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The Influence of Current Ratio (CR), Return On Investment (ROI), Debt To Equity Ratio (DER) on Company Value with Good Corporate Governance as a Moderating Variable (Case Study of Manufacturing Companies Listed on the Indonesian Stock Exchange for the 2016-2020 Period)

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Abstract

This study investigates the impact of strong corporate governance on the relationship between current ratio (CR), return on investment (ROI), and debt to equity ratio (DER) and company value. This study investigates manufacturing companies that were publicly traded on the Indonesia Stock Exchange from 2016 to 2020. This study investigates hypotheses with a quantitative methodology. The sample included nine issuers. Utilising electronic research tools and adhering to library research guidelines are essential elements of the data collecting process. Regression moderation analysis, classical assumption testing, and descriptive statistical analysis are all techniques used in the process of analysing data. Evidence suggests that the current ratio (CR) of a company has little impact on its total worth. The value of a corporation is directly impacted by the Return on Investment (ROI). The debt to equity ratio (DER) has no impact on the worth of a firm. Efficient corporate governance has the ability to reduce the relationship between a company's value and its current ratio (CR). Efficient corporate governance may manage the relationship between return on investment (ROI) and the firm's value. Effective corporate governance may impact the relationship between a company's value and its debt-to-equity ratio (DER).

INTRODUCTION

The Indonesian economy is indirectly impacted by the current global economy. The domestic political atmosphere also has an influence on the economy of Indonesia. The prevailing economic conditions have engendered fierce rivalry among domestic enterprises. Competition compels companies to continuously enhance their performance in order to attain their objectives and boost the company's stock price, so indicating the success of the company's shareholders (Dewantari et al., 2019). Company rivalry is sufficiently intense that it necessitates the provision of well-organized financial reports.

Financial reports provide a comprehensive overview of a company's financial performance. This financial report provides an overview of the company's financial status and standing. The company's financial status and position may vary from one quarter to another in line with its continuous activities. Fluctuations in the company's financial status will have an impact on its stock price. Company share prices are a direct representation of a company's worth. Successful performance of the firm will enhance its appeal to potential investors.

Implementing corporate governance in a corporation may lead to an increase in company value. Corporate governance is a guiding concept that oversees and manages a corporation to ensure a harmonious balance between the firm's power and authority, while also ensuring responsibility to shareholders and stakeholders as a whole. The objective of corporate governance is to effectively oversee and guide a company's operations, with the aim of promoting commercial growth and ensuring transparency and responsibility within the organization.

RESEARCH METHOD

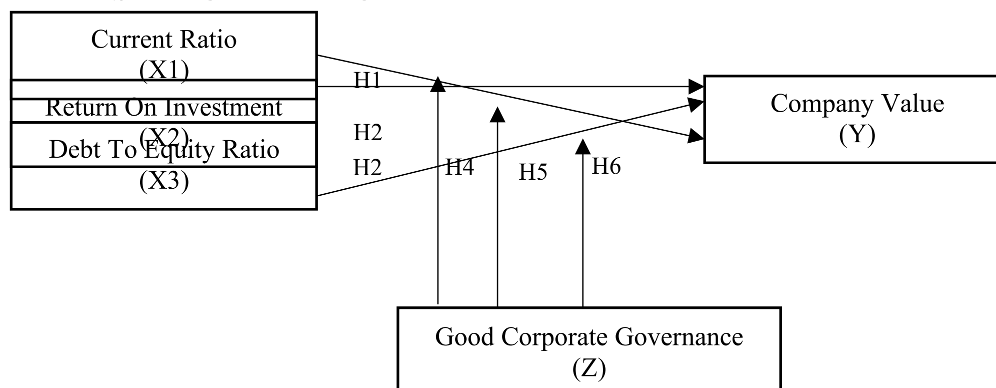

Figure 1: Conceptual framework

The study employs a quantitative analytic methodology for data analysis. The data used in this study is classified as secondary data. The variables included in this study are as follows:

1) Current Ratio (X1)

Current Ratio is a ratio to measure a company's ability to meet its short-term debt or debt that is immediately paid when it is due and paid off at the time of collection (Kasmir, 2015: 134).

$$\mathbf{CR} = \frac{\mathbf{Current\ Assets}}{\mathbf{Current\ Liabilities}}$$

2) Return On Investment (X2)

Fahmi (2011:137) defines Return on Investment (ROI) as a quantitative measure used to assess the effectiveness of an investment in generating anticipated returns.

$$\mathbf{ROI} = \frac{\mathbf{Equity\ After\ Tax\ (EAT)}}{\mathbf{Total\ Assets}}$$

3) Debt to Equity Ratio (X3)

Debt to Equity Ratio is the ratio used to assess obligations using equity. This ratio is to find out how much total funds the borrower has given to the owner of a company (Kasmir, 2015: 157).

$$\mathbf{DER} = \frac{\mathbf{Total\ Liabilities}}{\mathbf{Total\ Equity}}$$

4) Company Value (Y)

Company value is measured by Price Book Value (PBV), namely the price that potential buyers or investors are willing to pay if the company is sold.

$$\mathbf{PBV} = \frac{\mathbf{Market\ Price\ per\ Share}}{\mathbf{Book\ Value\ per\ Share}}$$

5) Good Corporate Governance (Z)

Good corporate governance is a series of structured processes used to manage, direct and lead a business and its ownership with the aim of increasing company value and business continuity.

$$\mathbf{Managerial\ Ownership} = \frac{\mathbf{Number\ of\ Shares\ Owned\ by\ the\ Management}}{\mathbf{Outstanding\ Total\ Shares}}$$

RESULTS AND DISCUSSION

1) Descriptive Statistics Test Results

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
PBV	45	.58	6.86	2.9171	1.77066
CR	45	1.07	8.64	3.0182	2.05937
ROI	45	.00	.22	.1022	.05996
DER	45	.16	1.72	.6558	.37046
KEP. MANAJERIAL	45	.00	.48	.0720	.12621
Valid N (listwise)	45				

Source: SPSS processed data (2023)

2) Uji *Moderating Regression Analysis* (MRA)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.455	1.191		.382	.705
	X1	-.177	.173	-.205	-1.022	.313
	X2	21.298	5.658	.721	3.764	.001
	X3	.630	1.065	.132	.591	.558
	X1_Z	4.798	2.301	1.213	2.085	.044
	X2_Z	-161.413	73.648	-1.520	-2.192	.035
	X3_Z	14.901	4.700	.785	3.171	.003

a. Dependent Variable: Y

Source: SPSS processed data (2023)

a. The Influence of the Current Ratio on Company Value

After conducting tests on the impact of the Current Ratio (X1) variable on business value, it was determined that the current ratio does not have any affect on firm value. These findings suggest that a higher CR value is associated with a decline in the company's value. As stated by Fahmi (2011: 61), a company with a favourable CR is regarded as being in good financial standing. However, if the CR is excessively high, it may indicate issues such as a relatively large inventory compared to projected sales, resulting in a low inventory turnover rate. According to Kasmir (2008: 135), a low current ratio indicates

insufficient capital to repay debt, whereas a high ratio does not always indicate a favourable corporate position.

This study aligns with the findings of Putri (2016) and Firnanda (2016), which indicate that the current ratio does not have a substantial impact on the value of a firm. This is due to the high CR value, which implies a comparatively large quantity of inventory compared to the expected sales level, resulting in a low inventory turnover rate. If the amount of liquid assets recorded on the balance sheet is too big, it might lead to significant financial concerns for the organisation. Excessive liquidity may result in the firm's money being unutilized, which investors see as unfavourable because the company incurs the risk of capital expenses. Inadequate management of liquidity may potentially adversely affect the value of a firm. Inadequate liquidity management of a corporation may lead to an inability to fulfil short-term financial commitments, resulting in financial instability. This, in turn, can negatively impact shareholders and influence the market's opinion of the company's worth.

b. The Effect of Return on Investment on Company Value

The analysis of the relationship between the Return On Investment variable (X2) and firm value revealed a significant impact of Return On Investment on company value. The findings of this study demonstrate a favourable impact, indicating that an augmentation in profitability will be accompanied by a corresponding rise in the value of the firm. Signalling theory, as described by Fahmi (2017), examines the indicators that depict the characteristics of a corporation. A corporation with favourable circumstances is indicative of its strong success. Mardiyanto (2009) states that there are three elements that determine the value of a business, one of which is the firm itself, namely its operational performance. An indicator of this company's success is its profitability.

For corporations, a high profitability number signifies the achievement of the company's performance. Profitability is a metric that quantifies a firm's capacity to make profits. A high level of profitability indicates that the company is capable of generating

substantial earnings.. The level of profitability is very important in maintaining company operations in the long term, which shows whether the company has good prospects in the future or not. Therefore, companies with a high level of profitability tend to have good prospects for the future, so that external parties' assessments of the company will tend to be good so that the value of the company increases. This research is in line with research conducted by Sari & Abudanti (2014), Sutrisno (2020) and Mariana et al (2020).

c. The Influence of Debt to Equity Ratio on Company Value

After conducting tests to assess the impact of the Debt to Equity Ratio (X3) variable on business value, it was determined that the Debt to Equity Ratio does not have any affect on company value. Investors' money does not directly determine the value of a firm based on its capital structure. Investors place a high importance on understanding how corporate management utilises these money as capital, with a focus on effectiveness and efficiency in order to enhance the firm's worth. This aligns with the idea proposed by Modigliani and Miller in 1958, stating that the utilisation of debt, regardless of its magnitude, does not impact share prices and the overall worth of a firm. In addition to that, investors prioritise other criteria when making investment decisions, such as evaluating firm profitability.

This study aligns with the research undertaken by Nyoman Wedana Adiputra (2014), Dwi Astutik (2017), Ogolmagai (2013), Jusriani (2013), and Pardiyanto (2016), which concluded that the Debt to Equity Ratio (DER) does not have a significant impact on the company's value, as measured by the Price to Book Value (PBV). The absence of any impact of leverage on firm value might be attributed to the specific allocation of debt by manufacturing companies, whereby short-term debt outweighed long-term debt between 2016 and 2020. The primary purpose of short-term debt composition is to provide funding for the company's day-to-day operational operations, namely for working capital, with the aim of generating profits. It is not designed for the company's investing activities. In addition, manufacturing enterprises are now not experiencing expansion, so they

do not need long-term debt (more debt) to fulfil their financial needs. These needs cannot be solely fulfilled by the company's own capital.

d. The influence of the Current Ratio on Company Value is moderated by Good Corporate Governance

Adopting effective corporate governance practices may provide additional value and establish precise performance metrics to attain business objectives of accountability and transparency (Sudarmanto, et al. 2021:60). The study findings indicate that Good Corporate Governance, represented by management ownership, may mitigate the association between Current Ratio and Company Value. Managerial ownership pertains to the percentage of shares held by managers or executives of a corporation. Managerial ownership refers to the proportion of shares owned by the board of commissioners and board of directors in relation to the total number of shares available. Managers with substantial ownership stakes are more motivated to preserve the long-term worth of their company. Consequently, they may adopt cautious measures to ensure ample liquidity and minimise excessive risk. As a result, the ownership of managers can impact the correlation between liquidity and company value. The findings of this study corroborate the investigations conducted by Johnson, A., Smith, J., & Williams, R. (2019); Utami & Widati (2022).

The approach used by Corporate Governance in this instance offers robust safeguards for both shareholders and creditors, ensuring their protection is of high quality and efficacy. Implementing Good Corporate Governance may enhance the company's management. Efficient management of a big organisation ensures optimal operational performance without incurring additional expenditures. This would ensure that the corporation have the financial resources to promptly settle its existing obligations. This demonstrates that the presence of management ownership, where the manager is also a shareholder, aims to maximise the utilisation of the company's present assets in order to fulfil the company's financial responsibilities, namely by assisting in maintaining the company's liquidity level.

e. The influence of Return On Investment on Company Value which is moderated by Good Corporate Governance

The study findings from GCG, as measured by Managerial Ownership, indicate that it influences the connection between profitability and firm value. The findings are substantiated by studies undertaken by I Gede et al (2016), Ni Putu Enny Widhi Padmayanti, Ni Nyoman Ayu Suryandari, and I.A Budhananda Munidewi (2019), which assert that GCG has the capacity to control the correlation between ROI and firm value. As the ROI increases and the fraction of management ownership grows, the demand for business shares will also increase. This is because investors see the firm as a secure investment due to the presence of a significant number of independent commissioners. Consequently, the value of the company will rise.

Agency theory posits that corporate owners, or shareholders, should delegate the administration of the company to professional personnel, known as agents, who possess more expertise and professionalism in business operations (Hutabarat and Huseini, 2006:47). Increased ownership by top-level managers has the potential to decrease conflicts of interest inside an organisation. Moreover, when managers have ownership stakes, it may effectively match the objectives of shareholders and managers, leading to improved firm performance and increased welfare for both parties. Greater management ownership directly correlates with improved corporate success. Managerial ownership has a direct impact on the company's profitability since it has the capacity to shape the company's operations, ultimately affecting its success in accomplishing organisational objectives. management ownership positively impacts the link between financial performance and profitability as it leads to increased management activity. Interests of the shareholders (Mirza, 2016).

f. The influence of Debt to Equity Ratio on Company Value which is moderated by Good Corporate Governance

The study findings indicate that Good Corporate Governance has the capacity to regulate the association between Debt to Equity Ratio

and Company Value. This demonstrates that when managerial ownership or share ownership is mostly held by the management, it incentivizes them to effectively manage the firm's debt. This is because management aims to protect the company and its shareholders from the negative consequences of excessive debt. This is attributed to the extensive utilisation of debt inside the firm and little management ownership, which instills concern among investors on the company's elevated debt levels, thereby amplifying the associated risk. Managerial ownership, overseen by management, effectively handles debt management, enabling the firm to efficiently fund its operational operations. Managerial ownership via share ownership may enhance corporate earnings and mitigate disputes between agents and investors, therefore safeguarding the interests of both the firm and its investors. Regarding signal theory, it refers to a signal that is sent to the market and investors, providing information about the company's prospects and quality. Prudent utilisation of debt may serve as an affirmative indication that the corporation has a lucrative venture and is capable of repaying the borrowed funds. Consequently, organisations that possess an appropriate capital structure have the ability to enhance market perception and boost the value of the company.

Effective corporate governance will enable the best utilisation of loan money obtained from creditors to generate returns that may be used for debt repayment. Effective adoption of sound corporate governance practices may signal to investors that the firm has been well managed, hence generating investor interest in investing in the company. This will stimulate demand for corporate shares, resulting in an upward trajectory of the firm's share price, thereby bolstering the overall worth of the company. This is corroborated by study carried out by Maziyah (2017), Bintara (2018), Kusumawati and Rosady (2018).

CONCLUSION

The Current Ratio does not impact the valuation of a firm. Excessive liquidity may result in the firm's money being unutilized, which investors see

as a bad indication due to the company incurring capital expenses as a risk. The Return on Investment (ROI) demonstrates that profitability has a substantial and favourable impact on the value of a firm. This implies that a rise in profitability will result in a subsequent increase in the company's value. The Debt to Equity Ratio does not impact the value of a firm. This implies that manufacturing companies have used more short-term debt than long-term debt between 2016 and 2020. The primary purpose of short-term debt is to provide funding for the company's day-to-day operations, namely for working capital, with the aim of generating profits. It is not meant for the company's investing activities.

Managerial ownership serves as a proxy for Good Corporate Governance and has the ability to modulate the link between the Current Ratio and Company Value. Managers with substantial equity ownership are more motivated to preserve the long-term worth of the firm, leading them to adopt cautious measures to ensure enough liquidity. Avoid taking unnecessary or unwarranted risks. Managerial ownership has a direct impact on the company's profitability since it has the capacity to shape the company's operations, ultimately affecting its success in accomplishing organisational objectives. management ownership positively impacts the link between financial performance and profitability as it leads to increased management activity. Interests of the shareholders. Effective Corporate Governance may mitigate the correlation between Debt to Equity Ratio and Company Value. This demonstrates that when managerial ownership or share ownership is mostly held by the management, it incentivizes the management to effectively handle debt. This is because the management is motivated to avoid jeopardising the firm and its shareholders by burdening the company with excessive debt.

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