DIJDBM
Dinasti International Journal of Digital Business Management
+62 813 8765 4578
+62 813 8765 4578
https://dinastipub.org/DIJDBM
dinasti-info@gmail.com

THE EFFECT OF CORPORATE GOVERNANCE AND CORPORATE CULTURE ON FIRM MARKET VALUE TO IMPROVE FINANCIAL PERFORMANCE

Fathiyah[1], Mufidah [2]
1) Lecture of Universitas Batanghari, Jambi, Indonesia
2) Lecture of Universitas Batanghari, Jambi, Indonesia

ARTICLE INFORMATION
Received: 28 August 2020
Revised: 20 September 2020
Issued: 1 November 2020

Corresponding author: first author
E-mail:
Fathiyahzaky74@gmail.com
mufidahjufri@gmail.com

DOI:10.31933/DIJDBM

Abstract: The purpose of this research is to analyze the effect of corporate governance and corporate culture on firm market value to improve financial performance. Corporate governance is measured by audit committee,boards of directors, board meeting and nomination . Corporate culture is measured by Corporate culture promotion While financial company performance is measured by return on assets. This research was conducted on companies listed on the Indonesia Stock exchange on indexed LQ 45 for period of 2016-2018. The sample was selected for 25 companies. The method of analysis uses associate descriptive analysis with path analysis. Based on the results of the study found that corporate governance and culture promotion indirectly effect on financial performance with firm market value as intervening variable.

Keywords: Corporate Governance, Corporate culture promotion, return on asset, company performance.

INTRODUCTION

Financial reports have a very large influence on decision making, because usually management and interested parties in financial reports strive to make these financial reports appear to provide good financial information. If the market is efficient or semi-efficient, good information will lead to good stock prices and will ultimately provide added value for management. Management tries to increase profits in various ways. This profit figure is not even just to increase the share price, but is for the benefit of management, which is more important, namely to get an executive bonus. After the Enron Corporation case, the Federal Government restricted the activities of this profit-based bonus plan and increased management responsibilities in managing the company through the Sarbanes Oxley Act and Good Corporate Governance.

Financial scandals (for example Livent inc corel corporation and Nortel around the world and the bankruptcy of large corporations in the USA (for example Enron, World .Com, Commerce Bank and XL Holidays) have shaken investors' confidence in the capital market and the effectiveness of the existence of corporate governance practices in promoting transparency and accountability shake of trust from investors has a negative impact on the market value of the company and consequently will affect the entire value of the company (Gill & Obradovich, 2012).

Failure of large-scale companies, financial scandals, and crises that hit various countries made Discourse and demands on corporate governance that have been under increasing attention so far. Weak independent oversight and too much executive power are the causes of the downfall of a company. One objective of corporate governance reform is to protect the rights of outside investors, including both shareholders and creditors (La Porta et al., 2007). In Indonesia, the issue of corporate governance emerged after a prolonged crisis since 1998 as a result of the Asian financial crisis in 1997. Since then, the government and investors have paid more attention to corporate governance practices. the role and implementation of good corporate governance in Indonesia, the concept of GCG emerged as a reaction to the behavior of company managers who did not take their into account *stakeholders*. The concept of GCG is a company management principle that aims to encourage company performance and provide economic value for shareholders and society in general. The principles of GCG are needed as an effort to regain the trust of investors and creditors, meet global demands, minimize the *cost of capital*, increase the value of company shares and enhance the company's image. The basic principles in GCG are fairness, accountability, accountability and transparency. The implementation of GCG in Indonesia is still very low. One of the factors behind the low implementation of GCG is the lack of understanding of business actors regarding the concept of GCG.

One of the performance of a company that is measured by company value. Company value can be measured from various aspects, including through *book value* and *market value of* equity. Book value of equity is the value of equity which is based on the books of the company. Meanwhile, equity market value is the value of equity based on market prices which is often associated with the company's stock price in the capital market. One alternative measurement of company performance that can be used is to combine book value and market value of equity, namely through the Tobin's Q ratio. of the market value of equity plus the book value of total liabilities then divided by the book value of total assets. Tobin's Q is a more accurate measure because it provides an overview not only of fundamental aspects, but also the extent to which the market values the company from various aspects seen by outsiders, including investors . The greater the Tobin's Q value indicates that the company has good growth prospects.

Increasing the value of a firm can be achieved if *shareholders* and *stakeholders* can work together well in making the right decisions to maximize equity and implement good corporate governance mechanisms. However, in reality, the merging of the interests of the two parties often creates problems which are commonly referred to as *agency problems*. Agency problems arise from the separation of ownership shares and conflicts of interest between company owners (shareholders) and management (company managers). One of the hypotheses in agency theory is that management will try to maximize its own welfare by minimizing various agency costs. This hypothesis is not the same as the hypothesis which states that management tries to maximize the value of the firm (value of the firm). Therefore, it is assumed that management will choose accounting principles in accordance with the objective of maximizing its interests.

In the case of the financial performance of PT. Garuda Indonesia, which managed to book a net profit of US $ 809 thousand in 2018, is inversely proportional to 2017 which lost US $ 216.58 million, has reaped a polemic. Two Garuda Commissioners Chairul Tanjung and Dony Oskaria refused to handle the 2018 financial statements. The rejection was due to the recognition of revenue which caused confusion and was misleading. This indicates a lack of good governance.

The implementation of GCG in Indonesia, especially in companies that have not gone public, is only an obligation of existing regulations and not on the basis of the need that companies indeed have to run their business in accordance with the concept of GCG. Most of them are owned and managed with a family management concept. The concept of family management tends to refer to the transactional leadership theory model. This encourages the creation of an individual defensive attitude in the organization. Employees work only based on the extent of the assignment given to them by their superiors. According to Handayani (2006), top management of retail companies provides opportunities for subordinates to be involved in the budgeting process to encourage the achievement of company goals. Retail owners and management should foster a strong culture that is able to encourage employees to be aggressive, innovative and high loyalty to the company. In addition, the government's role is needed in disseminating the concept of GCG to all levels of society.

In previous research by Graham et al (2017) in (Zhao et al., 2018) that 91% of executives view culture or culture as very important to their company and 78% consider culture as one of the top 3 or 5 factors that influence firm value. Researchers also show empirical evidence whether and how corporate culture affects firm value and the company's decision to underexplore.

Examples of corporations are Apple and Google. Which is Apple comes from innovations by Steven Jobs and Steve Wozniak, where they need large capital to expand the business. They found large helping investors and startups and turned the business into a corporation. In Indonesia, many companies come from foreign capital which bring their respective cultures. Therefore, governance and corporate culture are needed to reduce the risk of conflict that may arise. Corporate governance or governance as a system for checks and balances in overcoming potential conflicts that occur in the company when combined with a corporate culture will become a more powerful integrated system in achieving financial performance. Through good corporate market value, sustainable financial performance is achieved.

Based on the description above, the problems in this study are: (1) How is the influence of corporate governance on firm market value (2) How is the influence of corporate culture on firm market value (3) How is the influence of corporate governance on financial performance (4) How is the influence of corporate culture promotion on financial performance (5) How is the influence of firm market value on financial performance (6) How is the influence of corporate governance on financial performance through firm market value (7) How is the influence of corporate culture on financial performance through firm market value.

LITERATURE REVIEW

Agency Theory

The agency theory proposed by Jensen and Meckeling (1976) explains that the agency relationship is a contract in which one or more people (Principal) involve other parties (agents) to act on behalf of the owner in carrying out the company's business activities. In agency theory, management always tries to maximize its utility function. Given that management has the discretion to choose one of the accounting policies, it is only natural that the thought then arises that management will choose an accounting method that will specifically help management in achieving its goals.(Fama & Jensen, 1983)

The concept of agency theory states that management as an agent should be on behalf of the best interest of the shareholders, but it is possible that management only cares for its own interests to maximize utility. Management can take actions that are not beneficial to the company as a whole which in the long run can harm the interests of the company. Even to achieve its own interests, management can act using accounting as a tool for engineering. The difference in interests between the principal and the agent is called the agency problem.

Agency theory provides the view that fraudulent practices committed by agents so that the impact on the decline in company value can be minimized by the presence of a monitoring or *monitoring* mechanism namely through the implementation of corporate governance. It is hoped that the implementation of corporate governance will become an obstacle to actual behavior. In addition, it is also expected to create a more transparent, accountable, responsibility and fair organizational performance so as to increase company value.

Corporate Governance

A corporate governance framework is the foundation for the effective implementation of good governance. The World Bank defines the meaning of governance as follows:

A combination of laws, regulations and practices carried out by the private sector on a voluntary basis that enables companies to attract financial capital and labor, perform efficiently, and with all of this can be sustainable produce long-term economic values for its shareholders, and at the same time pay attention to the interests of stakeholders and society as a whole (Maassen, 1999).

Non-executive directors (independent commissioners) can act as mediate in disputes between internal managers and oversees management policies and advises management. The higher the proportion of independent commissioners, the tighter the activities *monitoring* will be. Thus, the agency costs of the company will be smaller so that the company will be more efficient, which in the end will also be able to increase the company's value.(Fama & Jensen, 1983).

This audit committee is an effort to improve the way the company is managed, especially the way to supervise company management, because it will become a link between company management and the board of commissioners and other external parties. With the audit committee's understanding of the company's internal control system, it is hoped that various acts of fraud and behavior *opportunistic* management that can harm the company, especially from a financial perspective, can be detected and prevented. In addition, with a system of monitoring the performance of internal auditors by the audit committee, it is hoped that the audit committee will be able to review members of the company's management who are responsible for errors or frauds that can bring financial losses to the company. Thus, it can be concluded that with the existence of an audit committee, it is expected that the company can run effectively and efficiently, so that the company value can increase.

Corporate Culture

Corporate culture is a collection of norms and values that are widely shared and upheld through organizations (Guiso et al., 2015) .Culture can consist of various forms of culture. Firms usually choose to promote corporate culture according to their firm characteristics. For example, high-tech companies, such as Apple, promote a culture of innovation, while customer-oriented companies, such as Walmart, promote a culture of integrity. Although Apple and Walmart promote two different cultures, they each promote a culture tailored to their own purposes. It is difficult to say that innovation culture is superior to integrity culture, or vice versa. This is similar to cultures across different countries (Zhao et al., 2018) .

Firm Market Value

Financial ratios are used by investors to find out the market value of the company, one of which is Tobin's Q, which is the market value of a company by comparing the company value of a company listed on the financial market with the total asset value. Tobin's Q has its own benefits in reflecting firm value and potential profitability of the company in the future (Ruan et al., 2011). The reason underlying the use of Tobin's Q as a proxy for company value is that there is no general agreement regarding a definite measure in measuring firm value, so Tobin's Q is considered to be used as an alternative proxy for firm value.(Mat Nor & Sulong, 2008). Another reason is that Tobin's Q calculation is simple and has been widely used in various studies on firm value abroad. Tobin's Q is measured by calculating the market value of equity plus the book value of short-term debt and the book value of long-term debt divided by total assets (Kumar & Singh, 2013). Including all company assets means that the company is not only focused on one type of investor, namely investors. in the form of shares but also for creditors because the source of the company's operational financing is not only from equity but also from loans given by creditors. So the greater the Tobin's Q value indicates that the company has good growth prospects which can provide better financial performance as well.

RESEARCH METHODS

The population in this study were companies listed on the Indonesian stock exchange and indexed LQ 45 for three consecutive years from 2016-2018 (blue chip stocks), with sample selection based on purposive sampling with certain criteria like have corporate culture website so that 25 companies were selected. So that the number of observations (n) in this study is 75. The research method used in this study is a research that explains *explanatory research* (Cooper, 2008). The analysis model used in this study is the regression test, path analysis and statistical F and t test with a significant level of 95% or α (5%), as well as the coefficient of determination test. Path coefficients were calculated using two regression equations showing the hypothesized relationship. In this case there are two equations are: The regression equation model is:

$$Y_1 = b_1X_1 + b_2X_2 + e_1 \quad (1)$$
$$Y_2 = b_1X_1 + b_2X_2 + b_3Y_1 + e_2 \quad (2)$$

where: Y1 = Firm Market Value, Y2 = Financial Performance, $b_1b_2b_3$= Coefficient Variable $X_{1.}X_2$ X_3, X_1= Corporate Governance, X_2 = Corporate Culture Promotion, and E = *error.*

Table 1. Operational Variable

Variable	Definition of	Formulation	
		Category	**Governance Standard**
Corporate Governance Quality Index	governance quality is measured based on the governance index used by Sawicki 2009; , Prommin et al 2014)	Board of directors	1. The number is not less than 5 and not more than 13
			2. One to three people are independent commissioners
			3. The position of chairman and CEO is separate
		Board meetings	1. Disclosure of number of board meetings
			2 The number of board meetings is not less than six
		Audit committe	1. Existence of audit committee1. Existence of
			2. Disclosure of audit committee meeting frequency
			3. Experience of audit committee
		Nomination Compensati ons	nominations and compensation committees
Corporate Culture	Corporate culture is a collection of norms and values widely shared and held firmly through the organization (O reily and chatman, 1996, Guiso et al, 2016) in (Zhao et al., 2018) proxied by corporate culture promotion.	Culture page	Dummy variable, namely 1 if you have a corporate culture webpage and 0 if not
		Charity	Natural logarithm Number of charity activities shown on the website
		Honor earned	Natural logarithm Total honorarium a firm earned shown on website
		Employee training programs	Natural logarithm Number of employee training programs seen on the website

	Company news	Natural logarithm The number of company news stories seen on the
Market Value Company	Tobin's Q	(*Market Value of Equity* + *Book Value of Debt*) website / *Book Value of Total Asset*
Financial Performance	Financial performance is measured by Return on Assets.	ROA = Net Income / Total Assets

.

FINDINGS AND DISCUSSION

Descriptive statistics provide an overview of data seen from the mean, standard deviation, variance, maximum and minimum. Following are the descriptive statistics of this study which can be seen in table 2 below:

Table 2. Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Value	75	.7691	32.4345	3.597232	5.2808317
ROA	75	-.7000	11.716267 10.5955417		46.6600
Culture	75	1.0000	7.2471	4.854532	1.1520072
GCG	75	5	9	7.69	1,365
Valid N (listwise)	75				

Based on the classical assumption test under the agency theory, the data is normally distributed, there is no multicollinearity, no heteroscedasticity. The result of the t test in this study are displayed in table 3 and table 4.

Table 3 . Result of the t test in Model 1

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	4.879	3.529		1.382	.171
1	GCG	-1.051	.512	-.272	-2.054	.044
	Culture	1.402	.607	.306	2.312	.024

a. Dependent Variable: TB

Table 4 . Result of the t test in Model 2

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	4.164	4.688		.888	.377
2	GCG	.477	.690	.062	.692	.491
	Culture	-.383	.824	-.042	-.465	.644
	Nilai	1.595	.154	.795	10.325	.000

a. Dependent Variable: ROA

The results of data processing can be seen from the following figure:

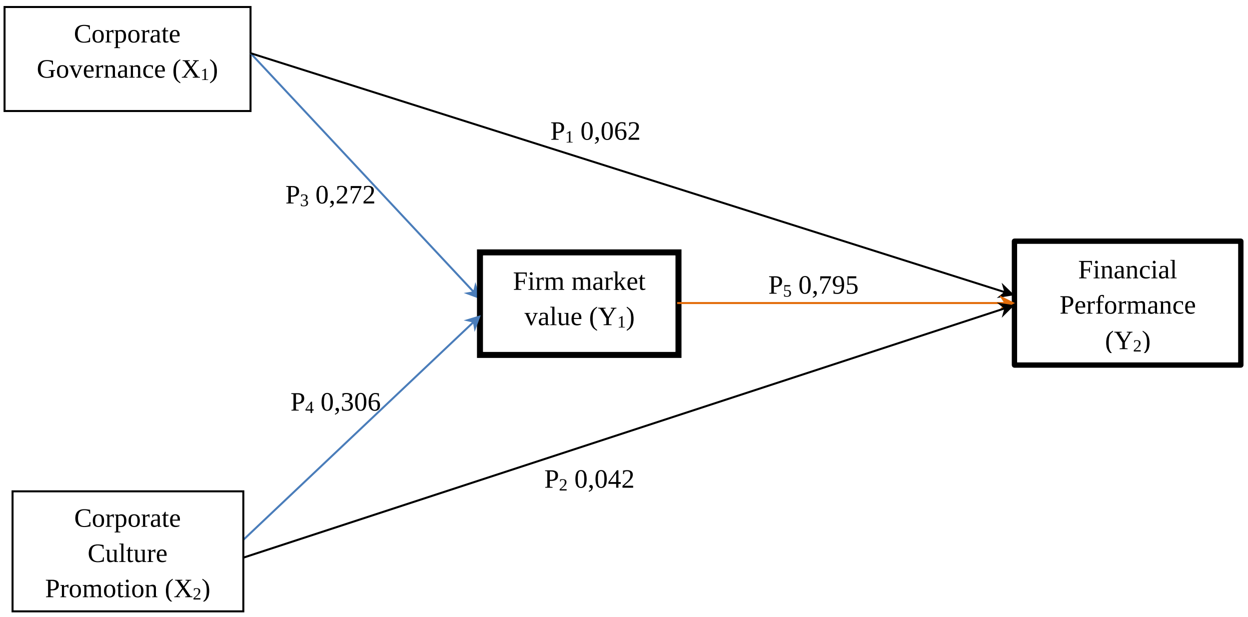

Figure 1. Path Analysis Processing Results

Hypothesis Testing

First Hypothesis H1: Corporate governance has an influence on firm market value

In accordance with the equation Y1 = X1 + X2 + E1. The standardized beta coefficient value for corporate governance variables is (0.272). Through the t test with a significance level of 0.05, the probability value is smaller than the significance level (0.044 < 0.05). The test results show that corporate governance has a significant influence on firm market value. Thus, it can be concluded that hypothesis 1 (H1) is accepted. This research supports research conducted by Gill &mathur 2011 .The empirical results show that larger board size (large number of directors) has a negative impact on the value of Canadian manufacturing firms. The CEO duality has a positive impact on the value of Canadian manufacturing firms. (Gill & Mathur, 2011). This research is in contrast to research conducted where governance has no effect on the market value of the company (Mufidah, 2019).

Hypothesis Testing H2: *Corporate culture promotion has an influence on firm market value.*

The standardized beta coefficient for corporate culture promotion variables is 0.306. Through the t test with a significance level of 0.05, a probability value is obtained that is smaller than the significance level (0.024 < 0.05). The test results state that corporate culture promotion has a significant influence on firm market value. Thus, it can be concluded that hypothesis 2 (H2) is accepted. Meanwhile, according to (Zhao et al., 2018) Corporate culture promotion has a negative effect on firm market value.

Hypothesis III Test (H3): Corporate Governance has an influence on company financial performance.

From the information above, the results of the second equation are: Y2 = PY1X1 + PY1X2 + PY2Y1 + E2. The standardized coefficient beta value for corporate governance variables is 0.062. Through the t test with a significance level of 0.05, the probability value is smaller than the significance level (0.491 > 0.05). The test results state that corporate governance has no significant effect on financial performance. Thus, it can be concluded that hypothesis 3 (H3) is rejected.

Hypothesis IV Test (H4): corporate culture promotion has an influence on company financial performance.

The standardized beta coefficient value for corporate culture promotion variable is (0.042). Through the t test with a significance level of 0.05, the probability value is smaller than the significance level (0.644 > 0.05). The test results state that corporate culture promotion has a significant effect on financial performance. Thus, it can be concluded that hypothesis 4 (H4) is rejected.

Hypothesis V (H5) Test: Firm market value has an influence on company financial performance.

The standardized beta coefficient value for the firm market value variable is (0.795). Through the t test with a significance level of 0.05, the probability value is smaller than the significance level (0.000 < 0.05). The test results state that firm market value has a significant effect on financial performance. Thus, it can be concluded that hypothesis 5 (H5) is accepted.

Hypothesis VI (H6) : Corporate Governance has an influence on company financial performance through firm market value.

The P1 value which is the direct coefficient is 0.062, while the indirect coefficient consists of a P3 value of 0.272. And the P5 value is 0.795. To find out the magnitude of the effect of the indirect coefficient, it is calculated by multiplying the indirect coefficient, namely (0.272 x 0.795 = 0.216 because the direct relationship coefficient is much smaller than the indirect relationship (0.216 > 0.062), then the relationship that occurs is an indirect relationship or it is said to be a firm market. value as an intervening variable can increase the influence of corporate governance on financial performance. Thus, it can be concluded that hypothesis 6 (H6) is accepted.

Hypothesis VII (H7) : Corporate Culture Promotion has an influence on company financial performance through firm market value

P2 value which is The direct coefficient is 0.042, while the indirect coefficient consists of a P4 value of 0.306 and a P5 value of 0.795. To find out the magnitude of the effect of the indirect coefficient, it is calculated by multiplying the indirect coefficient, namely (0.306 x 0.795 = 0.243 because of the relationship coefficient. bro, the direct relationship is much smaller than the indirect relationship (0.243 > 0.042), so the relationship that occurs is an indirect relationship or it is said that firm market value as an intervening variable can increase the influence of corporate culture promotion on financial performance. Thus, it can be concluded that hypothesis 7 (H7) is accepted.

CONCLUSION AND SUGGESTION

Based on the data analysis, it is found that the variable corporate governance and corporate culture promotion do not have a direct effect on firm value market and the variables of corporate governance and corporate culture promotion have a significant indirect effect through the market value of the company. In addition, the company's market value also has a significant effect on the company's financial performance. Meanwhile, corporate governance and corporate culture promotion variables do not have a direct effect on the company's financial performance.

Limitations

First, the results of this study are limited to companies that are included in the LQ 45 list for three consecutive years (Blue chip companies), thus allowing different results and conclusions when carried out for a broader object such as small companies.

Implications and suggestions

In agency theory where there is a conflict of interest between the principal and the agent where the principal works to increase firm market value. In this study, it is proven that firm market value has a very large influence on the survival of the company, namely financial performance as measured by ROA. Implications of this research If you rely solely on governance without an increase in firm market value, this will be useless. Likewise with corporate culture promotion, where currently corporate culture promotion is needed by companies in order to improve financial performance.For further research, you can add intervening variables such as innovation and expand the research object.

REFERENCE

Fama, E. F., & Jensen, M. C. (1983). Agency Problems and Residual Claims. *The Journal of Law and Economics*, *26*(2), 327–349. https://doi.org/10.1086/467038

Gill, A., & Mathur, N. (2011). Board Size, CEO Duality, and the Value of Canadian Manufacturing Firms. *Journal of Applied Finance & Banking*, *1*(3), 1–13.

Gill, A., & Obradovich, J. (2012). The impact of corporate governance and financial leverage on the value of American firms. *International Research Journal of Finance and Economics*, *91*(February), 46–56.

Guiso, L., Sapienza, P., & Zingales, L. (2015). The value of corporate culture. *Journal of Financial Economics*, *117*(1), 60–76. https://doi.org/10.1016/j.jfineco.2014.05.010

Kumar, N., & Singh, J. P. (2013). Effect of board size and promoter ownership on firm value: Some empirical findings from India. *Corporate Governance (Bingley)*, *13*(1), 88–98. https://doi.org/10.1108/14720701311302431

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (2007). Investor protection and corporate governance. *Corporate Governance and Corporate Finance: A European Perspective*, *58*, 91–110. https://doi.org/10.4324/9780203940136

Maassen, G. F. (1999). An International Comparison of Corporate Governance Models. In *Boards*. http://repub.eur.nl/res/pub/8028/Maassen_9789090125916.pdf

Mat Nor, F., & Sulong, Z. (2008). Dividends, ownership structure and board governance on firm value: empirical evidence from Malaysian listed firms. *Malaysian Accounting Review*, *7*(2).

Mufidah, M. (2019). Kebijakan Deviden, Investasi, Pendanaan, dan Tata Kelola Terhadap Nilai Perusahaan pada Perusahaan LQ45 di Bursa Efek Indonesia Tahun 2014 – 2017. *J-MAS (Jurnal Manajemen Dan Sains)*, *4*(1), 56. https://doi.org/10.33087/jmas.v4i1.71

Ruan, W., Tian, G., & Shiguang, M. (2011). Managerial Ownership , Capital Structure and Firm Value : Evidence from China's Civilian-run Firms. *Australasian Accounting Business and Finance Journal*, *5*(3), 73–92.

Zhao, H., Teng, H., & Wu, Q. (2018). The effect of corporate culture on firm performance: Evidence from China. *China Journal of Accounting Research*, *11*(1), 1–19. https://doi.org/10.1016/j.cjar.2018.01.003