THE IMPORTANT ROLE OF CORPORATE GOVERNANCE IN INCREASING COMPANY VALUE

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ABSTRACT

Company value is essential for the owner, shareholder, investor, employee, etc. High company value indicates good company performance and impacts shareholder prosperity. Investors use company value as a company measure, which is often linked to share prices. This study analyzes Good Corporate Governance's (GCG) important role in increasing company value. The research methodology involves a literature review with articles about factors affecting the company's value. The findings of this study reveal that the size of the board of directors as a representative of corporate governance has a significant positive effect on firm value. At the same time, the findings related to the size of the board of commissioners as a representative of corporate governance have varying results, including significant positive, no effect, and simultaneous effects on company value. This research implies that all company lines must implement suitable corporate governance mechanisms to increase company value.

Keywords: **Corporate Governance, Company Value, Board Size, Commissioner Size**

INTRODUCTION

According to the Indonesia Stock Exchange (IDX), corporate governance (CG) is a system designed to direct the professional management of companies based on the principles of transparency, accountability, responsibility, independence, fairness, and equality. The implementation of Corporate Governance can increase the value of companies, by improving their financial performance, reducing the risks that may be carried out by the board of commissioners with decisions that benefit themselves and generally good corporate governance can increase investor confidence and the company's performance.

Good corporate governance can affect company value. Good corporate governance can increase company value. Effective management will manage the company well and ensure that the company can generate profits consistently. Conversely, poor management can damage the company's image and reduce the company's value. Poor governance of insurance companies can also result in risks for participants. For example, the Jiwasraya and Asabri cases in Indonesia show that poor implementation of good corporate governance (GCG) can trigger problems. Finance Minister Sri Mulyani Indrawati also stated that violations of insurance company governance can make companies unable to pay claims and obligations to their customers. Therefore, it is important for insurance companies to improve their corporate governance in order to maintain business and design products that can adjust to the access of the insurance industry.

Company value is an indicator of shareholder prosperity and is an example of active customer investment (Onasis K and Robin R, 2016). Company value is important for companies because it is an indicator of shareholder prosperity. The aim of every company is to maximize the value of the company as an indicator of shareholder prosperity. Company Value is very important for insurance companies because it is an indicator of shareholder prosperity. Insurance companies that have high company value tend to be more trusted by shareholders, customers, and other related parties. In addition, high company value can also strengthen the company's position in the insurance industry. By knowing the company's value, the company can evaluate the performance and business strategies that have been carried out and take appropriate actions to increase the company's value (Onasis K and Robin R, 2016).

The board of commissioners is a system for overseeing management mechanisms, providing direction to company managers and having no business relationship or ability to act independently. The board of commissioners can be measured by the number of members of the board of commissioners. An increase in the number of members of the board of commissioners affects the increase in supervisory effectiveness and increases the success of the company's value. The board of directors is an organ of the company that is responsible for the implementation, management of the company's business.

The size of the board of directors and commissioners can affect firm value because the board of directors and commissioners have an important role in making strategic decisions for the company. The board of directors is responsible for setting the company's long-term goals, evaluating management performance, and ensuring that the company complies with applicable regulations and standards. The size of the board of directors and commissioners can also affect the effectiveness of decision making. A study shows that smaller board sizes tend to result in faster and more effective decisions. However, too small a board size can also reduce the diversification of views and experience, which can affect the quality of decisions (Khoirunnisa and Aminah, 2022).

In previous research conducted by (Thendean & Meita, 2018) showed that the size of the board of commissioners and the size of the board of directors had no significant effect on firm value. This is because the variable size of the board of commissioners has an opposite relationship with firm value, where the higher the size of the board of commissioners, the more the company decreases. Previous research selected insurance company data with the period 2011-2015. Meanwhile, according to research (Ahmad, Lullah, & Siregar, 2020) states that the size of the board of commissioners has a significant effect on firm value. This is because the value of the independent variable increases, there will be an increase in the dependent variable. Previous research selected data on manufacturing companies with the period 2016-2018.

In previous research conducted by (Carolina, Vernnita, & Christiawan, 2020) with the period 2015-2019 and (Sukandar & Rahardja, 2014) with the period 2010-2012, stated that the size of the board of directors strengthens the relationship between firm value and has a significant influence on company performance. Both previous studies chose manufacturing company data.

The implementation of Good Corporate Governance (GCG) is very important for companies to improve performance, stability, and management quality, as well as maintain social and environmental concentration. This requires companies to pay attention to and implement GCG in their efforts to achieve corporate goals and increase company value.

Based on that description, this study addresses issues related to the important role of corporate governance in increasing firm value with the aim of helping to provide in-depth insights into the importance of GCG implementation and how it can directly contribute to increasing company value. This research is expected to contribute to stakeholder understanding by presenting information to various stakeholders, including investors, regulators, and company management.

METHOD

The research method used in this article is to conduct a review articles to determine the important role of corporate governance in increasing firm value. The results can be used as a basis for developing a good corporate governance model framework, company value and relevant empirical research results.

RESULTS AND DISCUSSION

Agency Theory

Agency theory is fundamental to the understanding of corporate governance and is often used in the context of good corporate governance. Agency theory examines the relationship between shareholders (principals) and management or agents employed by shareholders to run the company. Agency theory recognizes that management generally has greater access to information than shareholders. This theory tries to explain how shareholders (principals) can motivate agents (management) to act in accordance with their interests. The relationship between the agent and the principal, is a contract where one or more people (principal) commands another person (agent) a service on behalf of the principal and authorizes the agent to make decisions that are best for the principal.

According to Fakhriyyah & Mawardi (2020), Agency conflict is caused by the separation of ownership and management. Agency theory is a derivative of game theory that designs contracts between principals and agents to resolve conflicts of interest or agency conflicts to reach a good agreement. So it can be said that agency conflicts can occur if there are differences in interests between the owner of the company and its managers, so that it can lead to information asymmetry because the company owner (principal) does not take an active role in managing the company.

Company Value

Company value is a monetary representation of the net value of the company, which includes fixed assets and the company before payments to owners. Company value can indicate the performance and success of the company, and is used by investors and stakeholders to make investment decisions.

Company value is the investor's perception of the manager's success rate in managing the company's resources entrusted to him, this is often associated with the stock price (Indrarini, 2019). Company value is a certain condition that the company achieved by the company to show public trust in the company through a process of activities that take place over the years since the Company was founded until now (Hery, 2017).

Good Corporate Governance

Good Corporate Governance (GCG) is a set of rules that govern the relationship between shareholders, directors, creditors, government, employees, and other internal and external actors in relation to their rights and obligations. GCG involves transparency, accountability, independence, equality, and fairness from interested parties so that their rights are maintained. The implementation of GCG in companies can improve company performance, which in turn can increase company value (Budiantoro H et al, 2022).

Good Corporate Governance (GCG) is a system or framework that regulates and controls a company or organization. GCG aims to ensure that the company is run with good management principles and high business ethics, so as to provide added value to all stakeholders.

Good Corporate Governance (GCG) can affect firm value through various mechanisms. Two of them are the proportion of the board of commissioners (Commissioner Size) and the proportion of the board of directors (Board Size). In this study, researchers used the size of the board of directors and the size of the board of commissioners as benchmarks for increasing company value.

Board Size

The board of directors is the supervisory body responsible for the management of the company. The functions of the board of directors include supervising the directors in achieving company goals and making strategic decisions.

The size of the board of directors refers to the number of members of the board of directors of a company, both from internal and external to the company. Research has shown that board size can affect company value. The Board The board of directors is responsible for improving company performance, allocating resources, and increasing shareholder wealth (Khaoula & Moez, 2019).

Commissioner Size

Syahrani (2021), The board of commissioners is an institution within the company that has full responsibility and authority over the management of the company, including selecting and supervising the board of directors. The functions of the board of commissioners include ensuring that the board of directors has the right qualifications and competencies, as well as monitoring strategic and operational decision-making by the board of directors.

Good Corporate Governance is the entire board of commissioners of the entire company, either internal or external commissioners or independent commissioners (Wibowo, 2016). Increasing the number of members of the board of commissioners affects the increase in supervisory effectiveness and increases the success of company value.

Relevant Empirical Reseach Result

Onasis and Robin research (2016), entitled “The Effect Of Company Governance On Company Value In Financial Sector Companies Listed On The Indonesian Exchange”. The results showed that there is a significant positive influence between board size, independent board, audit committee, audit committee meetings, leverage, and ROA on company value. From the results of this study it can be concluded that there is a positive influence between the size of the board of directors on company value.

Supardi D research (2019), entitled "Effect Of Independent Commissioners, Institutional Ownership, Managerial Ownership, Board Of Directors And Audit Committee On Company Value (Empirical Study of Manufacturing Companies Listed on the Indonesia Stock Exchange 2014-2017 Period)". The results show that independent commissioners, institutional ownership and the board of directors have an effect on company value, while managerial ownership and the audit committee have no effect on company value. from the results of this study it can be concluded that the size of the board of directors affects the value of the company.

Mary H et al, research (2021), entitled "The Effect of Board Size, Capital Structure and Dividend Policy on Company Value". The results of the study indicate that board size has a positive and significant effect on the value of the company. From the results of this study it can be concluded that there is a positive influence between the size of the board of directors on company value.

Nurahma and Budiharjo research (2022), entitled "The effect of funding decisions, company size, board size, and return on assets on firm value". This research shows that Size of the Board of Commissioners has significant influence on Firm's value. From the results of this study, it can be concluded that the size of the board of commissioners has a significant effect on company value.

Aidil research (2017), entitled "The Effect Of The Size Of The Board Of Commissioners, The Proportion Of Independent Commissioners, And The Frequency Of Commissioners' Meetings On Company Value (Empirical Study of Banking Sub-Sector Companies Listed on the Indonesia Stock Exchange for the Period 2012-2015)". The results of this study indicate that none of the factors of commissioner size, proportion of independent commissioners, frequency of board meetings have a significant effect on company value. From the results of this study, it can be concluded that the size of the board of commissioners has no significant effect on company value.

Wahyu research (2019), entitled "The Effect Of Good Corporate Governance, Size Of The Commissioners' Board, Size Of The Company On Company Value In Manufacturing Companies Listed On The Indonesia Effects Bureau (Empirical Study in 2014-2017)". The results of testing the first hypothesis shows that:

(1) The Good Corporate Governance (GCG) variable has an effect on company value. Because based on the results studied, Good Corporate Governance experiences an increase every year so that it makes the company's value better.

(2) The Board of Commissioners Size variable has no effect on company value. Because based on the results studied, because the variation in the number of members of the board of commissioners does not affect the value of the company.
(3) The Company Size variable affects the value of the company. Because based on the results studied, it shows that the size and size of the assets owned by the company affect the value of the Company.
(4) Good Corporate Governance, the size of the board of commissioners, company size simultaneously affects the value of the company this happens because based on the real data conditions of the company it appears that together GCG, the size of the board of commissioners, and company size are able to influence the movement of company value.

From the results of this study, it can be concluded that the size of the board of commissioners has no effect on firm value, but the size of the board of commissioners has a simultaneous influence on company value.

CONCLUSION

This study aims to examine the important role of corporate governance in increasing company value: a study on life insurance companies:

1. Board Size: according to Onasis and Robin (2016), Supardi D (2019), Mary H et al (2021) said that there was a positive and significant effect on the value of the company.
2. Commissioner Size: according to Nurahma & Budiharjo (2022) said that there was a significant effect on the value of the company. but according to Aidil (2017), there wasn't significant effect on company value. On the other hand, according to Wahyu (2019), there also wasn't significant effect on company value, but there was simultaneous influence on company value.

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