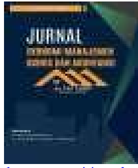

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The Effect Of Corporate Governance on Company Value

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Abstract: *This article aims to describe the importance of good corporate governance in a company. This research method uses qualitative research methods with a literature review approach. The research data source is in the form of articles related to Good Corporate Governance. The results of the literature review show that good corporate governance that is implemented well will be able to influence the company's financial performance and the value of the company in the eyes of investors. Good Corporate Governance exists to direct companies to be better at managing the company. Good company management can influence company value and also company performance. With increasing company performance and company value, investors believe that the company can fulfill the obligations of its shareholders. That way, investors will have the confidence to invest their capital in the company. With many investors who believe in investing their capital in the company, the company's operational activities will also be better.*

Introduction

Indonesia is a country that is in the developing country phase (emerging market). Based on the financial system mechanism adopted, all companies with different levels of industrial competition really need a financial system that is able to meet the needs of corporate funding and financing sources. Through a financial system approach, companies with different characteristics have certain preferences for future capital structure management. The company's preference for the capital structure to be managed has an impact on expectations for achieving company targets in both the short and long term. The higher the stock market price, the more the company value will increase. A high company value will indicate the high prosperity of shareholders so that investors will be interested in investing (Irayanti and Tumbel, 2014).

A company definitely wants a long life cycle. In the midst of increasingly tight global competition, every company must have a way to survive and compete in the market. Based on the new concept of the business world, a company is not only profit-oriented, but the main goal is to create value to gain

competitive advantage (Balanescue & Bratianu 2008).To achieve this, the company must have clear and strong values. Increasing company value is an achievement in itself for the company.

The initial definition of Good Corporate Governance is known as "management runs the business; the board ensures that it is running well and in the right direction". In this definition, there is no explicit mention of governance or GCG, only the term the board is considered to represent this concept. Some experts, for example, Tricker (2004), stated that a definition that only emphasizes the difference between the concept of management and governance is very simple.

Further developments, various institutions starting with the Cadbury report (1992) followed by the OECD report (1999), provide the definition "corporate governance is the process by which companies are directed and controlled". This definition emphasizes the elements of direction (directed) and control (controlled) in the series of good corporate governance processes in each corporation. Even though it does not explicitly refer to the institution that will carry out this function, this definition accommodates the concept of control carried out not only by internal mechanisms (through the role of the Board of Commissioners) but also market mechanisms through the market for corporate control. Some experts are of the view that the definitions by these two institutions are more powerful because they emphasize the main aspects of good corporate governance, conformance (compliance or suitability to rules) and performance (performance). The conformance aspect is related to control, while the performance aspect is related to direction.

There are several laws and regulations that regulate GCG related to Securities trading practices in the Capital Market, namely Law Number 40 of 2007 concerning Limited Liability Companies, Law Number 8 of 1995 concerning Capital Markets, and Law Number 19 of 2003 concerning State-owned enterprises. Apart from that, GCG provisions can also be found in government regulations such as Government Regulation Number 12 of 2004 concerning the Implementation of Activities in the Capital Markets Sector, Government Regulation Number 46 of 1995 concerning Procedures for Audits in the Capital Markets Sector, Government Regulation Number 45 of 1995 concerning the Implementation of Activities in the Capital Markets Sector. Capital Market and others, this is a form of the government's seriousness in building a safe, efficient, and transparent business market so that it will attract investors both from within and outside the country.

Good corporate governance is a system consisting of a set of structures, procedures, and mechanisms designed for company management based on the principle of accountability that can increase company value in the long term (Velnampy, 2013). The corporate governance system refers to a collection of regulations and encouragement that management uses to direct and supervise the course of company activities. Therefore, good corporate governance can increase opportunities to increase long-term profits and company value for shareholders.

The Indonesian Institute for Corporate Governance states that corporate governance is a process and structure implemented by a company, which aims to increase the prosperity of stockholders for the long term while still paying attention to other parties (Hamdani, 2016). If a company can implement good governance, it will have implications for increasing investor confidence which will then maximize company value. The implementation of governance mechanisms in carrying out company operational activities will receive a positive response from investors and the public who indicate that the company and its management have carried out their duties appropriately and correctly so that the value of the

company can increase.

Company value is a fundamental factor that can be used as a reference for investors to choose the right company for investing. Every company's debt is inseparable from creating company value. High company value is also the result of good Corporate Governance (CG) implementation in the company. These factors are interrelated in creating company value.

Hery (2017), states that company value is a certain condition that has been achieved by a company as an illustration of public trust in the company after going through a process of activities for several years, namely from the time the company was founded until now. Meanwhile, according to Silvia Indrarini (2019), the definition of company value is that company value is investors' perception of the level of success of managers in managing company resources entrusted to them which is often linked to share prices. According to Bambang Sugeng (2017), the definition of company value is that company value is the selling price of the goods when the goods are sold. Based on the three opinions above, it can be concluded that company value is a condition achieved by managers in managing company resources which is used as an illustration for the public and investors and is usually related to shares.

Company size can also influence company value because the larger the size or scale of the company, the easier it is for the company to expand its business and have freedom in managing assets so that a large business scale can make it easier to obtain credit from both internal and external funding (Dewi and Wirajaya 2013).

Another factor that influences company value is dividend policy. The dividend policy is the return on the amount of profit that will be given to shareholders (investors). The dividend distribution decision policy is the main thing because it relates to the distribution of profits to investors or reinvested by the company. Therefore, the implementation of good corporate governance must be carried out in accordance with regulations, not just formalities, so that companies can not only have a positive impact but also have a good impact on the country's economy.

Theoretical Basis

Agency Theory

Jensen and Meckling (1976) stated that the main principle in agency theory is the existence of a relationship between the principal and the agent. The relationship between principal and agent is tied to delegation. Agency theory is called a principal-agent relationship because the agent acts under the principal's arrangements (Gitman and Zutter 2015). An agency relationship is a contract in which one or more people (principals) provide a delegation (agent) to perform a service on behalf of the principal and authorize the agent to make the best decisions for the principal. If both parties have the same goal of maximizing company value, it is believed that the agent will act in a way that is in accordance with the interests of the principal.

Stakeholder Theory

Jensen (2001) states that managers should make decisions to take into account the interests of all stakeholders in the company (including not only claims on financial reports but also employees, customers, communities, and government). Ratih and Damayanthi (2016) stated that companies in a

business need to prioritize all factors related to the company's condition so that they provide benefits to stakeholders.

Good Corporate Governance

Good Corporate Governance is good and healthy corporate governance introduced by the Indonesian government and the International Monetary Fund (IMF). According to Tunggal (2013), Good Corporate Governance is a system of rules that manages and supervises all business control processes aimed at increasing the value of a company's shares, and also as a form of attention to stakeholders, employees, and even the surrounding community.

From the definition above, it can be concluded that Good Corporate Governance is an important thing for companies that can influence the company's survival. This is important in helping companies build an image or market trust that encourages stable and long-term international investment flows.

In short, there are four main components needed in the concept of good corporate governance, namely transparency, accountability, responsibility, independence, fairness, and fairness. These four components are important because consistently applying the principles of good corporate governance has been proven to improve the quality of financial reports (Beasly, 1996 in Sulistyanto and Wibisono, 2003).

Audit Committee

Arens et al. (2014) stated that the audit committee is an independent party selected by the board of commissioners and serves as a liaison between the auditor and management. Aryanti et al. (2014) stated that the audit committee is formed by the board of commissioners whose role is to monitor management behavior against fraudulent acts and the audit committee is obliged to maintain independence and carry out its profession as an auditor by observing the code of ethics of professional accountants.

Supervision carried out by the audit committee will have an impact on the quality of information flow between shareholders and management so that conflicts between agencies can be reduced (Gill and Obradovich 2013). The audit committee is entrusted with maintaining the reliability of financial reports. The audit committee can contribute to the objectivity and correctness of financial reports to help the board of directors gain the trust of shareholders. The trust gained influences the increase in company value (Onasis and Robin 2016).

Board Commissioner Independent

Independent Board of Commissioners has an important role in implementing corporate governance good one. By having an independent supervisory board in a company, it is hoped that the company can reduce fraud in its financial reports. In addition, the effective operations achieved by the independent audit committee with respect to the company and its shareholders will help reduce inter-agency conflicts that would affect the value of the company. (Laurensia Chintia Dewi, 2014).

The value of the company

Company value is important for companies, especially companies that have gone public. If the company's value is good, then investors the company to invest. Not only that, good company value, also means that the company's financial performance is good, which indicates that shareholder prosperity is

also high. The value of a company is influenced by the company's ownership structure, the proportion of independent commissioners and audit committees.

The higher the share ownership ratio, the greater the proportion of independent auditors and audit committees, and the better the management control. This will have an impact on increasing company value. Investors describe a company by looking at its performance. If performance improves, it is less likely that the company will go bankrupt, which will obviously have an impact on the company's shares rising. Company value is expressed in price per share and number of shares outstanding. The company value will also increase along with the increase in share prices and the number of shares outstanding. (Hardianto, 2013).

Research Methods

This research is qualitative research using a literature review method. According to (Afifuddin, 2012), a literature review is an important tool used as a contact review, because it is very useful and helpful in providing context and meaning in the writing that is being done also through this literature review the researcher can state it explicitly and the reader also knows, why this must be researched, both from a subjective perspective and in terms of the relationship between research and other relevant research.

According to Marzali (2016), the main purpose of a literature review is a literature review carried out in order to write a paper to introduce new studies on certain topics that are important for people who are active in that field of research to know, and at any time this paper can be published to public interest, secondly for its own research interests. In this case, the researcher makes a literature review which is intended to enrich the researcher's insight into a particular topic, as well as help the researcher in formulating research problems, and help the researcher in determining the appropriate methods and theories to use in the research.

This research identifies articles regarding Corporate Governance on Company Value published in scientific journals. This literature study uses 10 articles based on adoption in various corporate sectors.

Table 1. List of Corporate Governance Literature on Company Value

No	Title	Writer	Year
1	Analysis of the Effect of Corporate Governance and Tax Avoidance on Company Value	B Ivanno Eka P, Dul Muid	2017
2	The Influence of Corporate Governance on Company Value with Earnings Management as a Mediating Variable	Kastelia Azaria and Muslichah	2021
3	The Influence of Good Corporate Governance on Company Value	Dede Rukmana and Widyawati	2022
4	CSR as a Moderation of the Relationship between GCG and Value of Pharmaceutical Companies	Dwi Almira Zuleika, Yefta Andi Kus Noegroho	2022

	in 2018-2020		
5	The Influence of Corporate Governance, Profitability, and Tax Avoidance on Company Value	Aida Farah Dinah and Darsono	2017
6	The Influence of Corporate Governance and Environmental Performance on Company Value	Safitri Putri Anjasari and Hastutie Noor Andriati	2016
7	The Influence of Corporate Governance on Company Value in Financial Sector Companies Listed on BEI	Kristie Onasis, Robin	2016
8	The Influence of Financial Performance and Corporate Governance on Company Value in the Telecommunication Industry on the Indonesian Stock Exchange	Monica Paramita Ratna Putri Dewantiand Hamfri Djajadikerta	2018
9	Corporate Governance and Financial Ratios to the Value of Manufacturing Companies	Yohanna Rosa Angeline and Rudi Setiadi Tjahjono	2020
10	Company Value, Corporate Governance Index and Capital Structure	Fitri Wahyuni	2018

Discussion

Company value can describe the condition of a company. The better the value of a company, the better the company will be viewed by potential investors. The implementation of good corporate governance practices must be followed by the presence of independent directors. Differences in interests between the Board of Directors and company owners are often a classic problem that arises. This can be avoided by the existence of an independent board of commissioners where the independent director has the function of a neutral party who can bridge the interests between company directors and shareholders.

In Indonesia itself, the function of independent directors is still gray. If the function of the independent director is clear, then this can make the implementation of Good Corporate Governance in the company run more effectively (Khameswary, 2019). Audit committees and independent commissioners are things that investors must and need to pay attention to because they have an influence on the value of the company. The higher the proportion of independent commissioners, the lower the company's value. So a high proportion of independent commissioners should reduce the potential for exploitation by majority (controlling) shareholders because in public companies the board of commissioners represents the public or minority shareholders. This may be because the existence of independent commissioners in Indonesia is not yet optimal (Akuilinus Yosephus, 2021).

Good Corporate Governance is the principle that must be implemented by companies to maximize company value, increase company performance and contribution, and also maintain the company's survival in the long term. Companies need to improve the implementation of Good Corporate

Governance better to increase company value so that investors are confident in investing their capital in the company.

The independent board of commissioners has a fairly large role in increasing the company's Return On Assets. Based on findings from (Salsabila, et al, 2017) DKI has met the criteria applied in implementing the number of independent commissioners, namely 30%. This means that the greater the proportion of independent board of commissioners who come from outside the company with good and diverse skills and experience, this will increase their ability to carry out supervision. The existence of a board of commissioners in the company is expected to be able to monitor and improve the implementation of Good Corporate Governance. The existence of an independent board of commissioners dominantly influences the value of the company, this is because the number of independent commissioners in the company can show the independence of the company so that the supervisory function can run better and influence the value of the company.

Thus, the owner's investment in the form of equity in the company is an important thing to pay attention to as reflected in the capital structure of each corporate entity. Capital structure can be considered as a pattern that describes how risk and control are allocated by various investors in a corporation. Based on this understanding, the capital structure of a company is not only related and limited to the composition or structure between financing using debt and equity owned by the company.

Conclusion

The results obtained are that good corporate governance has an influence on increasing corporate value. By implementing good corporate governance, company value can be increased. As the value of the company increases, investors become more confident and do not hesitate to invest their capital in the company. Proper implementation of Good Corporate Governance must also be followed by the existence of an audit committee and independent commissioners to create a company with a good governance system. By implementing good and effective Good Corporate Governance, the company's performance will be even better. This prevents the company from going bankrupt. This will clearly have an impact on the company's shares which will rise. Corporate Value is proxied by the share price and number of shares outstanding. Corporate Value will also increase along with the increase in share prices and the number of shares outstanding.

Suggestion

The suggestion for companies is that they need to improve their implementation of Good Corporate Governance better. Effective implementation of Good Corporate Governance will have an impact on increasing the value of the company in the eyes of investors. This will benefit the company financially and funding. An independent director is also required who truly acts as a neutral party between the company directors and investors. Investors are also advised to pay attention to the implementation of good corporate governance in the company before investing in the company.

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