti's research, financial information has a significant influence on investment decisions. This indicates that investors' insights into the company's financial information can form investors' confidence, with relevant and appropriate information that can be used by investors as a consideration in making decisions (Dewi et al., 2016).

Financial statements are formed from income statements, cash statements, and other reports. In making investment decisions, investors need optimal information, investors can process data in financial statements through financial statement analysis such as ratio analysis. Ratio analysis that can be used includes liquidity, solvency, profitability, and activity ratios (Wijaya, 2018) . Apart from analyzing financial data in assessing company performance, information disclosure in the digital era makes people aware of non-financial factors that also affect stock prices. Information disclosure provided by companies in the form of CSR, GCG, and others. One of the successes of management in managing the company is seen from the company's activities as indicated by the share price in the capital market. If the share price of a company increases, then potential investors consider that the company is successful in managing its business (Sutagana et al., 2022).

Companies that have good financial performance can generate optimal profits compared to poor financial performance, through ratio analysis on financial statements, investors can make considerations in making decisions. The ratio analysis used in this study is Debt to Equity Ratio and Current Ratio. Liquidity and solvency analysis aims to measure the company's ability to meet obligations within a certain period of time. Companies in carrying out their operational activities need funds to finance all operational activities carried out by the company in order to make a profit. This also affects the investor's decision to invest (Nugraha et al., 2021).

In addition to financial performance, non-financial factors supported by disclosure of CSR and GCG information are also followed by company size. The size of the company is described by the total assets owned, so the greater the amount of total assets owned, the company is a large company and if the smaller the amount of total assets owned, the smaller the size of the company (Koagouw et al., 2022). Generally, large companies find it easy to raise funds from the capital market, reflecting the management of company assets that can allow investors to survive. Companies with large total assets are a factor in disclosing broader public information to shareholders because stakeholders are in the spotlight (Santoso et al., 2018). In the research of Sun et al, in Ferina Asgari which states that efforts to resolve conflicts occur with corporate governance because corporate governance can increase the quantity and quality of information disclosure. The purpose of this study was to analyze the effect of solvency, liquidity, company size, and GCG on stock prices and to analyze the effect of GCG in strengthening or weakening company size on stock prices.

Literature Review

According to several experts, one of them Darmadji and Fakhrudin in their book explain that stock prices are prices that occur on the stock exchange at a certain time and can fluctuate in a short time. This is influenced by the demand and supply that occurs between sellers and buyers of shares. Meanwhile, according to Gultom, the share price is an exposure to good corporate governance by management in the ability to create and utilize business opportunities to generate profits and fulfill its responsibilities to owners, society and government. The stock price is one of the important indicators for the sustainability of the company, with the attachment that occurs between agency theory and stock price as the dependent variable in this study. An increase in stock price can be through an increase in the company's financial performance and the welfare of shareholders which is directly proportional to the stock price, so the higher the company's stock price indicates the prosperity of shareholders and the company's increasing financial performance. The importance of the alignment that exists between the goals and interests that occur between company owners and managers (Wijaya, 2018).

Stock prices are not formed alone, there are several factors that can affect the formation of stock prices or stock indices. The influencing factors are divided into two, namely internal factors and external factors. One of the internal factors is the announcement of the company's financial statements, such as Debt to Equity Ratio (DER), Current ratio (CR) and others. While external factors are influenced by factors from outside, namely domestic and foreign political turmoil, various issues that occur both domestically and abroad and others (Santoso et al., 2018).

The financial report is a depiction of the company's financial posts obtained in a period in practice known as several kinds of financial statements such as balance sheets, income statements, statements of changes in capital, and statements of notes to financial statements, as well as cash reports. In addition, Hery revealed that financial ratio analysis is carried out by linking several allegations in the financial statements in the form of financial ratios. Financial ratio analysis has an important role in explaining the important relationship between financial statement estimates that can be used to evaluate the company's financial condition and performance. Financial statement analysis certainly has a purpose as a business analysis, material for evaluating company performance, as well as being a reference material in progressively improving the company's financial performance in the future for the good of the company (Nugraha et al., 2021).

The solvency ratio is one of the ratios used to measure the company's capital capability when financed by debt. In a broader sense, this ratio is used to estimate the strength of the company in meeting all obligations in the short term or long term if the company is liquidated. The calculation of the solvency ratio consists of various methods that can be used by companies. The following various types are available, including debt to asset ratio, debt to equity ratio, tangible debt coverage, current liabilities to net worth, time interest earned, fixed charge coverage. In this study, researchers used the debt to equity ratio or debt to equity ratio (Sutagana et al., 2022) .

According to previous researcher, liquidity is a measure of a company's ability to pay its short-term financial obligations when they are paid from liquid assets. This ratio not only measures the health and finances of the company, but also relates to its ability to convert certain short-term assets into cash. In addition, previous researcher revealed that liquidity is a ratio that measures the company's ability to meet expired obligations, both within the company and outside the company. Liquidity index analysis is an index analysis used by investors in measuring the company's ability to meet short-term obligations (Wijaya, 2018).

The size of the company is a description of the size of the company which is presented in the form of total assets, total sales, average sales, and total assets. Meanwhile, company size is defined as the average obtained from total net sales for the relevant year to several years. Company size is stated as one of the factors that can prove in the financial structure. Company size can determine several things, namely determining the company's ease of raising funds from the capital market and determining bargaining power in financial contracts. In addition, company size can cause large companies to generate more profits, along with the potential scaling effect of costs and revenues. Company size is a scale that describes the size of the company based on total assets, log size, market value, shares, total sales, total revenue, total capital, and others (Koagouw et al., 2022).

The concept of Corporate Governance appears due to the dependency of agency theory, so this concept overcomes agency problems. Corporate governance is present as an effort to control management behavior that precedes personal desires. The presence of Corporate Governance has the advantage of regulating and manifesting mechanisms and controls to enable the realization of a system of decomposition between profits and wealth that is balanced for stakeholders and realizes efficiency for the company. According to the Forum for Corporate Governance in Indonesia, the Casburv Committee describes corporate governance as a set of rules, or institutions, that govern the relationship between the rights and obligations of shareholders, company managers, government creditors, employees, and other internal and external stakeholders who govern and control the company. Based on the body formed by the Coordinating Minister for the Economy, namely the National Committee for Governance Policy (KNKG), it is revealed that Corporate Governance is a process and organizational structure of a company that aims to create sustainable long-term added value for company shareholders, by taking into account the interests of other stakeholders based on applicable laws and norms (Santoso et al., 2018).

Methodology

This research uses a quantitative approach with an associative research type. This study uses consumer goods sector companies as the population listed on the Indonesia Stock Exchange (IDX) and due to sample limitations, the entire population is used in this study using a saturated sample of 30 companies. This study uses secondary data as the main data in the study. The analysis technique used in this research is Moderated Regression Analysis (MRA), and in this study, the regression path selection test was also carried out first and the classical assumption test.

Results

The Chow test results obtained, it is known that the regression equation through the Chow test has a cross-section Chi- Square probability value, which is the result of the equation using the fixed effect model of 0.0000. This value is below the significant level of 0.05. Therefore, we conclude that Ha is accepted and will proceed with conducting the Hausman Test.

Based on the results of the Hausman Test, the probability value of the random cross-section equation obtained from the estimated model is 0.0000. This value is smaller than the significant value of 5% or 0.05. So, this study will use the Fixed Effect cross section model. After regression using a fixed model, the output analysis of the regression equation of this study is as follows: Price = 3.380599 + 0.147026 Pricet-1 - 0.164892 DER - 0.096025 CR + 0.042153 Size + 3.939873 GCG - 0.046337 GCG*Size + ε

The coefficient for the previous year's stock price is 0.147026. This indicates that the future year's stock price increases by 0.147026 every time the previous year's stock price increases, assuming other variables remain constant. The coefficient for Debt to Equity Ratio (DER) is -0.164892. This shows that the stock price will decrease by 0.164892 every time the DER variable increases, assuming other variables remain constant. The coefficient for current ratio (CR) is -0.096025. This indicates that the stock price will decrease by 0.096025 every time the CR variable increases, assuming other variables remain constant.cThe coefficient for company size is 0.042153. This shows that the stock price will increase by 0.042153 every time the company size variable increases, assuming other variables remain constant. The coefficient for Good Corporate Governance (GCG) is 3.939873. This shows that the Stock Price will increase by 3.939873 every time the GCG variable increases, assuming other variables remain. The coefficient for GCG * Size is -0.046337. This indicates that the Stock Price will decrease by 0.046337 every time the GCG * Size variable increases, assuming other variables remain constant.

The adjusted R-Squared value is in the range of 0 to 1. The closer to 1, the greater the ability of the independent variable to explain its effect on the dependent variable. Based on table 4.10 above, the adjusted R-Squared value is 0.919665. These results indicate that the adjusted R2 value is 91.96% of the ability of the independent variable to explain its effect on the dependent variable and as much as 8.04% of the independent variable cannot explain its effect on the dependent variable.

The F test in this study uses a significance value of 5% or 0.05%, provided that if the significance value of F is smaller than 0.05, the regression coefficient is feasible to use. Based on the results of the F test, it shows a value of 0.000000 below the predetermined significance value. The F test results indicate that the independent variables as a whole can affect the dependent variable because they have a value below the significance value of 0.05 or 5%. Based on the results of the t test, the probability value of each variable is obtained, namely the probability value of the previous year's stock price 0.0864, debt to equity ratio worth 0.0203, current ratio worth 0.0667, company size value 0.8340, GCG worth 0.6739, and the interaction of GCG with company size has a probability value of 0.8806.

Debt to equity ratio (DER) has a significant effect on stock prices. With a probability value of 0.0203, it is below the significant value of 0.10 and the regression coefficient shows a value of -0.164892. This shows that the debt to equity ratio (DER) has a negative effect on stock prices and is significant to future stock prices in consumer goods companies. Current ratio (CR) has a significant effect on stock prices. With a probability value of 0.0667, this value is below the significance value of 0.10 with a regression coefficient value of -0.096025. This shows that the current ratio has a negative and significant effect on the future stock price of consumer goods companies.

Company size has no significant effect on stock prices. With a probability value of 0.8340, this value is above the significance of 10% or 0.10. This shows that company size does not have a significant effect on the future stock price of consumer goods companies during the period 2017 to 2022. Good corporate governance has no significant effect on the next year's stock price. This is evidenced by the probability value of 0.6739, this value is above the significant value of 0.10. This shows that Good Corporate Governance has no significant effect on the future stock price of consumer goods companies.

The results of the moderated regression analysis (MRA) test by testing the interaction of the good corporate governance variable in moderating company size on stock prices. The interaction of GCG with company size has no significant effect with a probability value of 0.8806, meaning that GCG has not been able to strengthen company size on future stock prices in consumer goods companies from 2017 to 2022.

Discussion

Debt to Equity Ratio is an indicator that can be used to measure the company's ability to meet its long-term obligations using its own capital. Based on data analysis and hypothesis testing by conducting multiple linear regression tests on a sample of consumer goods companies from 2017 to 2022, it shows that leverage using the debt to equity ratio (DER) indicator has a negative coefficient value with the regression results showing that the Debt to Equity Ratio (DER) can affect stock prices in a negative and significant direction. These results are reinforced by research previously conducted by Dewi & Suayana, Alfiah & Diyani, and Yunus & Simamora. This shows that the high DER value indicates that companies in the consumer goods sector have a high risk so that investors tend to avoid them and can cause a decrease in stock prices. In signal theory, companies provide information to investors through financial reports, one of which is with a high percentage of DER value, which reflects that the company has a high interest expense so that the percentage of profit that will be distributed to shareholders is reduced. This affects the investment decisions made by investors.

DER describes the proportion of debt used by the company in financing its operations compared to the capital invested by shareholders. An increase in DER may indicate a higher level of risk because the company has a larger debt liability. Investors tend to give a negative assessment of companies that have a high DER because they are concerned about the company's ability to repay its debts. Therefore, the stock price of companies with high DER tends to fall due to the high level of risk associated with the company's financial health.

Current Ratio is an indicator in paying off its short-term obligations with its current assets. Generally, this ratio is calculated by dividing current assets by current debt. This ratio illustrates the amount of current assets owned by consumer goods sector companies in responding to business needs and continuing their daily business activities. Based on hypothesis testing using multiple linear regression tests on a sample of consumer goods companies, it shows that liquidity using one of the ratio indicators, namely the current ratio. The regression coefficient value shows that the current ratio has a significant negative effect on the share price of companies in the consumer goods sector. Then the hypothesis is accepted. These results are reinforced by several studies that have been conducted previously by Ch Manoppo et al, Batubara & Nadia, and Amrah & Elwisam. Meanwhile, research conducted by Malintan, Erari, and Lestari & Suryantini shows the results that the current ratio has no effect on stock prices.

CR is a ratio that measures a company's ability to meet short-term obligations using current assets. An increase in CR indicates that the company has higher liquidity and can meet its short-term obligations more easily. This gives investors confidence that the company has good financial stability. Investors tend to give a positive assessment of companies that have a high CR because they see that the company is able to face financial challenges that may occur in the future. In this context, the share price of companies with a high CR tends to rise due to investors' positive perception of the company's financial health.

According to Amrah & Elwisam in their research, the current ratio value that is too high indicates that there are excess idle funds owned by the company but not used to pay dividends, long-term debt, and other investments.

This reflects that the company is less able to manage cash flow and operate its current assets so that it can reduce the company's profitability. Investors as buyers of shares in the capital market become less interested in investing in shares in the company. In accordance with the signal theory that the information provided by the company for external parties affects the decision to invest so that it affects the decline in the company's share price in the capital market.

Based on testing using linear regression and data analysis on a sample of consumer goods companies from 2017 to 2022, it shows that company size does not have a positive and insignificant effect on stock prices, so this hypothesis is rejected. The results of this study are reinforced by research previously conducted by Sukandar, Epi, and Nugraha et al. This condition shows that fluctuations in company size cannot be a guarantee that the company will have good performance as reflected by total assets. Commensurate with that, the company may also not maximize its assets to obtain the maximum share price. Therefore, it can be concluded that company size cannot be used as a benchmark in knowing the company's ability to maximize stock prices. This shows that large companies do not always get a good stock price compared to small companies.

The implementation of good corporate governance (GCG) plays an important role in influencing investors' decisions to buy shares. GCG is a benchmark in seeing the stability and sustainability of companies listed on the capital market. The success of a company is reflected in the quality of corporate governance. Therefore, in analyzing the effect that GCG has on stock prices, it is carried out using self-assessment to measure the quality of corporate governance and apply the principles of corporate governance. Based on the Forum for Corporate Governance in Indonesia (2001), companies can assess the quality of their own corporate governance by using weighting in five areas, namely shareholder rights, corporate governance policies, corporate governance practices, disclosure, and audit functions. Based on the partial multiple linear regression test results, good corporate governance has no significant effect on consumer goods sector companies from 2017 to 2022 with a probability value of 0.63739, which is above the significance level set at 10%. This proves that the measurement of GCG through self-assessment is not effective in representing an assessment that is done honestly and objectively. So that this can raise doubts for parties outside the company such as investors regarding the actual condition of corporate governance in the company. This is in line with research conducted by F. S. Dewi et al, and Wijaya.

Although the principles of good corporate governance are generally recognized, investors may have different preferences and priorities in assessing the factors that influence stock prices. For example, some investors focus more on a company's financial performance, while others pay more attention to environmental, social or ethical issues. As a result, the direct effect of good corporate governance on stock prices may vary depending on the preferences and judgments of these investors. In addition, good corporate governance can influence stock prices indirectly through factors such as corporate reputation, investor confidence, and access to capital. Strong implementation of good corporate governance can build a good corporate reputation in the eyes of investors and the wider public, which in turn can affect share prices in the long run. However, this influence may be indirect and take longer to be reflected in stock price movements.

In this study, researchers used good corporate governance as a variable that moderates company size. Based on the moderated regression analysis (MRA) test by testing the interaction that occurs between GCG and company size, the results show that the significance number is 0.8806, which means that the significance value is greater than 0.10 in consumer goods sector companies in 2017 – 2022. The size of a company is not based on the quality of corporate governance. This proves that a company that is large and has a large number of assets, does not necessarily disclose corporate governance and management supervision properly. Supervision of the company is followed by intensive managerial supervision of the company, especially when making decisions, so that the size of managerial ownership does not affect company size on stock prices. This is proven through research previously conducted by Muhammad Dedi Setiawan and Intan Soraya.

Conclusion

Based on the analysis and discussion of the research results that have been carried out using the panel data estimation model to analyze multiple linear regression of panel data with e- views, the final results can be obtained as follows Debt to Equity Ratio, Current Ratio, Company size, and GCG together have a significant effect on stock prices in consumer goods sector companies in Indonesia in 2017-2022. Debt to Equity Ratio has a significant effect on stock prices in consumer goods sector companies in Indonesia. Current Ratio has a significant effect on stock prices in consumer goods sector companies in Indonesia. Company Size has no significant effect on the price of shaam in consumer goods sector companies in Indonesia. Good Corporate Governance has no significant effect on stock prices in consumer goods sector companies in Indonesia. Good Corporate Governance has no significant effect in moderating company size on stock prices in consumer goods sector companies in Indonesia.

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