A THEORITICAL BETWEEN CORPORATE GOVERNANCE, PROFITA-BILITY, COMPANY SIZE, TOWARD FIRM VALUE WITH INTELLEC-TUAL CAPITAL IN SCTOCK EXCHANGE INDONESIA

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ABSTRACT

This "research aimed to share theoretical thinking regarding corporate govern-ance, profitability, and company size to firm value and intellectual capital. The theory has been discussed by critical thinking. Ultimately, a part of this research paper is sounding a few analyses from many authors. There are many things that company can maximize their firm value. Moreover, intellectual capital is a re-flection of uniqueness as a firm value and increases the share price of companies listed on the Indonesia Stock Exchange companies. Additionally, this research should get the decision to estimate a strong theory in the future such novelty and reference from new sources about good corporate, governance, profitability, company size, and firm" value.

Keywords: good corporate governance, profitability, company size, firm value

INTRODUCTION

According to Investors, the value of the company is different from the book value of the company in the financial statements. Stock prices, total debt and total assets are aspects that can affect the rise and fall of firm value (Chung and Pruit, 1994).

As the era of knowledge-based business changes, more and more companies are realizing that their competitive ability lies not only in ownership of tangible assets, but also in innovation, information systems, organizational management and their human resources (Solikhah, 2010). With the application of knowledge-based business, the company's value creation will change. However, conventional accounting practices have not been able to present information on knowledge-based business and intangible assets in financial reports, causing the information contained in financial reports to be considered inadequate (Sawarjuwono and Kadir, 2003).

The increasing gap between the market value and the book value of this company indicates the hidden value of the financial statements (Maditinos et al., 2011). The creation of hidden value can be caused by the number of companies that have insignificant tangible assets in the financial statements, but the market appreciation for these companies is very high (Sawarjuwono and Kadir, 2003).

According to Edvinsson and Malone (1997) in Chen et al. (2005), the difference between the market value and the book value of the company is the value of intellectual capital. Intellectual capital according to Stewart quoted from Pramudita (2010) is a useful knowledge that is packaged "packaged useful knowledge". This includes organizational processes, technology, patents, employees, skills, expertise and information about customers, suppliers and stakeholders. Intellectual capital is believed to play an important role in improving company performance (Sumiati, 2020) and company value (Sunarsih and Mendra, 2012).

This research needs to be done considering that corporate governance is needed to increase firm value. Meanwhile, the development of the corporate governance rating of public companies in Indonesia is still low in Asia.

Table 1.1
Skor Corporate Governance 2010 - 2018

		2010	2012	2014	2016	2018
1	Australia	-	-	-	78	71
2	Singapore	67	69	64	67	60
3	Hong Kong	65	66	65	65	59
4	Japan	57	55	60	63	58
5	Taiwan	55	53	56	60	56
6	Thailand	55	58	58	58	55
7	Malaysia	52	55	58	56	54
8	India	49	51	54	55	54
9	Korea	45	49	49	52	46
10	China	49	45	45	43	41
11	Philippines	37	41	40	38	37
12	Indonesia	40	37	39	36	34

Source: *Asian Corporate Governance Association* (ACGA, 2020)

Market confidence in the company's performance resulted in fluctuating stock prices (Brigham and Daves, 2011). Profitability information, which is part of the company's financial statements, is important information for management and other parties in need such as investors (Brigham and Houston, 2011).

THEORITICAL FRAMEWORK

Agency Theory

Denis and McConnell (2003) stated that the first stage of the concept of corporate governance was carried out by Berle and Means (1932). According to Berle and Means (1932) the development of the company led to a separation between ownership and control over a company that is managed in a modern way. Corporate governance mechanisms can ensure that management manages the company in accordance with the interests of the owners (shareholders).

The agency model in positive agency theory has two propositions of governance mechanisms (Clarke, 2008). First, contracts based on outcomes are effective in limiting opportunistic behavior of agents and conflicts of interest between agents and principals. Second, information systems can limit the opportunistic behavior of agents to provide information to the principal, because they are aware that they cannot deceive the principal.

The fact is that in modern companies, even though there are contracts, managers know more about internal information and company prospects in the future than owners (shareholders). Managers have the opportunity to adopt opportunistic behavior by manipulating the information they manage (Zogning, 2017). The application of corporate governance is very important to minimize information asymmetry.

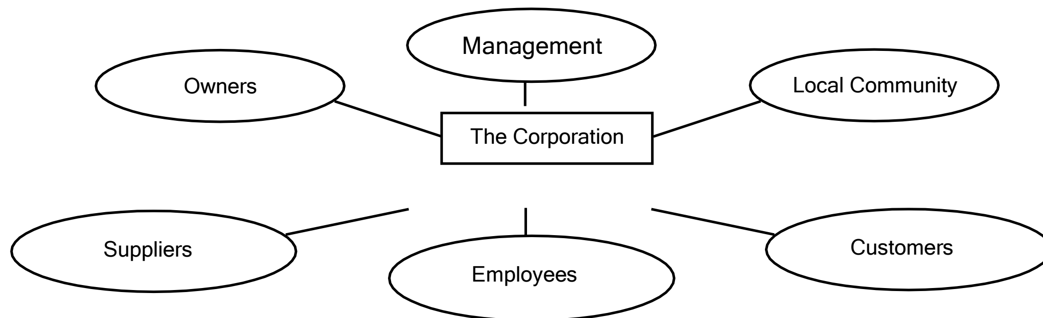
Stakeholder Theory

Freeman and Reed (1983) stated:

"Corporates have stakeholder, that is, groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by, corporation actions. Distinguish two sense of stakeholder. The *narrow definition* includes those groups who are vital to the survival and success of the corporation. The *wide definition* includes any group or individual who can affect or is affected by the corporation." (Freeman, 2001)

Furthermore, Freeman (2001) states that companies must be managed for the benefit of their stakeholders, which are defined as investors, customers, employees, and the community. As in his statement:

"Corporations shall be managed in the interests of its stakeholders, defined as employee, financiers, customers, employees, and communities."



Picture 2. A Stakeholder Model of The Corporation (Freeman, 2001)

Enyinna (2013) expands the definition of stakeholder theory by identifying stakeholder groups. Strategic reasons related to the smooth running of the company. Normative reason relates to interested parties with satisfying moral needs. These two form of stakeholder groups are very different, although they may co-exist within the same organization.

Friedman and Miles (2002) and Fontaine et al. (2006) used two criteria to define corporate stakeholder relationships, such as:

Compatible or incompatible in terms of the set of ideas and material interests.

Contingent in the form of a necessary relationship internal to the social structure or a series of logically connected ideas.

Signaling theory

SIGNALING THEORY

Signaling theory states that the company has better information about the company and is encouraged to convey information to external parties to increase stock prices (Ross, 1977). This theory explains that good financial statements are a good signal because the company has been operating well.

Corporate Governance

Lashgari (2004) stated that corporate governance is concerned with managing the relationship between the various stakeholders of the company. Ehrhardt and Brigham (2010, p. 531) stated:

"Corporate governance can be defined as the set of laws, rules, and procedures that influence a company's operations and the decisions made by its managers."

Brigham and Daves (2011, p. 374) discussed by:

> "Corporate governance, which is defined as the set of rules and procedures that ensure that managers do indeed employ the principles of value-based management. The essence of corporate governance is to make sure that the key shareholder objective—wealth maximization—is implemented".

Corporate governance is a series of mechanisms, including structures, systems and processes that direct and control the board of commissioners and directors in running the company to provide sustainable added value for the company in the long term in accordance with the expectations of stakeholders (Suprayitno et al., 2016).

Corporate Governance Principles

According to the Cadbury Report (1992) there are 3 (three) main principles of GCG, including openness, integrity and accountability. The basic principles of Good Corporate Governance (GCG) according to the Organization for Economic Corporation and Development (OECD) include fairness, accountability, transparency and responsibility.

The National Committee on Governance Policy (KNKG) added the principle of independence. These principles are used to measure the quality of GCG that has been implemented by the company (Lukviarman, 2016).

The agency relationship, which became the beginning of the emergence of the concept of corporate governance, is translated into a design with two meanings, namely "narrow meaning" and "broad meaning" in the GCG FEB UGM model. In a "narrow sense," GCG FEB UGM describes the relationship between the owners of capital (investors), the board of commissioners (BOD: Board of Director) and directors (CEO: Chief of Executive Officer).

Corporate governance is important to a company's performance and sustainability. Most of the research in this field shows that corporate governance mechanisms affect the dimensions of financial reporting and company performance.

The Purpose and Benefits of Implementing Good Corporate Governance

The benefits of implementing good corporate governance include: (Daniri, 2005), such as:

a. Reduce agency costs. The delegation of authority to management results in costs that must be borne by shareholders. These costs arise as a result of abuse of authority and supervision is needed to prevent them.
b. Reducing the cost of capital (cost of capital) as a result of reducing the level of company risk.
c. Improve the company's image which has an impact on increasing the value of the company's shares.
d. Support for stakeholders within the company
e. Maximizing shareholder wealth and prosperity with the strategies and policies adopted by the company.

Corporate Governance Mechanism

According to Denis and McConnell (2003) the mechanisms of corporate governance includes: (1) internal mechanisms by the Board of Commissioners (assisted by the Audit Committee) and (2) external mechanisms, such as supervision by the market and the applicable legal system (regulation). Control of agents was carried out by the board of commissioners, as an institutional regulatory system developed as a substitute for direct supervision by shareholders (Blair, 1995). Shareholders are entitled to the right to supervise the company because of their contribution to financial resources for the company (Engelen, 2002).

Corporate Governance Measurement

The researchers used a simple measurement of corporate governance and an index. The use of the index aims to obtain a complete picture of the implementation of corporate governance within the company. That the use of the most effective governance system depends on the context and on the particular circumstances of the company, so that the use of the index in measuring corporate governance depends on the existing conditions (Romano and Bolton, 2008).

Profitability: "The enhanced value of a firm attributable to assets, generally of an intangible nature, resulting from the company's organizational function, processes and information technology networks, the competency and efficiency of its employees and its relationship with its costumers. Intellectual capital assets are developed from (a) the creation of new knowledge and innovation; (b) application of present knowledge to present issues and concerns that enhance employees and customers; (c) packaging, processing and transmission of knowledge; and (d) the acquisition of present knowledge created through research and learning".

One of the definitions of intellectual capital that is widely used is that offered by the Organization for Economic Cooperationo and Development (OECD, 2009) which describes intellectual capital as the economic value of the category of intangible assets; (1) organizational (structural) capital; and (2) human capital.

A COMPANY VALUES

Firm value shows the value of assets owned by the company such as securities. Stock is one of the valuable assets issued by the company (Martono and Agus, 2003). The value of a company that goes public, in addition to showing the value of all assets, is also reflected in the market value or share price, so that the higher the stock price reflects the high value of the company (Afzal and Abdul, 2012).

Several previous studies have been used as references in this study, where some of these results have similarities and differences, including the object of research, variables used in the analysis, measurement, number of sampling, data analysis and research results.

This research study is the effect of corporate governance, profitability and firm size on firm value with intellectual capital as a mediating variable in companies listed on the Indonesia Stock Exchange. Some of the variables used in this study were also used by previous researchers, but in this study, intellectual capital was added as a mediating variable.

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