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## The Effect of Corporate Governance on the Profitability of Non-Financial Companies

Rina Wahyu Widyaningsih<sup>1</sup>, Wiwin Aprelia Ninava<sup>1\*</sup>, Hersugondo<sup>1</sup>

<sup>1</sup> Universitas Dionegoro, Semarang, Indonesia

\* Corresponding author: *Wiwin Aprelia Ninava* ([aprilianinava@gmail.com](mailto:aprilianinava@gmail.com))

### Abstract

This study aims to examine the impact of corporate governance (CG) on the profitability of non-financial companies listed on the Indonesia Stock Exchange, with Debt-to-Equity Ratio (DER) as a moderating variable and Firm Age, Market to Book Value (MBV), and ownership structure as control variables. In the context of increasingly competitive business environments, the quality of corporate governance becomes crucial for achieving sustainable performance. This research utilizes company data from 2020 to 2023 and employs regression analysis to test the proposed hypotheses. The findings are expected to provide insights into the importance of good governance, optimal capital structure, and ownership structure in enhancing profitability, as well as offering practical implications for managers and investors in decision-making processes.

### Keywords

Corporate Governance, Profitability, Debt to Equity Ratio, Ownership Structure

## 1. Introduction

In the current era of increasing economic growth, it requires company management to be able to maintain company stability and maintain its survival in increasingly tight business competition (Assalmani, 2021). As investing in the Stock Exchange has become one of the methods increasingly chosen by investors. Where the Indonesia Stock Exchange is a place or forum for stock players to trade or buy and sell every stock they own and want to buy (Pratama et al., 2021). This is in accordance with Capital Market Law number 8 of 1995 which states that a Securities Company is a party that carries out business activities as an underwriter of securities, securities broker and/or investment manager (Rahayu & Utami, 2021). Investment activities in the capital market are one of the activities of allocating funds in the form of long-term assets with the hope of making profits in the future. Before investing their capital, investors need various information from the company's performance as seen from its financial statements. Complete, relevant and accurate information about a company is very much needed by investors as an analytical tool in making investment decisions (Yunita & Yuniningsih, 2020). Investment decisions are policies or decisions taken to invest capital in one or more assets with the aim of gaining profits in the future. The investment decision chosen depends on the feasibility of the acceptance that has been determined or not from a financial aspect. In addition, investment decisions can also be chosen based on the minimum risk and uncertainty of a company. Therefore, prospective investors tend to choose companies that have good financial performance and minimal risk (Wahyudi & Santoso, 2022).

The company's prospects greatly influence investment decisions. Every investor certainly expects a high rate of return and does not want the risk of the investment they have. Therefore, investors will only invest in sectors that are less (risky et al., 2018). For this reason, before deciding to invest, investors must first have the right knowledge and understanding of the company's performance as a basis for making investment decisions (Rahmatullah, 2019). Information about a company's financial performance can be seen from the company's financial statements. However, to obtain financial information that is more relevant to the goals and interests of users, the financial information must first be analyzed so that it produces the right business decisions. The analysis that is usually carried out is financial statement analysis. One of the methods used in financial report analysis is by using financial ratios (Sunardi & Febrianti, 2020). One of the sectors that is growing rapidly and plays an important role in triggering national economic growth today is the manufacturing sector.

Based on the data from the published financial ratios, investment activities in non-financial companies in Indonesia in recent years have shown an unstable level of investment growth and have experienced ups and downs (Phan & Nguyen, 2020). The phenomenon of fluctuations in investment activities in non-financial companies can be influenced by various fundamental factors originating from within the company and can be controlled by the company's management, so it is very important for investors and companies. Based on this, the researcher considers that this issue is very interesting to be studied further regarding the fundamental factors that affect Corporate Governance (CG) on the Profitability of Non-Financial Companies Listed on the Indonesia Stock Exchange, with Debt-to-Equity Ratio (DER) as a Moderating Variable and Company Age, Market to Book Value (MBV), and Ownership Structure as Control Variables (Hasanah & Sutjahyani, 2021).

Corporate governance (CG) is a system that regulates the management of a company professionally. This system is based on certain principles, such as: Transparency, Accountability, Responsibility, Independence, Fairness, Equality. CG aims to improve company performance, maximize company value, maintain company sustainability, and ensure that the company is run in a transparent, fair, and responsible manner. Profitability is the ability of a company to generate profits, both

in relation to sales, total assets, and equity. Profitability can also be interpreted as a ratio used to measure the level of net profit achieved by a company in running its operations. Profitability can be measured by comparing various components in the financial statements, especially the balance sheet and income statement. Profitability measurements can be carried out for several operating periods, such as half-yearly or quarterly. Profitability has benefits for business owners, management, and parties who have relationships or interests with the company. High profitability can indicate that the company has good prospects, so that it can create positive sentiment for investors (Anggitasari & Mutmainah, 2012).

Company age is the time a company has been through since its establishment until now. Company age can show that the company is able to compete, maintain business continuity, and continue to exist. Company age can have several influences, including company value (company age can have a positive influence on company value. However, there is also research that states that company age does not have a significant influence on company value). Market to Book Value (M/B ratio) or Price-to-Book Ratio (PBV) is a ratio that compares the market value of a company's shares with the book value of the company. This ratio is calculated by dividing the current share price by the book value per share (Husna & Satria, 2019).

Ownership structure is the comparison of the number of shares owned by insiders with the number of shares owned by investors. Ownership structure can also be interpreted as the proportion of institutional and managerial ownership in the ownership of company shares (Kurniadi et al., 2024). Ownership structure can affect the performance and decision-making of a company. Ownership structure can also be a mechanism to reduce conflict between management and shareholders. DER stands for Debt-to-Equity Ratio, which is a financial ratio that compares the amount of debt to the amount of equity of a company. DER is used to measure leverage, which is the extent to which a company uses debt to fund its operations (Sunardi et al., 2020).

## **2. Methods**

The data presented in this study are quantitative data, namely data presented in the form of numbers or qualitative data that is numeric (Sugiyono, 2014), in the form of annual report data of non-financial companies for 2020-2023. In this study, secondary data is determined as the data source. Data sources in the form of secondary data are obtained by researchers indirectly, for example through intermediaries or in the form of certain documents (Ardiyanto, 2017). Secondary data is obtained in the form of external data in the form of financial report documents of non-financial companies obtained from the official website [www.idx.co.id](http://www.idx.co.id).

In this research, data analysis was carried out using several statistical methods to test hypotheses and ensure the validity of the results. Based on Sugiyono (2018), descriptive statistics are used to analyze and describe the data that has been collected according to actual conditions. By using descriptive statistics, data can be presented in more detail and neatly arranged, as well as providing useful basic information from the existing data collection (Atif, 2021). In addition, a classical assumption test was carried out to ensure that the data obtained did not experience deviations that could affect the accuracy of the regression results. The classical assumption test aims to ensure that the data criteria meet the Best Linear Unbiased Estimator (BLUE), which includes normality, multicollinearity, heteroscedasticity and autocorrelation tests.

Several classic tests that are commonly carried out in regression analysis include the Normality Test, Multicollinearity Test, Heteroscedasticity Test, and Autocorrelation Test. The normality test, based on Ghazali (2018), is used to determine whether the data for the variables being tested are normally distributed or not, using the Kolmogorov-Smirnov method at a significance level of 5%. If the

significance value is greater than 0.05, the data is considered normal. The multicollinearity test aims to detect correlation between independent variables. If a high correlation is found, this could indicate multicollinearity which could damage the validity of the regression model (Handayani et al., 2024). The heteroscedasticity test is carried out to see whether there is an irregular variance in the residual between one observation and another, which indicates a heteroscedasticity problem. Meanwhile, the autocorrelation test uses Durbin-Watson to check whether there is a relationship between periods in the regression model (Abdilah et al., 2024).

Apart from the classic test, Multiple Linear Regression Analysis (MRA) is used to test the relationship between the independent variable and the dependent variable, either partially or simultaneously (Dewa, 2023). This method helps to predict the condition of the dependent variable if two or more independent variables are manipulated as predictor factors. This test uses statistical software such as SPSS to process data and produce accurate results. In this research, moderating variables are also considered, namely independent variables that function to strengthen or weaken the relationship between the dependent variable and other independent variables (Shah, 2021). The MRA used in this research is a special application of multiple linear regression which involves interaction elements, namely the multiplication of two or more independent variables, as explained by Singa et al. (2020).

### 3. Results and Discussion

Sugiyono (2018) defines descriptive statistics as statistics used to analyze and describe data that has been collected according to the actual situation. With descriptive statistics, the data can be presented more clearly and organized, providing basic information from the existing data set. Based on the data processing, the total amount of data in the study is 295. The analysis of the mean (average) value and standard deviation for each variable is as follows: Firm Age has a minimum value of -0.37, a maximum value of 2.24, a mean value of 0.1502, and a standard deviation of 0.25077. Market to Book Value has a minimum value of 0.60, a maximum value of 303.28, a mean value of 4.6313, and a standard deviation of 21.27696. Debt to Equity Ratio (DER) has a minimum value of 0.00, a maximum value of 4.19, a mean value of 0.7624, and a standard deviation of 0.72689. Ownership Structure has a minimum value of 0.01, a maximum value of 4.68, a mean value of 1.0615, and a standard deviation of 0.51983.

The purpose of this classical assumption test is to see whether there is a deviation from the data produced to produce Best, Linear, Unbiased and Estimator data (BLUE). The classical assumption test is carried out to see whether autocorrelation, multicollinearity, and heteroscedasticity do not appear in this study or the data created is normally distributed. If this is not found, then the classical assumption of regression has been met (Ramadhan & Nasution, 2020).

The purpose of the normality test is to determine whether the data in the variables used are normally distributed. According to Ghozali (2018), this test can be conducted using the Kolmogorov-Smirnov method, calculated through the SPSS application at a significance level of 5%. If the significance value is greater than 0.05, the data is considered normal, whereas if the significance value is less than 0.05, the data is considered abnormal.

**Table 1.** One-Sample Kolmogorov-Smirnov Test

		<b>Unstandardized Residual</b>
N		185
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Std. Deviation	.37884344
Most Extreme Differences	Absolut	.065
	Positive	.065
	Negative	-.037
Kolmogorov-Smirnov Z		1.104
Asymp. Sig. (2-tailed)		.175
Test distribution is Normal		
Calculated from data		

From the test results, the sig value is  $0.175 > 0.05$ , meaning that the data can be said to be normal. So, from the test results obtained, it can be concluded that the test results can be continued to the next test.

The Multicollinearity Test is a technique used to determine whether there is a correlation between independent variables. If such a correlation exists, multicollinearity is present, and the regression equation formed cannot be used for analysis (Xuan, 2020). This test can be performed by comparing the tolerance value with the Variance Inflation Factor (VIF). The required threshold is a tolerance value of less than 0.10 or a VIF value greater than 10. If the tolerance value is less than 0.10, it indicates multicollinearity (Ghozali, 2018). The results obtained are as follows: Firm Age has a tolerance value of 0.535 (greater than 0.10) and a VIF value of 1.870 (less than 10); Market to Book Value has a tolerance value of 0.268 (greater than 0.10) and a VIF value of 3.735 (less than 10); Ownership Structure has a tolerance value of 0.289 (greater than 0.10) and a VIF value of 3.456 (less than 10); and Profitability Value has a tolerance value of 0.714 (greater than 0.10) and a VIF value of 1.400 (less than 10). These results suggest that there is no multicollinearity present among the variables.

This test aims to analyze the differences in residual variance between one observation and another. If the residual variance remains constant across observations, it is considered homoscedasticity. Conversely, if the variance differs, it indicates heteroscedasticity. Based on the data processing, the following results were obtained: Firm Age had a significant value of 0.218, which is greater than 0.05; Market to Book Value had a significant value of 0.868, which is greater than 0.05; Ownership Structure had a significant value of 0.267, which is greater than 0.05; and Profitability had a significant value of 0.362, which is greater than 0.05. These results indicate that there is no heteroscedasticity problem, as all significant values are greater than 0.05.

This test is used to test whether there is a correlation in the regression model between study periods. This test uses the Durbin Watson model (DW test), which compares the DW numbers with the DW table (d and du). If  $du < d < 4-du$  then there is no autocorrelation or if the DW number is between the upper limit (du) and (4-du). This means that it has met the classical assumptions of regression or means that there is no autocorrelation (Nurhabibah, 2020).

**Table 2.** Autocorrelation Test

<b>R</b>	<b>R Square</b>	<b>Adj. R Square</b>	<b>Std. Error</b>	<b>Durbin Watson</b>
.665 <sup>a</sup>	.442	.430	.38291	.724

From the results obtained DW value of 0.724 and obtained from the DW table value dL 0.562 and dU 2.21. From the results above it can be concluded that the DW

value between dL and dU does not show autocorrelation symptoms, so the test can be continued.

This study uses multiple regression testing to test between independent variables and dependent variables, both partially and simultaneously. Multiple regression testing is an analysis tool used to predict the condition of dependent variables, namely if two or more independent variables are manipulated predictor factors (Dewi & Arizona, 2020). So, this test can be applied if the number of independent variables is at least two variables (Sugiyono, 2018). A moderating variable is an independent variable that functions to strengthen or weaken the relationship between a dependent variable and other independent variables. MRA is a special application of multiple linear regression that contains interaction elements, namely the multiplication of two or more independent variables (Ghozali, 2018).

The t-test is used to determine the effect of each independent variable on the dependent variable, tested individually. This technique involves comparing the t-count value to the t-table, with specific decision rules. If the t-count value is less than the t-table value or the significance number is greater than 0.05, the hypothesis is rejected, indicating that there is no partial influence between the independent variable and the dependent variable. On the other hand, if the t-count value is greater than the t-table value or the significance number is less than 0.05, the hypothesis is accepted, indicating that there is a partial influence between the independent variable and the dependent variable (Ghozali, 2018).

The Simultaneous F Test is used to find out whether all independent variables together or simultaneously can influence the dependent variable. The technique used is to compare the calculated F value with the F table with the following conditions (Ghozali, 2018): If the calculated F value < F table or the significance value is > 0.05 then the hypothesis is rejected, meaning there is no simultaneous influence between the independent variables on the dependent variable (Sarawatari, 2020). If the calculated F value > F table or the significance value < 0.05 then the hypothesis is accepted, meaning that there is a simultaneous influence between the independent variables on the dependent variable.

**Table 3.** Anova<sup>3</sup>

Model	Sum of Squares	df	Mean Square	F	Sig
Regression	32.241	6	5.373	36.649	.000 <sup>b</sup>
Residual	40.760	278	.147		
Total	73.001	284			

Ghozali (2018) stated that the coefficient of determination ( $R^2$ ) is used to measure the accuracy or suitability of the regression line formed from the results of the hypothesis to the results of the analysis obtained. The value of the coefficient of determination is from zero to one. If the resulting  $R^2$  value is small, this means that the ability of the independent variable to explain the variation of the dependent variable is very limited. While a value close to one means that the independent variable provides almost all the information needed to predict the dependent variable.

**Table 4.** Coefficient of determination test ( $R^2$ )

R	R Square	Adjusted R Square	Std. Error of the Estimate
.665 <sup>a</sup>	.442	.430	.38291

#### 4. Conclusion

The results of the t-significance test show that profitability affects the value of non-financial companies. Likewise for firm age, market to book value, and ownership

structure. GCG moderates the effect of profitability on company value. DER moderates for all variables. The limitation in this study is that the period used is relatively short, namely 2020-2023 with a sample size of only non-financial companies listed in the CGPI index report, so this study cannot be generalized. CGPI data was obtained from SWA magazine and was not triangulated, this causes the results obtained to be different. Suggestions for company management need to improve company performance because it affects company value. Investors who will invest in stocks should look at the level of the company's financial performance. For further research, it is recommended to add other variables that are suspected of being able to affect company value such as tax avoidance and intellectual capital.

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