GCG, Profitability And Solvency On Stock Price WithFirm Size As Control Variable

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ABSTRACT

Researchers have a goal to determine the effect of GCG (Good Corporate Governance), profitability, solvency on stock prices with company size as a control variable. This study uses annual report data on companies (secondary data). The population used by the researchers were companies that received CGPI ratings and IDX listings for the 2018 – 2021 period. The samples used by the researchers were 6 companies. The purposive sampling method was used by researchers to obtain the sample. Researchers tested the data with the SPSS 23 program. Researchers used multiple linear regression methods in their tests. This study shows the simultaneous results that GCG, profitability, solvency and company size affect the stock price of the company. Partially this study shows the results that profitability, solvency and company size do not affect stock prices, while GCG (Good Corporate Governance) has an effect on company stock prices.

Keywords : Good Corporate Governance, profitability, solvency, company size, stock price.

I. INTRODUCTION

The GCG concept was first launched in Indonesia by the Indonesian government and the International Monetary Fund (IMF) during the post-crisis economic recovery period of 1997-1998. During this period the crisis had a major impact, namely many companies went into liquidation, forcing the government to restructure and recapitulate.

GCG is included in efforts to resolve stakeholder conflicts and ensure that the company is managed effectively. This is related to agency theory which divides the correlation between owner and management. Agency conflicts arise as a result of the separation of interests between owners and management. Agency conflicts can arise when managers and shareholders have competing needs and objectives, namely as agent and principal. In other words, GCG can aim to regulate and prevent problems within the company (Situmorang & Simanjuntak, 2019). Wahyudin & Solikhah (2017) also stated that the implementation of GCG is required by stakeholders because it has a positive impact in the long term.

According to Safitri & Mukaram (2018), ROE is an important statistic for shareholders because it measures the rate of return on shareholder investment in a company. Companies that have high ROE may be more successful in running and managing capital to achieve large profits (Levina & Dermawan, 2019).

The Solvency Ratio is associated with funding decisions where corporations prefer debt financing over their own capital (Darmawan, 2020: 73). The solvency or leverage ratio is the ratio used to calculate the amount of debt a company must pay to fulfill its assets (Levina & Dermawan, 2019). The higher the loan interest rate that must be absorbed by the company, the greater the debt used to fund the company's assets. The smaller the DER ratio, the smaller the company's liquidity risk (Ramadhan & Nursito, 2021).

According to Nurulrahmatiah & Pratiwi (2020), the company's performance is directly related to the level of income which in turn affects the level of the company's stock price. According to his findings, GCG has a significant and beneficial effect on stock prices. The stronger the company's financial performance, the more attractive investors will be to buy the company's shares resulting in an increase in the purchase and price of the company's shares. It can be concluded that GCG has an impact on stock prices.

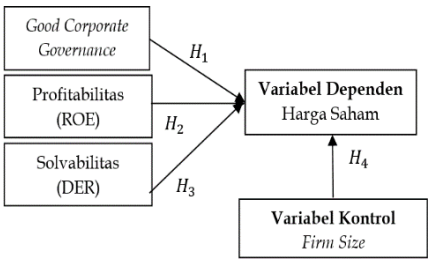
Based on this research background, researchers will conduct

research on the effect of GCG, profitability, and solvency on stock prices in companies that obtain CGPI

	Min	Max	Mean	S.Dev
CGPI	85,3	95,1	90,32	3,16
ROE	0,49	33,14	10,74	8,41
DER	0,42	16,08	5,62	4,22
FS	17	24,96	20,69	2,27
HS	1210	8450	3875	2267

ratings and are listed on the IDX from 2018 to 2021, with company size as the control variable. As an independent variable, researchers used GCG proxied by CGPI, profitability by ROE, solvency by DER, and firm size as control variables.

II. RESEARCH METHOD



This research is a quantitative research because it is based on the research data used, namely numeric data. This research uses secondary data from SWA magazine as well as audited and published financial records for 2018-2021. Secondary data is information that already exists and is utilized by researchers to complete the required data. Financial report data is collected from the IDX web page at www.idx.co.id.

To test the hypothesis that has been mentioned, this study uses multiple regression analysis. This model can be expressed in the equation :

$$Stock\ price = \alpha + \beta_1 GCG + \beta_2 ROE + \beta_3 DER + \beta_4 Firm\ Size + e$$

III. RESULTS AND DISCUSSION

Statistic Descriptive

Table 1. Statistic Descriptive Test Results

Average value of the 24 samples of GCG data proxied by CGPI is 90. The minimum value of the CGPI variable is 85. 30, namely PT Wijaya Karya Tbk (WIKA) in 2018. Meanwhile, the maximum CGPI value of 95. The average company with a CGPI rating during the 2018 – 2021 period has a high CGPI score of 95. This shows that the company is able to implement good GCG so as to get a high CGPI score. The CGPI value in this study is relatively high because the average CGPI value in this study sample is close to the maximum value. Value 16222 is smaller than the average value indicating that the data used for the CGPI variable has a moderate distribution, indicating that the variable data deviation in this study is very good.

Based on the results of the descriptive statistical tests in the previous table, the profitability variable proxied by Return on Equity (ROE) has a minimum value of 0.49, a maximum value of 33.14, and an average value of 10. Value 41343 is less than the average value, indicating

that the distribution of the data variables is minimal, and the research variable data deviations are considered good.

The minimum value or lowest value of DER from all research data is 0.42 which was achieved by PT Bukit Asam Tbk in 2020. Based on this valuation, PT Bukit Asam Tbk will rely more on its own resources than loans in 2020. Meanwhile, the highest value is PT Bank State Savings Account Tbk in 2020 is 16.08. With a standard deviation of 4.22677, the mean DER is 5.6278. The standard deviation of the DER variable is smaller than the average value. This shows that the distribution of variable data is minimal, indicating that the deviation of the research variable data is still good and acceptable.

Based on the previous table, the average natural logarithm of all companies in the total assets of this study is 20.6913. In 2018, PT Bukit Asam Tbk had the lowest total assets of 17.00, while PT Wijaya Karya Tbk had the largest total assets of 24.96 in 2021. The standard deviation of the company size variable is 2.27716 which shows that the natural logarithm of total assets has a deviation limit of 2.27716. Based on this, the standard deviation number which is smaller than the mean value indicates that the variance of the company size variable data in this study is acceptable.

Based on table 4.3 SPSS results for the descriptive statistical test of the dependent variable from 24 samples, the minimum share price of PT Wijaya Karya Tbk in 2021 is 1210, while the maximum value of the share price of PT Bank Negara Indonesia Tbk in 2019 is 8450. The average value of the variable stock price in this study is 3875, with a standard deviation of 2268, which means that the deviation rate of stock price data per year during the year of study is 2268. Because the standard deviation is smaller than the average value in this example, the deviation stock price variable data is considered good.

Classical Assumption Testing

According to Ghozali (2013: 154), the normality test determines whether the confounding or residual variables in the regression model are normally distributed. The regression model is said to be good if the residual values are normal or close to normal (Ningsih & Dukalang, 2019).

	Shapiro-Wilk		
	Stat.	df	Sig
Unstanda-rdized residual	0,946	24	0,216

Table 2. Normality Test Results

Tests were carried out twice because in the first test on normality the significance results were below 0.05, namely 0.039. In the second test, data transformation was carried out so that the fullest normality test was 0.216, so it can be concluded that

Durbin Watson
1,669

the data already has a normal distribution.

The multicollinearity test determines whether the regression model detects a relationship between the independent variables. If the Tolerance value is greater than 0.1 and the VIF value is greater than 10, the regression model is said to be free from multicollinearity problems.

Variables	Collinearity Statistics	
	Tolerance	VIF
CGPI	0,942	1,602
ROE	0,414	2,415
DER	0,551	1,815
FS	0,669	1,494

Table 3. Multicollinearity Test Results

Based on these findings, it was determined that the regression model in this study did not show multicollinearity problems and was suitable for further research.

According to Ghozali (2013: 107), the autocorrelation test is used to determine whether there is a relationship between confounding errors in period t and confounding errors in period t-1 (previously) in a linear regression model. The Durbin-Watson test (D-W) was used in this investigation to detect 1,669 > 3 indicates that the regression model has no autocorrelation. In other words, there is no relationship between the confounding variables in the regression model, so it deserves further investigation. autocorrelation. If 1 < DW < 3 then autocorrelation will arise.

Table 4. Autocorrelation Test Results

The test was carried out twice because the first autocorrelation test obtained a DW value of 0.814. The finding of the DW value 1 > DW = 1,669 > 3 indicates that the regression model has no autocorrelation. In other words, there is no relationship between the confounding variables in the regression model, so it deserves further investigation.

According to Ghozali (2013: 134), the heteroscedasticity test is used to determine whether a regression model has an uneven residual variance from one observation to the next. The Glejser test was used in this study to determine whether there is heteroscedasticity.

Heteroscedasticity	
Variable	Sig.
CGPI	0,832
ROE	0,770
DER	0,361
FS	0,742

Table 5. Heteroscedasticity Test Results

The significant value is indicated by the significant value of each variable. > 0.05, it can be said that the regression model in this study is free from the assumption of heteroscedasticity and deserves further investigation.

Multiple Regression Analysis

Multiple linear regression is a regression model that uses more than one independent variable to determine the effect of independent factors on the dependent variable. The regression model of this study is as follows.

$$Stock\ price = \alpha + \beta_1 GCG + \beta_2 ROE + \beta_3 DER + \beta_4 Firm\ Size + e$$

This study shows that the regression model produces an F test value that is equal to 0.047, which means it is significant. The results of this test conclude that GCG, ROE, DER and Firm Size together have a significant effect on stock prices.

In this study, the value of the coefficient of determination (R-Squared) of the regression model used in this research model is 0.295. This means that the variation in the stock price variable can be explained by all variations of the independent variables namely GCG, ROE, DER and Firm Size by 29.5% while the remaining 70.5% is explained by other factors not included in this study.

Discussion of Research Results

1. The Effect of GCG on Stock Prices

The first hypothesis proposes that Good Corporate Governance affects stock prices. The research findings show that the first hypothesis is correct. The T-test value of 0.024 shows this. This figure is less than the significant threshold of 0.05, indicating that GCG has a considerable influence on stock prices. The test results are in line with research conducted by Adinegara & Sukamulja (2021); Nurulrahmatiah & Pratiwi (2020); Suhartono et al. (2018); Syafaatul L (2019). These studies say that GCG has an influence on stock prices. The application of GCG makes company operations much more efficient, and provides opportunities for companies to generate higher profits (Indarti & Extaliyus, 2013).

According to (Adebayo et al. (2014), the use of GCG is the basis for the company's internal management, which can encourage openness of company operations, guarantee accountability, and increase company profitability. The share price will rise as a result of good internal management.

2. The Effect of Profitability on Stock Prices

The second hypothesis says that profitability, as measured by ROE, affects stock prices. Based on the findings of partial hypothesis testing, ROE has a small effect on stock prices. The finding of the T test value of 0.242 shows this. This result is greater than the significance value of 0.05, which means that the ROE variable has no effect on stock prices. Based on the findings of this study, ROE has no effect on stock prices,

meaning that the presence or absence of ROE has no effect on stock price levels. The findings of this study are in line with previous research Egam et al. (2017); Odelia & Siregar (2021); Putri (2015), which found that ROE has no effect on stock prices.

Because ROE only displays the rate of return on capital owned by public shareholders and not the company's prospects, the market does not really respond to the level of ROE as a factor for investors in investing (Oktaviani, 2015). The company's lack of efficiency in managing its own capital and describing prospects and company development through less than optimal ROE is the cause of ROE not affecting stock prices (Nur Hakim et al., 2018).

3. The Effect of Solvency on Stock Prices

The third hypothesis formulates that solvency as measured by DER affects stock prices. According to the findings of partial hypothesis testing, DER has little effect on stock prices. The finding of the T test value of 0.671 shows this. This figure is greater than the significance value of 0.05, which means that the DER variable has no effect on stock prices. According to the research findings, solvency as assessed by DER has no effect on stock prices. High solvency is detrimental to company performance. More debt means more interest to pay, which reduces profits and may result in a lower share price.

DER has no effect on stock prices, meaning that the size of the DER value in the company has no effect on the high and low stock prices. This also implies that DER is not the main factor for an investor in investing. The findings of this study are in line with Utami & Darmawan (2018); Wicaksono (2015) who found that DER has little effect on stock prices.

4. The Effect of Company Size on Stock Price

Large and small companies are things that investors pay attention to when investing. Investors will be more interested in large companies that are experiencing good growth (Panjaitan & Muslih, 2019). According to the study's findings, GCG, profitability, and solvency all have an impact on stock prices, with company size as the control variable. While the company's control variable has a significance level of 0.960. These findings indicate that the company's control variables have a small influence on stock prices.

The results of this study are in line with research conducted by Hasanuddin (2020). In his research, Hasanuddin (2020) states that company size has no effect on stock prices. These results indicate that the size of the company, both small and large, will not affect the increase or decrease in stock prices. Company size has no effect on stock prices because investors pay more attention to other good information that can cause stock prices to increase

compared to just looking at company size.

IV. CONCLUSION

The purpose of this study was to determine the effect of implementing GCG, profitability, solvency on stock prices with firm size as the control variable. This study tested 6 companies that received CGPI ratings and IDX listings during 2018 – 2021. The total number of final observation data was 24 companies. The CGPI score is used to measure the GCG independent variable in this study. Another independent variable is profitability as measured by ROE and solvency as measured by DER. As a control variable, researchers use firm size.

The results of this study indicate that the H1 hypothesis is accepted, because in this study it was found that the application of corporate governance has an effect on stock prices. The results of this study also show that the H2 hypothesis is rejected, because profitability as measured by ROE has no effect on stock prices. The H3 hypothesis is rejected because it shows that DER as a measure of the solvency ratio has a significant negative effect on stock prices. While the H4 hypothesis cannot be accepted because company size has no effect on stock prices.

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