Determining the Factors Can Influence the Firm Value: To Create Good Corporate Governance

Rina Rosia¹ *, Dinar Rifatul Wafa¹, Yeyen Novita¹, Siti Mujibatun², Abdul Ghofur²

¹ Sharia Accounting, Economics and Islamic Faculty, Universitas Islam Negeri (UIN) Salatiga, Indonesia
² Sharia Economic, Economics and Islamic Faculty, Universitas islam Negeri (UIN) Walisongo Semarang, Indonesia

Abstract. This study aims to analyze the influence of earnings management, capital structure, and accounting conservatism with managerial ownership as a moderating variable. Earnings management is measured using the modified Jones model, the capital structure is proxied by the Dept to Equity Ratio (DER), accounting conservatism is calculated by the difference between the company's net profit and operating cash flow divided by total assets. Company value is proxied by the Tobin's ratio, and managerial ownership is calculated by the total management shareholding divided by the number of outstanding shares. This research is a quantitative study with a population of 159 companies and the number of samples used is 90 samples from 30 company data obtained through purposive sampling method. Methods of data analysis using panel data regression techniques with Eviews software version 8. The result is that earnings management, capital structure, and accounting conservatism have no effect on firm value. Managerial ownership is not able to moderate the effect of earnings management, capital structure, and accounting conservatism on firm value.

1 Introduction

In Indonesia, many companies have emerged and developed, these companies continue to compete in developing their business in order to obtain the best results. To develop its business, of course, the company requires a large enough capital in order to get maximum profit and increase the company value. There are several factors that can affect company value, namely (1) Earnings management, (2) capital structure, and (3) Accounting conservatism to anticipate bad news which will have an impact on reducing profits.

This study using a managerial ownership as moderating variable. In the process of maximizing firm value, agency conflicts often occur. To minimize agency conflict, it is necessary to have an appropriate monitoring mechanism, one of which is Good Corporate Governance. The implementation of GCG in a company can be measured through several indicators, one of which is managerial ownership. With the percentage of shares by management, a manager can be motivated to work effectively, efficiently and be more careful in making decisions to increase the value of the company. (Fahrida & Priyadi, 2021).

This research take data from the Indonesian Sharia Stock Index (ISSI) 2020 – 2022 period. As a forum for all Islamic stocks on the Indonesia Stock Exchange (IDX). So that there are more companies listed on ISSI than on other stock indexes. So, the discussion about company value is fascinating to discuss.

2 Literature Review

2.1 Earning Management

*Corresponding author: rinarosia@iainsalatiga.ac.id
Earnings management is an effort used by company managers, to influence the information in financial reports. Earning management adds to the bias of financial reports and can disturb report users who already believe engineered profits are unengineered profits (Violeta & Serly, 2020).


Earning Management can be measured using the modified Jones model:

\[
DA_{it} = \frac{\text{TAC}_t}{\text{At}-1} - \text{NDA}_t
\]

\[
\begin{align*}
\text{DA} & = \text{Discretionary Accruals} \\
\text{TAC} & = \text{Total Accruals Company} \\
\text{AT} & = \text{Total asset} \\
\text{NDA} & = \text{Nondiscretionary Accruals}
\end{align*}
\]

2.2 Capital Structure

Capital structure is an important issue in making decisions related to company spending. The best capital structure is the one that maximizes the company's value or the price of stock (Pratiwi et al., 2016), Amelia & Anhar, (2019), Hidayati & Retnani, (2020), Romadon et al., (2018), and Kusumawati & Rosady, (2018).

The composition of capital structure can be calculated by the Dept to Equity Ratio (Romadon et al., 2018):

\[
\text{DER} = \frac{\text{Total Hutang}}{\text{Total Equity}} \times 100%
\]

2.3 Accounting Conservatism

Conservatism is a cautious reaction to the uncertainty of risks that need to be considered. By accounting principles, companies must recognize losses that are likely to occur but do not recognize profits before they occur (Ashma’ & Rahmawati, 2019). thus, accounting conservatism can affect firm value I. A. Pratama, (2018), Wibisono & Mahardika, (2019), Saputra, (2021), Manik, (2018), dan Warseno et al., (2019)

Accounting conservatism can be measured by the accrual measure model of Givoly & Hayn:

\[
\text{KA} = \frac{\text{NI}_t - \text{CFO}_t}{\text{TA}} \times (-1)
\]

2.4 Managerial Ownership

Managerial ownership is an element of corporate governance by management which participates in making a decision for the company (Basuki & Siregar, 2019). Managerial
share ownership can cause managers to be more careful in making decisions because they share in the benefits of the decisions to be taken and share in the losses for the consequences of making the wrong decisions. (Hendra & Erinos, 2020)

Percentage of shares owned by management who participate actively in making decisions for the company. (Basuki & Siregar, 2019), can be calculated:

Managerial Ownership = \( \frac{\text{Total manajemen share ownership}}{\text{Total shares outstanding}} \times 100\% \)

2.5 The Firm Value

Corporate value is the achievement of a company as an illustration of how much public trust in (Hanif & Odiatma, 2020). the higher the value of the firm, the prosperity of shareholders is so high. (Qurrotulaini & Anwar, 2021).

Firm value can be calculated by the Tobin's Q ratio, which is the ratio of capital market value to replacement costs and measures all investment opportunities (Dzahabiyya et al., 2020).

\[ \text{TBQ} = \frac{\text{Equity market value + Total Liability}}{\text{Total Asset}} \]

3 Method

This study is a quantitative research, using secondary data in the form of the annual company financial reports. This research was conducted at manufacturing companies registered at ISSI for the period 2020-2022. The total population in this research was 159 companies, and used a sample of companies with the criteria (purposive sampling), including:

**Table 1: Research Sample Criteria**

<table>
<thead>
<tr>
<th>No</th>
<th>Sample Criteria</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Manufacturing firms on the ISSI for 2020-2022 period</td>
<td>159</td>
</tr>
<tr>
<td>2</td>
<td>Not listed in 2020-2022</td>
<td>(52)</td>
</tr>
<tr>
<td>5</td>
<td>Do not use rupiah currency</td>
<td>(19)</td>
</tr>
<tr>
<td>6</td>
<td>Not making a profit</td>
<td>(36)</td>
</tr>
<tr>
<td>7</td>
<td>Companies that do not have managerial ownership in 2020-2022 period</td>
<td>(22)</td>
</tr>
<tr>
<td>8</td>
<td>Sample</td>
<td>30</td>
</tr>
<tr>
<td>9</td>
<td>Total Sample Period (2020, 2021, 2022)</td>
<td>90</td>
</tr>
</tbody>
</table>
4 Result and Discussion

Based on the test results, there is a significant influence between Earning Management on Firm Value. Earning management practices in companies can occur due to information asymmetry between management and company owners. Where management has more information than the owner of the company so management has more flexibility in setting policies on financial reports.

In contrast to the capital structure, the research results show that the information provided regarding the capital structure in the financial statements does not give a positive sign of firm value. By looking at the use of debt and equity through the cost of capital, the size of the capital structure cannot affect the firm value. This means that if the company's high capital structure cannot affect it either. Susetyo & Werdaningtyas, (2019), (Lesnawati, 2022).

So is corporate conservatism. Judging from the signaling theory Jusny, (2014) Information regarding the application of accounting conservatism in a company as a precautionary principle in financial reporting, not rushing in recognizing and measuring assets and profits, and recognizing possible losses and debts does not have an effect on the value of the company.

Based on the results of the MRA test on the interaction variable Earning Management with Managerial Ownership as a moderating variable, it is known that the probability value is 0.0000 <0.05. This means that managerial ownership is able to moderate the effect of earning management on firm value. The results of this study can be concluded that managerial ownership is not able to moderate the effect of earning management on firm value. This is because managerial ownership in share ownership participates in decision-making, so the manager's desire to implement earnings management is reduced, because managers take part in bearing the good and bad of decisions taken. Latifah & Novitasari, (2020)

Structure and accounting conservatism with managerial ownership as a moderating variable. The results of the study show that investors are worried and think that an increase
in capital structure can increase risk and only management actions are not by the interests of shareholders. So that managerial ownership is unable to moderate the effect of accounting conservatism on firm value. (Fahrida & Priyadi, 2021) which explains that managerial ownership is not able to moderate the effect of accounting conservatism on firm value.

5 Conclusion

Based on the results of data processing regarding the factors that influence company value in manufacturing companies at ISSI for the 2020-2022 period, it can be concluded that the factors of earnings management, capital structure, and accounting conservatism have no effect on firm value. Managerial ownership is not able to regulate the relationship between earnings management, capital structure, and accounting conservatism on firm value.

References


