

*Research Article*

## Do Financial Performance and Corporate Governance Effect on Firm Value: Evidence from Manufacturing Sector

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### Abstract

This study attempts to investigate, either partially or simultaneously, the effects of Financial Performance as determined by Profitability, Solvency, liquidity well, and Good Corporate Governance, as decided by the Audit Committee on Firm Value and the Independent Board of Commissioners. The study approach is quantitative and makes use of secondary data-manufacturing firms registered on the Indonesia Stock Exchange. The population in this study is made up of 143 manufacturing firms. In the interim, the sample for this study was chosen through the technique of purposeful sampling. The analysis method used is multiple linear regression analysis. The Kolmogorof-Smirnov test, multicollinearity test, heteroscedasticity test, t-test, and coefficient of determination test were all employed in this investigation. The study's findings demonstrate that the factors Independent Board of Commissioners, Profitability, Solvency, Liquidity, and Audit Committee each partially positively impact firm value. Managerial implications related to the influence of financial performance and good corporate governance are increased focus on financial performance, increased transparency and disclosure of information, implementation of good corporate governance practices, and risk and compliance management. The valuation of the firm is key in the transfer of business decisions, such as mergers, acquisitions, and stock offerings.

Keywords: Firm Value, Financial Performance, Profitability, Solvency, Liquidity, Independent Board of Commissioners, Audit Committee

JEL Classification: G30, M41, O43

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## 1. Introduction

The firm aims to obtain profits in carrying out its business activities and also to increase the value of the firm so that the welfare of shareholders grows sustainably (Alfianita & Santosa, 2022). The public's assessment of a firm's success is its firm value. Firm value is the price of a firm that potential buyers are willing to pay (Mardiana & As'ari, 2023) (Husnan & Pudjihastuti, 2015). Firms that are considered good will attract investors to put money into the business in order to raise the share price. This is in line with the concept of firm value in capital market financial theory that firm value can be seen from share prices based on demand and supply in transactions on the capital market which is a reflection of real public assessment (Sari, 2017). Increasing the value of the firm is a good achievement for the firm and its owners or shareholders because by increasing the value of the firm, the firm can survive and develop, and the welfare of the owners will also increase. (Saputri & Santoso, 2023) (Utomo, 2019).

The value of a firm cannot be described only by the firm's share price, but various methods can be used to measure the high and low levels of a firm, and one measuring tool that can be used is Tobin's Q (Sihombing et al., 2023) (Mediyanti et al., 2021). In general, Q is a ratio used to calculate the worth of a corporation. A technique for measuring ratios called Tobin's Q defines firm value as a form of value of tangible assets and intangible assets. Tobin's Q can also describe the firm's effectiveness and efficiency in utilizing all resources in the form of assets owned by the firm (Dzahabiyya et al., 2020). The conditions for internal control to be effective are that the independent board of commissioners must carry out its duties in order to exist, function, and be integrated (Widiastari, 2018). Several factors, including fundamental factors and technical factors, influence firm value. Fundamental factors are factors or analyses related to the economics of a firm, including growth opportunity, profitability, capital structure, ownership structure, and firm size.

Technical Factors are factors or analyses utilized to forecast a stock price's trend by examining historical market data, particularly price changes, volume, and trading frequency. Nonetheless, this study found a number of broad variables that the firm values; in this case, the researcher uses profitability, liquidity, and solvency factors. These three things can be concluded as financial performance. There are also other factors in this case, namely the decisions of the audit committee and independent board of commissioners, which is referred to as good corporate governance. The capital market, relevant laws and policies, as well as market and product-related variables, have more power over external control. The explanation above helps to define the study problem, which is whether the internal factors mentioned above have an impact on firm value in manufacturing firms and this research also has the aim of finding out whether these internal factors influence firm value in manufacturing firms.

Return on Assets (ROA), a ratio that gauges the degree to which the business can generate profits for its shareholders, is one ratio analysis that can be used to assess the financial performance of the firm. This ratio shows the efficiency of using one's capital, meaning that this ratio measures the level of profit from investments made by the owners of their own capital or firm shareholders (Fahmi, 2021). The better the duties of the independent board of commissioners, the better the management's performance in generating profits (Rahmawati et al., 2017). Then the last one is the audit committee, which influences the firm's value. The audit committee is an essential part of corporate governance. Financial Services Authority regulation number 55 /POJK.04/2015, which relates to the Establishment and Implementation Guidelines of the Audit Committee, states that the committee has the following attributes: integrity, ability, knowledge, experience, and the capacity to understand the financial reports and business activities of the firm. It also reports directly to the independent board of commissioners. It is also not involved in the management or ownership of the firm. Evaluations and recommendations on corporate governance and increase firm value.

## 2. Literature Review and Hypothesis

Various variables can influence the value of a firm. The initial element is profitability. Profitability is the firm's ability to obtain net profits in relation to sales, total assets, and own capital (Kalbuana et al., 2021). Dhikr et al. (2020) state that a higher degree of profitability indicates that the business can generate more money, which enables it to expand its social responsibility initiatives and, more broadly, disclose its social obligations in the annual report. Prospective investors will take into account the firm's profitability value in addition to its performance and social responsibility when making investment decisions. It is anticipated that this will raise the value of the firm due to the large number of investment requests by investors due to the high value of profitability in the firm. Another factor that influences firm value is solvency. Solvency is the firm's ability to pay debts by using assets as collateral (Khaniya et al., 2023) (Dewi et al., 2022). This finding means how much debt the firm carries compared to its assets. A firm can be said to be in good condition, if the firm can fulfill its obligations. This condition can influence investors' interest in investing capital. Investors assume that the higher the debt, the riskier the investment. So many investors need to pay more attention to firms with high levels of debt. According to Effendi (2016), Corporate Governance is a system designed to direct the management of the firm professionally based on the principles of transparency, accountability, responsibility, independence, fairness, and equality.

If a firm cannot pay off its debts, it will have an adverse impact on the value of the firm. Availability of liquid assets is the next variable that can influence firm value. Finds that the liquidity ratio is a ratio that shows the firm's ability to pay short-term debt that is due or a ratio that is used to determine the firm's ability to finance and fulfill obligations when they are billed. The number of commissioner members serves as a proxy for the independent board of commissioners. The firm's independent board of commissioners is crucial to its operations, particularly when it comes to putting Good Corporate Governance (GCG) into practice. The more effectively the management generates money, the better the responsibilities assigned to the independent board of commissioners. The firm's independent board of commissioners is crucial, particularly when it comes to putting Good Corporate Governance into practice (Narwastu & Rusli, 2023).

### **Firm Value**

Firm value is a certain condition that has been achieved by a firm as an illustration of the public's trust in the firm after going through a process of activities for several years, namely from the time the firm was founded until now (Hery, 2017). Firms require large investments because they are directly related to several parties, namely shareholders, creditors, and firm management. Investors should be aware of a firm since its high or low value is reflected in the good and bad financial report records that the firm releases each year the information contained in these financial reports. Financial reports must be useful for parties who have a direct interest in the Firm (Serolin, 2023) (Mindra et al., 2014).

### **Financial performance**

Financial performance is an analysis carried out to see the extent to which a firm has implemented financial implementation rules properly and correctly. A firm's financial status is described by its performance, which is evaluated through the use of financial analysis tools. The profitability ratio aims to determine the firm's ability to generate profits during a certain period. It also aims to measure the level of management effectiveness in carrying out the firm's operations, whether they have worked effectively or not. A cash ratio compares the firm's cash to the total amount of current debt. This ratio is the firm's cash ability to pay off its current debt without having to convert non-cash current assets into cash (Panjaitan & Supriyati, 2023) (Harahap, 2013).

### **Research Hypothesis**

#### **The Influence of Profitability on Firm Value**

The ability of the business to turn a profit while conducting its operations is known as profitability. An organization's success and prospects are positively correlated with its growth rate, which in turn increases the firm's worth to investors. In addition, the better the firm's profitability ratio, the greater the likelihood that the firm will distribute dividends. Of course, this can attract investors to invest their capital in the firm so that it will increase the value of the Firm (Nurhayati, 2013). Based on research conducted by Dhani (2017), profitability has a positive influence on firm value. This is in line with research conducted by Puspitaningtyas (2017) and Sudiani Ayu and Darmayanti Ayu (2016), where profitability has a positive influence on firm value.

#### **H1: Profitability has a positive influence on Firm Value**

#### **The Effect of Solvency on Firm Value**

Solvency shows the firm's ability to fulfill both short-term and long-term obligations if the firm is liquidated (Curry et al., 2018). A firm's value may decline as a result of a higher risk of loss associated with a higher solvency ratio. A firm's share price will drop in the event that its value declines. This will have an impact on investor confidence in the firm, which will impact the firm's valuation. In his study, Dwipayana et al. (2017) concluded that solvency, as determined by the debt-to-equity ratio, significantly increased the value of the firm. In the meantime, research by Himawan et al. (2020) indicates that the solvency ratio impacts the value of a firm. This result implies that a firm's worth is influenced by the amount of debt it has. The more debt the business has, the lower the firm value due to interest costs.

#### **H2: Solvency has a positive effect on Firm Value**

### The Effect of Liquidity on Firm Value

Liquidity is the ability of a firm to fulfill its financial obligations in the short term or those that must be paid immediately (Suhendro, 2017). When a business is able to pay its debts, it might be considered liquid. In the meantime, the corporation may be considered to be in an illiquid or illiquid position if it is unable to satisfy its obligations. A corporation with high liquidity can be less likely to default on its debt to creditors. So, it can influence investors to invest their capital.

Meanwhile, according to Aldi et al. (2020) concluded that liquidity, as measured by the current ratio, has a significant positive effect on firm value. In contrast, reduced liquidity will result in a lower firm value. Higher liquidity raises the value of the firm. Research by Subagio et al. (2017), which claims that liquidity ratios affect corporate value, supports this.

### H3: Liquidity effect on Firm Value

### The Influence of the Independent Board of Commissioners on Firm Value

The commissioners' independent board has a very important role in firms that implement GCG. The existence of an independent board of commissioners regarding GCG ensures the firm's strategy, supervises managers in managing the firm and requires that firm accountability be implemented because the size of the number of independent commissioners in the firm will affect the effectiveness of the function of the independent board of commissioners. (Rahmawati et al., 2017). Research conducted Khairani (2019) And Affiah, et al. (2018) concluded that there are benefits to having an independent board of commissioners on firm value.

### H4: The Independent Board of Commissioners has a positive effect on Firm Value

### The Influence of the Audit Committee on Firm Value

The audit committee is responsible for the firm's internal oversight. The audit committee can serve as an observer and listener for the independent board of commissioners in overseeing the management of the firm, which means that it has a significant impact on the implementation of a good corporate governance system (Alfian, 2020). Research conducted by Dewinta & Setiawan (2018), Arif et al. (2022), state that there is an influence of the audit committee on firm value. This is because A firm's audit committee membership should be scaled in accordance with its complexity, always keeping in mind the importance of efficacy in the decision-making process to enhance both the worth of the firm and the caliber of its financial statements reports.

### H5: The audit Committee influences Firm Value

### Research Conceptual Framework

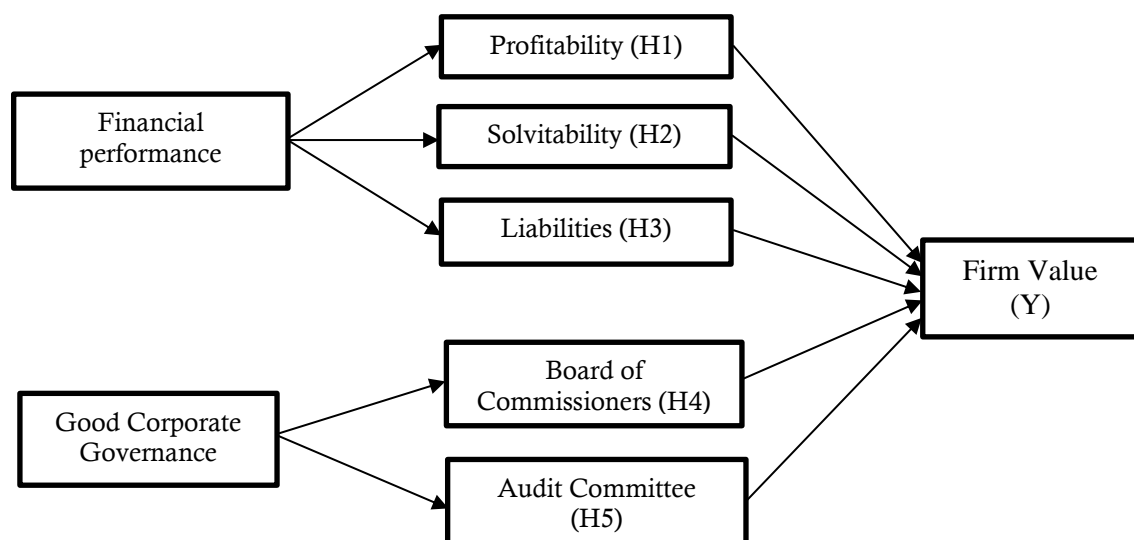


Figure 1. Research Conceptual Framework

### 3. Data and Methods

#### Data Types and Data Sources

One kind of research, called casualty research, looks at the connection between financial success, sound corporate governance, and business value. Secondary data were used in this study's data collection. In this investigation, secondary data sources were employed. Firm records and other sources, including reading books that are pertinent to the research object for a literature study, are sources of secondary data. Secondary data for this study came from all manufacturing businesses listed on the Indonesia Stock Exchange in the years 2018-2022, including annual reports and full financial reports that underwent audits. Quantitative research is used in this study and is predicated on the analytical approach and stresses verifying theory through measurements of research variables and numbers as well as data analysis utilizing statistical techniques.

#### Data collection technique

The research employed data-gathering techniques to obtain its data. Documentation is the method utilized in this study to gather data: financial reports from manufacturing firms that are posted online are gathered, recorded, and reviewed. Indonesia Stock Exchange (BEI) in 2018-2022.

#### Population and Sample

The manufacturing enterprises that are listed between 2018 and 2022 on the Indonesian Stock Exchange (BEI) make up the research population (IDX). The population in this survey consisted of 143 industrial businesses. In the interim, the sample for this study was chosen through the technique of purposeful sampling. The sample was selected based on how well the following characteristics and standards applied: Manufacturing enterprises who failed to complete the issuance of financial statements and those that are listed on the Indonesia Stock Exchange between 2018 and 2022 reports and audit reports as of December 31 for the 2018-2022 period, manufacturing businesses whose 2018–2022 financial reports were not published in rupiah.

### 4. Results

#### Descriptive Statistical Analysis

Information on the independent variables in this study, such as profitability, liquidity, solvency, independent board of commissioners, and audit committee, is provided using descriptive statistical analysis. This study includes 225 observations from a total number of panels or samples of 45 firms, which are multiplied by the research period, namely five years from 2018 to 2022. The descriptive statistics are in the following table:

**Table 1. Descriptive Statistics**

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
PBV	225	.00	358.02	24.7779	58.49268
DKI	225	1	9	3.80	1,920
KA	225	2	5	3.38	,782
ROA	225	.00	38.43	2.7041	6.01276
DAR	225	.00	56.19	4.4657	10.55255
CR	225	,11	240.00	10.1226	40.70909
Valid N (listwise)	225				

Source: Processed data, 2023

According to the preceding table, the ROA-proxied profitability value has a maximum value of 0.00 and a minimum value of 38.43. This result shows that the profitability variable data fluctuations during the 2018-2022 period have high fluctuations. The Solvency Value proxied by DAR has a maximum value of 56.19 and a lowest value of 0.00. Then, the standard deviation is 10.55255, and the average is 4.4657. In the meantime, the Liquidity Value, as measured by CR, ranges from a minimum of 240.00 to a maximum of 0.11. The observation data are more dispersed



and distinct from one another when the standard deviation number is higher. This result demonstrates that there were significant swings in the liquidity variable data from 2018 to 2022. This result presents that there needed to be more variation in the independent board of commissioners' variable data from 2018 to 2022. The value of the Audit Committee is 2.00 at the lowest and 5.00 at the greatest. Then 3.3,8 is the average value, and 0.782 is the standard deviation. The observation data is not dispersed if the standard deviation value is smaller. This finding demonstrates that there were few swings in the audit committee variable data from 2018 to 2022. PBV's proxy for firm value has a lowest value of 0.00 and a top value of 358.02.

### Kolmogrov-Smirnov test

**Table 2. Kolmogrov Smirnov Test Results**

One-Sample Kolmogorov-Smirnov Test			Unstandardized Residuals
N			225
Normal Parameters, b	Mean		,0000000
	Std. Deviation		46.35409002
Most Extreme Differences	Absolute		,207
	Positive		,207
	Negative		-,197
Statistical Tests			,207
Asymp. Sig. (2-tailed)			,080c
Source: Processed Data, 2023			

It is known that the Kolmogorov-Smirnov (Test Statistics) value is 0.207 and that it is significant at 0.080 based on the above table. Since the data is regularly distributed, the Kolmogorov-Smirnov significant value is greater than 0.05.

### Multicollinearity Test

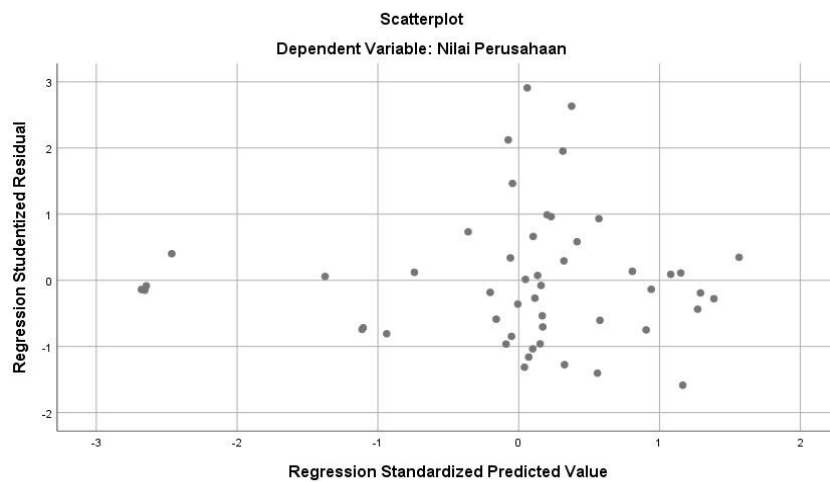
**Table 3. Multicollinearity Test Results**

Coefficients			
Model		Collinearity Statistics	
		Tolerance	VIF
1	ROA	,945	1,058
	DAR	,610	1,640
	CR	,576	1,736
	DKI	,955	1,047
	KA	,987	1,013

Source: Processed Data, 2023

The Multicollinearity Test in the table above shows that the VIF value for each independent variable is less than 10. Thus, the linear regression model does not exhibit multicollinearity or correlation among the independent variables.

## Heterschodasticity Test



Source: Data processed by researchers (2023)

**Figure 1. Heteroscedasticity Test Results**

The points on the Scatterplot graph above are dispersed erratically above and below the 0 axis on the Y axis, indicating the absence of any particular pattern. Thus, heteroscedasticity does not exist.

### Partial Test (t-Test)

We determined whether there was a relationship between the independent and dependent variables, and the t-test was used. The t-test yielded the following results using the SPSS program in the table below:

**Table 4. Partial Test Results**

		Coefficients			t	Sig.
Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta		
1	(Constant)	13,333	1,421		2.34	,024
	Profitability	,167	,024	,354	2.80	,007
	Solvency	,122	,016	,208	2.40	,008
	Liquidity	,302	,226	,210	2.33	,009
	Independent board of commissioners	,246	,141	,156	2.14	,040
	Audit Committee	,522	,427	,179	2.22	,029

Source: Processed data (2023)

It is evident from the t-test findings above that count (2.80) > table (2.01) and that 0.007 < 0.05 is the significant value. Hence, whether H01 is denied or H1 is approved indicates that business value is influenced by profitability. It is evident from the t-test findings above that count (1.261) > table (1.65) and that 0.009 < 0.05 is the significant value. Therefore, user ability affects firm value when H02 is rejected or Ha2 is accepted. It is evident from the t-test findings above that count (2.33) > table (2.01) and that 0.009 < 0.05 is the significant value. Therefore, whether H03 is turned down or Ha3 is approved, liquidity affects the value of the firm. Based on the results of the t-test above, it can be seen that t-count (2.14) > t-table (2.01), and the significant

value is  $0.040 < 0.05$ . Therefore, the rejection of H04 or acceptance of Ha4 indicates that the independent board of commissioners has an impact on the value of the firm. The t-test above yielded the following results: t-count (2.22) > t-table (2.01), with a significant value of  $0.029 < 0.05$ . Therefore, it can be concluded that the Audit Committee has an impact on Firm Value if H04 is rejected or Ha5 is accepted.

### Coefficient of Determination Test

**Table 5. Coefficient of Determination Results**

Model	R	Model Summary b			Std. Error of the Estimate
		R Square	Adjusted R Square		
1	,610a	,772	,758		46.88026

Source: Processed Data, 2023

The R2 value of the Board of Commissioners, Audit Committee, Profitability, Liquidity, and Solvency on Firm Value is 0.758, or 76%, as can be observed. This result demonstrates that the Board of Commissioners, the Audit Committee, Profitability, Liquidity, and Solvency account for 76% of the factors that determine the Firm Value of manufacturing firms listed on the Indonesian Stock Exchange from 2018 to 2022, with other factors accounting for the remaining 24%. This finding shows how the Board of Commissioners, Audit Committee, Liquidity, Profitability, and Solvency all affect Firm Value.

## 5. Discussion

### Profitability has a positive influence on firm value.

Profitability has an impact on firm value, as demonstrated by the t-test results in Table 4, which show that H0 is rejected and H1 is accepted. This finding is due to an organization's success and prospects being positively correlated with its growth rate, which in turn increases the firm's worth to investors. In addition, the better the firm's profitability ratio, the greater the likelihood that the firm will distribute dividends. Of course, this can attract investors to invest their capital in the firm so that it will increase the value of the Firm (Nurhayati, 2013). based on research conducted by Dhani and Utama (2017), profitability has a positive influence on firm value. This result is in line with research conducted by Puspitaningtyas (2017) and Sudiani Ayu and Darmayanti Ayu (2016), where profitability has a positive influence on firm value.

### Solvency has a positive influence on firm value.

Solvency has an impact on corporate value, as demonstrated by the t-test results in Table 4, which show that H0 is rejected and H2 is approved. This result is due to the fact that a firm's value may decline if its solvency ratio is larger, which increases the risk of loss. A firm's share price will drop in the event that its value declines. This finding will have an impact on investor confidence in the firm, which will impact the firm's valuation. Dwipayana and Suaryana (2017) concluded in their research that solvency, as measured by the debt-to-equity ratio, had a significant positive effect on firm value.

Meanwhile, research by Himawan and Andayani (2020) demonstrates how the solvency ratio affects the value of the firm. This finding implies that a firm's worth is influenced by the amount of debt it has. Because of interest expenses, a firm's worth decreases as its debt increases.

### Liquidity has a positive influence on firm value.

Table 4 displays the results of the t-test, which indicates that H0 is rejected and H3 is not rejected. This result suggests that liquidity affects firm value. This finding is due to the fact that a corporation with significant liquidity may be less likely to default on its debt to creditors. So, it can influence investors to invest their capital. Meanwhile, according to research Aldi et al. (2020) in his research concluded that liquidity, as measured by the current ratio, has a significant positive effect on firm value.



In contrast, reduced liquidity will result in a lower firm value. Higher liquidity raises the value of the firm. Research by Subagio et al. (2017), which claims that liquidity ratios affect corporate value, supports this.

#### **Independent Board of Commissioners Has a Positive Influence on Firm Value**

It is evident from Table 4's t-test findings that H4 is approved and H0 is rejected, suggesting that the Independent Board of Commissioners has an impact on the value of the firm. This results in the important function that organizations using GCG assign to their independent board of commissioners. Because the number of independent commissioners within the firm will determine how well the independent board of commissioners performs its function, the presence of an independent board of commissioners for GCG ensures the firm's strategy, oversees managers' management of the business and requires the implementation of corporate accountability. Investigation carried out according to Khairani (2019) and Affiah & Muslih (2018), having an impartial board of commissioners is beneficial to the business.

#### **The Audit Committee has a Positive Influence on Firm Value.**

Based on According to Table 4's t-test results, H0 is rejected, and H5 is accepted, indicating that the Audit Committee affects Firm Value. One responsibility for the firm's internal oversight is the audit committee. According to Alfian (2020), The audit committee has a very important influence in realizing the audit committee can be utilized as an observer and listener for the independent board of commissioners in overseeing the management of the corporation, making it a good corporate governance structure. Research conducted by Dewinta and Setiawan (2018), Arif and Djasuli (2022), state that there is an influence of the audit committee on firm value. This result is because the A firm's audit committee membership should be scaled in accordance with its complexity, always keeping in mind the importance of efficacy in the decision-making process to enhance both the firm's value and the caliber of its financial statements.

## **6. Conclusion**

These inferences can be made in light of the analysis, testing, and discussion results: Firm value is positively impacted by profitability. In this study, profitability is determined using a proxy for return on assets, or ROA. A rise in share prices affects stock returns, which rise in tandem. A DER ratio that is too high can cause investors to lose faith in the firm because they believe there is a chance of default or possibly bankruptcy. On the other hand, investors may benefit from a firm that is solvent. The value of a corporation is positively impacted by liquidity; current assets provide more liquidity in this situation than current debt. The values of the firm are positively impacted by the independent board of commissioners, which oversees management and is the driving force behind the firm's success and resilience. The audit committee also positively impacts the firm's value; its role in corporate governance is to make sure that the firm has been run in compliance with applicable laws and regulations and that fraud committed by firm employees and conflicts of interest have been effectively prevented.

The managerial implication of this research is an increased focus on financial performance, such that firm management can increase their focus on significant aspects of financial performance. This finding involves more careful monitoring and management of financial ratios, profitability, liquidity, and other Risk management and compliance are two elements that might impact the firm's worth. Management can increase their efforts in controlling risk and adhering to rules. Good corporate governance procedures can be put into practice by management, who may choose to do so as part of their managerial strategy and could involve establishing an effective board of commissioners.

## **Recommendations**

Future research can add or use independent variables other than the independent variables contained in this research, which also influence firm value. For example, firm size, firm age, industry type, profit and loss reporting, ownership structure, audit opinion, management changes, and dividend policy. The period used is extended to produce better and more varied research

results. The results could be better and more varied. Future researchers can also use firm categories or subsectors other than manufacturing firms.

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