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Analysis Of The Influence Of Company Size, Corporate Good Governance And Return On Equity On Value Of Lq45 Companies Listed In Indonesian Stock Exchange

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Abstract:

This research aims to see whether there is an influence between the variable's good corporate governance, return on equity, and company size simultaneously on company value. Purposive sampling was the method utilized to choose the sample for this study. All 45 LQ companies that are registered on the Indonesia Stock Exchange make up the research population. Data for this study came from literature reviews and field investigations. This study's data analysis approach makes use of a multiple regression model. This investigation employed a two-tailed test. The following conclusions can be made in light of the data gathered and the tests performed on the issue using a multiple regression model: Company size, return on equity, audit committee, managerial ownership, and institutional ownership all simultaneously and significantly affect a company's value. The value of a corporation is partly influenced by managerial ownership. The value of a corporation is not partially impacted by institutional ownership. The audit committee's impact on the value of the company is zero. The value of the company is partially impacted by return on equity. The worth of a corporation is not influenced in part by its size.

Keywords: good corporate governance, return on equity, company size, company value.

Introduction

The corporation wants to increase the value of its shares in order to maximize shareholder wealth. This objective will help society the most in addition to being in the best interests of shareholders. A company's primary objective is to raise the wealth of its owners or shareholders in order to boost the company's worth. The capital market share prices represent the wealth of the shareholders. The greater the share price, the more indicative it is of the growing well-being of the business owner. The main objective of the company may not always align with the goals of management or managers acting in their capacity as company managers. This can lead to a conflict of interest between management in this case, the manager and the shareholders and what are known as agency problems. Clear goals must be established before a company is established. The goal of forming a corporation is expressed in a number of ways. Maximizing earnings is the company's top priority. Prosperity for the company's owner or shareholders is the second aim of the business. Maximizing the company's worth as shown by its share price is the third corporate objective, in the meantime. The goals of these three companies are actually not that dissimilar. It's just that every organization has a distinct emphasis that it wants to achieve (Keown, 2020).

Recently, the creation of value for a company's shareholders has been widely accepted as a corporate goal and has been included in the strategic management literature through what is called value-based planning. In order for that shareholder to put money into the business. The ownership structure has an impact on the value of the company's rise and collapse. A company's ownership structure plays a significant role in determining its worth. The concentration of outside ownership by parties and management ownership by the company are two factors that must be taken into account. Compared to managers, outside owners of a firm are less likely to be involved in the day-to-day operations of the company. An examination of the variables influencing a company's value is necessary given the significance of that value to investors. Effective corporate governance is a factor that affects a company's worth. Based on agency theory, corporate governance serves as a means of resolving potential conflicts often referred to as agency problems that may arise in the relationship between principal and agent. The difference in the interests of management as managers and shareholders as owners leads to conflict. While the manager is interested in receiving compensation for overseeing the owner's assets, the owner is interested in making sure the invested money yield the highest returns. Naturally, the manager operating as the company's manager is more knowledgeable about internal operations and prospects than the owner. Subsequently, the manager will report to the owner on the state of the business as a means of holding the owner accountable to shareholders (Mismiwati, 2016).

Other scholars have conducted studies on the relationship between company size and value. Profitability has a considerable positive impact on firm value with a significance value of less than 0.05, according to the results of multiple regression analysis conducted at a significance level of 5%. Leverage has no bearing on the worth of the business. The worth of a corporation is significantly increased by economic value added. Systematic risk has no bearing on the worth of the company. Research citations: This research has both parallels and distinctions. The research equation uses excellent corporate governance as the independent variable and firm value as the dependent variable. There are differences in the research objects employed in this study, specifically the companies that are included in LQ 45, in addition to differences in the independent variables with the addition of return on equity and company size (Puspita, 2020).

Literature Review

A significant growth in the firm's worth is a long-term objective that it should accomplish. This will be mirrored in the market price of its shares, as the movement of the share price indicates how investors feel about the company. The ability of the business to pay dividends is one element that affects share prices. Conflicts of interest between agents and principals (business owners) will occur during the process of optimizing company value; these issues are commonly referred to as agency troubles. Conflicting ambitions and interests between agents and proprietors are not uncommon in companies. The welfare of the company's owners and growing the company's worth are not the goals of the management or agents; instead, they are more focused on their own interests. The way this manager is treating the company will add to the costs, which will naturally lower the company's worth. The impetus for implementing strong corporate governance eventually comes from the formation of conflicts between managers and firm owners over divergent objectives and interests. It is anticipated that GCG adoption will help to maximize company value. It is anticipated that GCG will be able to manage competing interests and deliver advantages to the business. The GCG is a framework that oversees and governs businesses that add value. with a focus on the idea that businesses have a duty to disclose all relevant information about their ownership, stakeholders, and business performance in a timely, accurate, and transparent manner (Davit, 2021).

Studies on business value and excellent corporate governance have been conducted by other researchers. It was discovered that although the audit committee and firm size do not significantly affect company value, the board of commissioners and the independent board of commissioners do have a minor impact. In textile and apparel firms listed on the Indonesia Stock Exchange (BEI), however, the audit committee, independent board of commissioners, board of commissioners, and company size all significantly impact the value of the company at the same time. Return on equity is a further component that affects a company's worth. Return on equity is a ratio that illustrates how well a business can use its own capital to create profits after taxes. It is crucial for shareholders to understand this ratio in order to assess the efficacy and efficiency of the company's management of their own capital. Investors anticipate higher levels of return the higher the value of return on equity. A corporation is seen more lucrative the higher its return on equity value. Therefore, the market will reward companies with advantageous investment prospects by giving them a high price-to-earnings ratio (PER). Return on equity, which measures the amount of profit from investments made by owners of their own money or holding company shares, demonstrates how well a company is able to manage its own capital. Return on equity informs investors about the portion of a company's rate of return on capital that is attributable to its profitability (Tannady et al., 2022).

ROE is a variable that directly influences share prices. Return on equity (ROE) is a comparison of profit after tax with your own capital. ROE measures the ability of a company's own capital to generate profits for shareholders. A company with a high ROE will attract investors' interest in investing capital in the company because the profits they will receive are large, which can increase the company's share price (Astaginy et al., 2023). Numerous scholars have studied the impact of return on equity on company value. According to their findings, the first hypothesis was tested and the results showed that all independent variables ROA and ROE had a substantial impact on company value. Firm size is another factor that can affect a company's worth. Big businesses typically have greater access to the financial market and are more easily recognized. Therefore, the chance of filing for bankruptcy is minimal. When making investing decisions, investors take this into account, among other things. A company's size typically indicates its capacity to finance lucrative operations and investments; hence, larger companies tend to have higher sales and a stronger effect on profits. Because investors will see this gain favorably, it will have a beneficial effect on the price-earnings ratio in the future (Made, 2021).

The average total net sales for the year under consideration over a number of years indicates the company's size. Sales in this instance exceed both variable and fixed costs, resulting in a loss for the business. For many reasons, firm size is consistently cited in studies as a factor of financial structure. First off, a company's size might affect how easily it can access financing from the capital market (Tri et al., 2023). Small businesses typically don't have access to structured capital markets for stocks and bonds. In financial contracts, negotiating power is determined by both firm sizes. Typically, larger businesses have access to a wider range of debt financing options, including exclusive deals that are more lucrative than those made by smaller businesses. The bigger the potential amount of money involved, the more likely it is that a contract tailored to the interests of both parties will be drafted rather than use a typical debt contract. Third, it's possible that larger businesses are able to raise more money due to the scale effect on costs and returns. Company size can be determined based on profits, assets, workforce, etc., all of which are highly correlated (Darmayanti, 2022).

Methodology

Purposive sampling was the method utilized to choose the sample for this study. By using the purposive sampling method, samples that meet the goals of the research are collected based on predetermined criteria. All 45 LQ companies that are registered on the Indonesia Stock Exchange make up the research population. The quantitative secondary data sources provided the information employed in this study, which was intended to be both descriptive and analytical. Data whose information is gleaned from the company in an indirect manner is known as secondary data. The financial report ratios on the Indonesia Stock Exchange (BEI) that have undergone an audit serve as the secondary data. Secondary data for this study came from literature and field investigations. This study's data analysis approach makes use of a multiple regression model. Classical assumption testing must be used to demonstrate how the independent variable (X) affects the dependent variable (Y). In addition, the Kolmogorov-Smirnov test can be utilized in normalcy test study with the assistance of the SPSS software. Kolmogorov-Smirnov tests were used in this investigation to ascertain normalcy. This investigation employed a two-tailed test.

Case studies

Descriptive statistics were used to analyze management ownership, and the findings indicate that the minimum value was 0.10, the maximum value was 0.9, the average was 0.4, and the standard deviation was 0.2. The investigation of institutional ownership using descriptive statistics yielded a standard deviation of 0.2, an average of 0.6, a maximum of 0.9, and a minimum of 0.05. An investigation of the audit committee using descriptive statistics yielded a standard deviation of 0.06, a minimum value of 0.5, a maximum value of 0.8, and an average of 0.7. Return on equity can have a minimum value of -1.4, a maximum value of 22.8, an average of 0.5, and a standard deviation of 2.4, according to the research done using descriptive statistics. The examination of the company size using descriptive statistics yielded a standard deviation of 0.8, an average of 17.1, a maximum value of 19.2, and a minimum value of 15.5. The price-earnings ratio (business value) has a minimum value of -80.8, a maximum value of 322, an average of 19.8, and a standard deviation of 35.1, according to the study done using descriptive statistics. The computed f-value was 14.3 > f-table of 2.3 with a significance level of 0.000 < 0.05, according to the F-test results. It may be concluded that management ownership, institutional ownership, audit committee, return on equity, and firm size all simultaneously affect company value because the significance level is less than 0.05.

Given that the managerial ownership variable has a t-calculated value of -2.9 > 1.98, it can be said that managerial ownership affects firm value in a considerable and somewhat unfavorable way. This demonstrates that a company's worth decreases with increasing managerial ownership. The findings demonstrate that the board of directors and commissioners continue to prioritize their own interests over enhancing performance, which would also raise the firm's worth, and that shareholders, who also serve as company managers, do not give their best work. The study's findings support other studies that found a negative relationship between managerial ownership and firm value. It can be concluded that the hypothesis is rejected because the institutional ownership variable has a t-value of -0.6 < 1.99 or a sig value greater than 0.05, indicating that institutional ownership has no partial significant effect on company value. Because institutional investors possess a comparatively big amount of the company's shares, they make up the majority of investors, which leads to the outcomes. This suggests that type II agency conflict that is, agency conflict between majority and minority shareholders is correlated with increased institutional ownership. In this form of conflict, managers are more likely to comply with the demands of the majority shareholder. The study's findings are consistent with other research, which indicates that institutional ownership has no detrimental impact on a company's value.

The hypothesis is rejected when an audit committee variable has a t-value of 0.7 < 1.98 or a sig. larger than 0.05, indicating that the audit committee has no partial meaningful effect on business value. The findings of this study are insufficient to bolster the agency theory. Investors attempt to use the audit committee as a monitoring tool. Investors believe that the presence of an audit committee cannot be taken into account when determining the worth of the firm because a big number of members on the committee does not ensure that a company's performance will improve. The audit committee's primary purpose is to help the company comply with government requirements; as a result, the committee has not performed as well as it could have in terms of execution. The study's findings support earlier studies that found the audit committee had no appreciable impact on the value of the company. The hypothesis is accepted when the return on equity variable has a t-calculated value of -7.6 > 1.98 or a sig value smaller than 0.05, indicating that return on equity has a somewhat significant impact on firm value. This clarifies why a higher return on equity genuinely lowers the value of the company. This indicates that investors continue to have reservations about the company's potential for financial success. By examining the price-earnings ratio (business value) itself, other factors that contribute to return on equity's negative impact on it can be identified. The price per share divided by earnings per share (EPS) is the theoretical formula for the price-earnings ratio, or corporate value. In the meantime, earnings after taxes is divided by the capital of the company to determine return on equity. These two formulas have similarities in that these two variables are both influenced by profit after tax (EAT), but changes in profit after tax have different effects on the two variables.

The hypothesis is rejected if the business size variable has a t-calculated value of -0.6 > -1.98 or a sig value larger than 0.05, indicating that there is no partly significant influence of company size on company value. This demonstrates that since huge corporations are frequently in the public eye, managers of such businesses would strive to optimize their managerial skills in order to boost the company's worth. Even though the investment is smaller with small businesses, it can still yield the best returns. The entire assets of the company show how big it is. Due to the accumulated assets in receivables and inventory, companies with significant total assets and dominating components in receivables and inventories may not always be able to pay dividends (retained earnings). Instead of paying out dividends, companies choose to keep their profits, which has an impact on both corporate value and share prices. The study's findings are consistent with earlier studies, which found that a company's size had no discernible, adverse impact on its value. The multiple correlation coefficient (R), according to the test results, is 0.7. This demonstrates the modest association between firm value and the factors management ownership, institutional ownership, audit committee, return on equity, and company size. The adjusted coefficient of determination, or adjusted R square, is 0.43, while the coefficient of determination, or R square, is 0.4. This indicates that changes in the independent variables (managerial ownership, institutional ownership, audit committee, return on equity, and firm size) account for 43% of the variation in the value of the company. While other factors outside the scope of this study account for the remainder.

The managerial ownership variable's regression coefficient is -0.9, which indicates that, assuming all other factors remain constant, a one-unit increase in the managerial ownership variable will result in a 0.9 unit drop in the company value variable. Since the institutional ownership variable is -0.2, an increase of one unit in the institutional ownership variable will result in a 0.2 unit decrease in the company value variable, assuming that all other variables remain constant. Since the audit committee variable is 0.5, an increase of one unit in the audit committee variable will result in a 0.5 unit rise in the company value variable, assuming that all other variables remain constant. The return on equity variable is -0.5, which indicates that, assuming all other variables remain constant, a one unit rise in the return on equity variable will result in a 0.5 unit drop in the firm value variable. With other variables held constant, the company value variable will drop by 0.06 units if the company size variable rises by one unit. This is because the company size variable has a value of -0.06.

Conclusion

The following conclusions can be made in light of the data gathered and the tests performed on the issue using a multiple regression model: Company size, return on equity, audit committee, managerial ownership, and institutional ownership all simultaneously and significantly affect a company's value. The value of a corporation is partly influenced by managerial ownership. The value of a corporation is not partially impacted by institutional ownership. The audit committee's impact on the value of the company is zero. The value of the company is partially impacted by return on equity. The worth of a corporation is not influenced in part by its size. The study's findings indicate that managerial ownership and return on equity have an impact on a company's valuation. According to the research findings, in order for investors to make even higher returns, they need exercise greater caution when investing their capital and pay attention to how the value of management ownership and return on equity change over time. The study's findings indicate that managerial ownership and return on equity have an impact on a company's valuation. In order to broaden students' understanding of audit accounting studies, it is intended that the research findings will serve as a resource for students conducting additional research on the role that corporations play in boosting investment returns. Students will find the research results helpful in developing hypotheses about raising a company's value, which will lead to a higher degree of investment profit. The results state that managerial ownership and return on equity are very important in increasing firm value. The implications for further research are as follows: Increasing the number of research samples will result in better research. Add the number of independent variables that can influence company value, such as capital structure, independent directors, and dividend payout ratio. Add the research time period according to the research year so that the research is more up-to-date.

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