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Good Corporate Governance (Gcg) Mediates the Influence of Funding Decisions on the Value of Manufacturing Companies in Indonesia

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ABSTRACT: This research aims to analyze the influence of funding decisions on the value of manufacturing companies in Indonesia, as well as the mediating role played by Good Corporate Governance (GCG) in this relationship. Data were collected from 31 manufacturing companies in Indonesia from 2019 to 2021, using quantitative analysis as the research method. The findings of the study indicate that the implementation of good GCG has a significant direct influence on the company's values. Furthermore, funding decisions have a significant direct influence on GCG. With the mediation of GCG, funding decisions also have a significant influence on the company's value. These results emphasize the importance of implementing good GCG practices and making appropriate funding decisions to enhance the company's value. Thus,

KEYWORDS: Good Corporate Governance, Funding Decisions, Company Value, Decisions, Good Value

INTRODUCTION

Background

In the era of globalization which is growing rapidly, manufacturing companies in Indonesia face various challenges in optimizing the value of their companies. Company value is an important indicator that can reflect the company's financial health, competitiveness and long-term performance. So it is important for companies to consider the factors that affect their company value including funding decisions and Good Corporate Governance (GCG).

Good Corporate Governance (GCG) has become an increasingly important issue in the modern business environment. Good Corporate Governance (GCG) includes a set of principles and practices that govern the relationship between shareholders, the board of directors, company management, employees and other stakeholders. Good Good Corporate Governance (GCG) practices are expected to improve company performance and ensure transparency, accountability, and protection of the interests of all stakeholders. Good Corporate Governance (GCG) has an important role in ensuring the integrity and stability of the company. Good implementation of Good Corporate Governance (GCG) can improve company performance and create value for stakeholders(F. Ukhriyawati et al., 2017).

Funding decision is a decision-making process by the company regarding funding sources that will be used to finance the company's operational and investment activities. Funding decisions can involve choosing between external funding (such as a bank loan or issuing bonds) or internal funding (such as using retained earnings or selling assets).

Funding decisions have a significant positive direct effect on the growth of company assets(Ratnawati, 2007). This shows that good and appropriate funding decisions can contribute to the growth of company assets, while inappropriate funding decisions can limit investment opportunities and growth of company assets.

Another research conducted byMary and the Monk (2022)in manufacturing companies found that investment decisions have a negative and significant impact on firm value, while funding decisions have a positive and significant impact on firm value.

Good Corporate Governance (GCG) and funding decisions are important aspects of company management. Good Corporate Governance (GCG) involves practices that aim to create transparency, accountability and protect the interests of company stakeholders. Meanwhile, funding decisions involve selecting funding sources and structures that can affect financial performance and company value. In the context of manufacturing companies in Indonesia, this phenomenon is important to study because it relates to the growth and competitiveness of the manufacturing industry sector.

Research conducted byYuliana and Sartika (2020)regarding Good Corporate Governance carried out in State-Owned Enterprises listed on the Indonesia Stock Exchange found that Good Corporate Governance has a positive influence on company value.

Formulation of the problem

Based on the background description above, the formulation of the problem in this study is as follows:

1. How do funding decisions affect the value of manufacturing companies in Indonesia?
2. How does Good Corporate Governance (GCG) mediate the influence of funding decisions on the value of manufacturing companies in Indonesia?
3. What is the relationship between Good Corporate Governance (GCG), funding decisions, and the value of manufacturing companies in Indonesia?

Research purposes

Based on the background description above, the research objectives in this study are as follows:

1. Analyzing the influence of funding decisions on the value of manufacturing companies in Indonesia.
2. Examining the mediating role of Good Corporate Governance (GCG) in the relationship between funding decisions and the value of manufacturing companies in Indonesia.
3. Identify the relationship between Good Corporate Governance (GCG), funding decisions, and the value of manufacturing companies in Indonesia.

Theoritical review

1. Corporate Finance

According toBrealey, Myers, and Allen (2020)In corporate finance, companies must face various important financial decisions. First, they must decide how to finance their operations and investments, including choosing between internal financing (such as retained earnings) and external financing (such as issuing stock or bonds). Optimal capital structure needs to be considered to maximize firm value and minimize financial costs.

In explaining corporate finance, statedBrealey, Myers, and Allen (2020)that the main goal of corporate finance is to create value for shareholders. Making wise and efficient financial decisions can help companies achieve these goals.

2. Funding Decision

Funding decisions involve selecting the funding sources needed to finance the company's operations and investments.Graham and Harvey (2001)emphasizes the importance of this decision and demonstrates that companies must choose between internal funding, such as retained earnings, and external funding, such as issuing stock or bonds. In addition, funding decisions also include selecting the optimal capital structure that affects the cost of capital and company value(Myers, 1983).Rajan and Zingales (1995)highlighted that external factors, such as financial market conditions and regulations, also influence funding decisions.

Funding decisions also involve selecting the right financial instruments.Harris and Raviv (1991)explains that companies must choose appropriate financial instruments, such as short-term or long-term debt, preferred stock, and venture capital. This decision should take into account the costs, flexibility and risks associated with the selected financial instrument. In addition, funding decisions need to consider factors such as funding costs, availability of funding sources, dividend policies, and the implications for the company's ownership and control structure.(Frank & Goyal, 2021). All of these funding decisions will have an impact on the company's capital structure and its ability to meet financial needs and achieve shareholder goals(Ritter & Huang, 2009).

3. Good Corporate Governance (GCG)

Good Corporate Governance (GCG) is a framework that regulates the relationship between shareholders, the board of directors, company management and other stakeholders with the aim of increasing corporate value and protecting the interests of all parties. The principles of Good Corporate Governance include transparency, accountability, fairness and corporate responsibility. The implementation of Good Corporate Governance involves building an effective organizational structure, responsible decision making, operational control, and effective communication with stakeholders(Cadbury, 1992).

Research has shown that the implementation of good corporate governance can provide benefits for companies. Good Corporate Governance is related to better corporate performance in the long termGompers, Ishii, & Metrick (2001). Factors such as the independent and diverse composition of the board of directors have also been associated with better performance(Yermack, 1996). By implementing the principles of Good Corporate Governance, companies can create long-term value, build stakeholder trust, and achieve better overall performance.

4. The value of the company

According toPenman (2013)company value reflects its intrinsic value which is based on fundamental factors such as assets, income, cash flow, and other factors underlying the company. This fundamental assessment involves an in-depth analysis of financial statements, financial projections, and other factors that can affect the company's performance. Fundamental valuation helps in determining the intrinsic value of a company, which is an estimate of the actual value of the company.

Another research conducted byFama (1991)This shows that the value of the company is also reflected in the price of its shares in the market. Market value theory states that stock prices reflect investors' perceptions and sentiments, as well as economic and market factors that influence the supply and demand for stocks. According to this theory, company value is not only based on fundamental factors, but also psychological and market factors that affect stock prices. Therefore, the value of the company can vary with changes in market perceptions and sentiments.

5. Prior Research

Good corporate governance can mediate the influence of funding decisions on the value of manufacturing companies. Several studies have examined the relationship between corporate governance and funding decisions in manufacturing companies:

a. A study of listed manufacturing companies in Sri Lanka found that board size had a significant impact on funding decisions, while other corporate governance variables had no significant impact.(Balagobei & Velnampy, 2018).

b. Another study of manufacturing companies listed on the Indonesia Stock Exchange found that good corporate governance practices can improve the oversight function of board members, which in turn can lead to more effective decision-making and higher levels of investment.(Aqmar & Musnadi, 2021).

c. A study of Chinese listed companies in the manufacturing industry found that the percentage of institutional ownership has a positive relationship with capital structure, while the degree of decentralization of institutional ownership has a negative relationship with capital structure.(Qiang, 2007).

Table 1. Notational variables and research indicators

Variable		Notation	Indicator
Independent Variable	Investment Decision (X1)	X1.1	Profitability (PAL)
		X1.2	Payback Period (PAT)
		X1.3	Payback Arrangement of Long Life assets (PALL)
		X1.4	Payback Time Adjustment (PTA)
	Funding Decision (X2)	X2.1	Public Utility and Joint Public Enterprise Network (PUJPEN)
		X2.2	Public Utility and Joint Public Enterprise Analysis (PUJPAN)
		X2.3	Public Utilities (PU)
		X2.4	Public Enterprise (PE)
Intervening Variables	Good Corporate Governance (Z)	Z1	board of Commissioners
		Z2	Board of Directors
		Z3	Audit Committee
		Z4	Managerial ownership
		Z5	Institutional Ownership
Dependent Variable	Firm Value (Y1)	Y1.1	Earnings Per Share (EPS)
		Y1.2	Price-Earnings Ratio (PER)
		Y1.3	Book Value (BV)
		Y1.4	Price-to-Book Value Ratio (PBV)

CONCEPTUAL FRAMEWORK

The relationship between research variables can be described in the conceptual framework as follows:

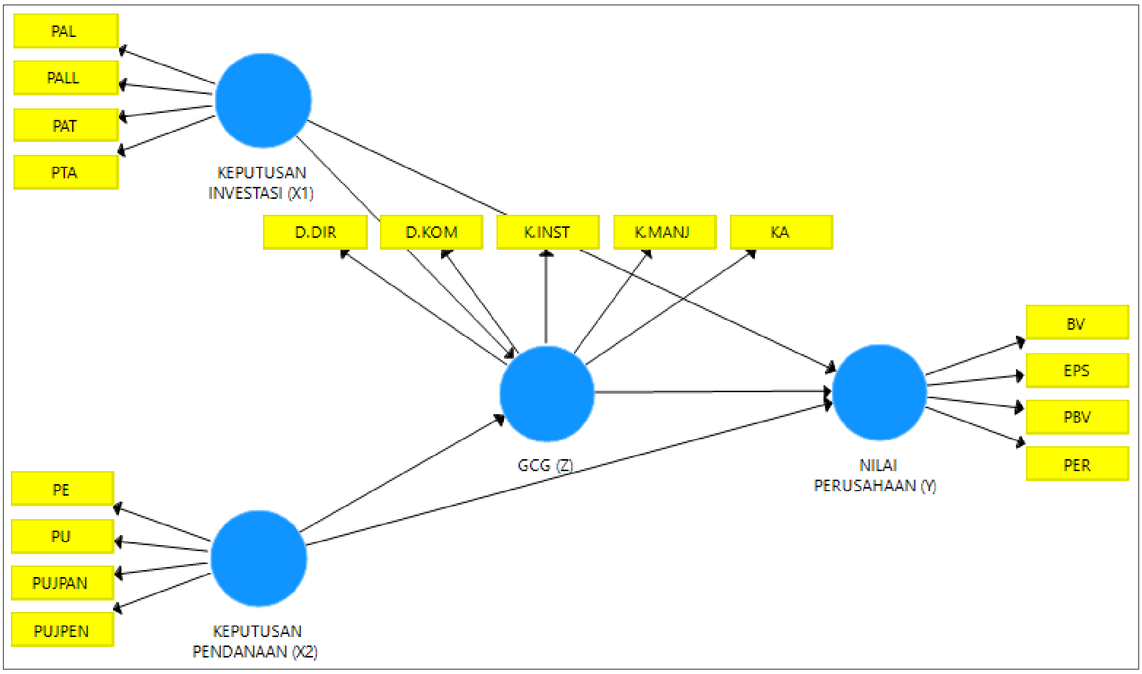

Figure I: Conceptual Framework and Hypotheses

RESEARCH METHODS

This study uses a quantitative approach to test the hypothesis that Good Corporate Governance (GCG) mediates the influence of funding decisions on the value of manufacturing companies in Indonesia. The population in this study are 31 manufacturing companies in Indonesia from 2019-2021. Data analysis was performed using Structural Equation Modeling (SEM) analysis. Software for the calculation used is SmartPLS 4, by examining the direct effect of funding decisions on firm value and the mediating effect of Good Corporate Governance in this relationship.

RESULTS AND DISCUSSION

This study analyzes the measurement scale used, ensuring that the indicators load sufficiently on the appropriate constructs. Measurement scales that do not meet the specified criteria, such as a loading value of 0.5, are excluded from the analysis.
The results of testing the inner model can be shown in the following figure:

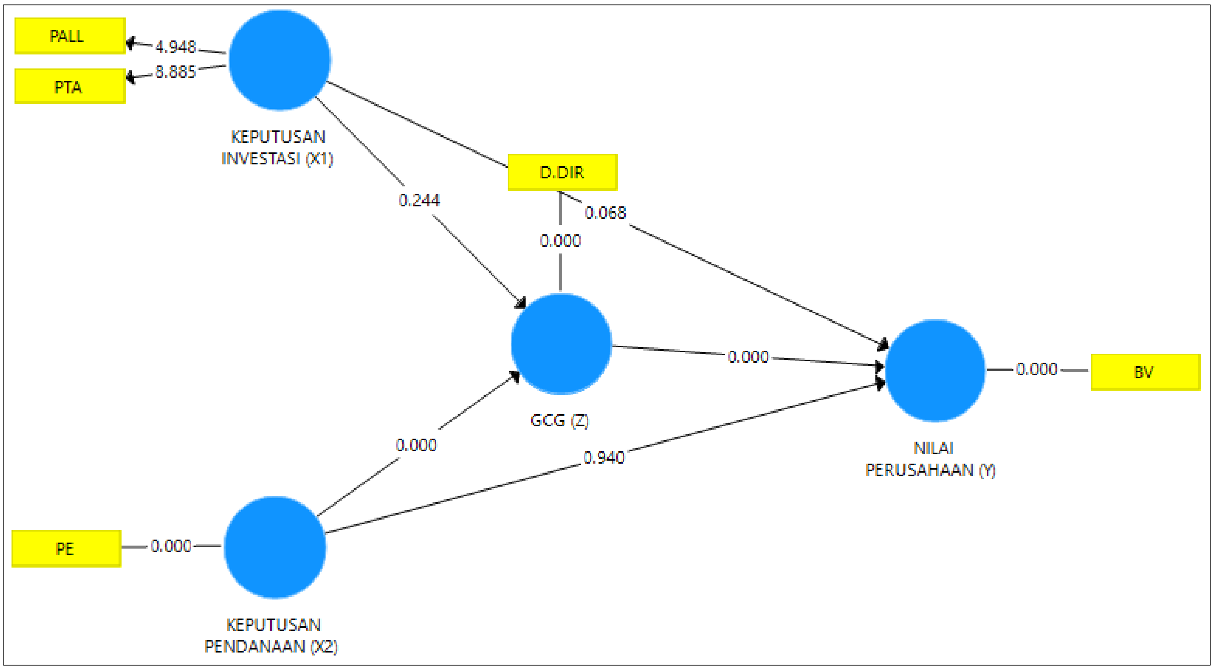

Figure II: Structural Model Test Results (inner model)

To determine the relationship between variables, a statistical test is needed with a significance level of 95% ($\alpha = 0.05$) and a t table value of 1.96 which is used to accept the alternative hypothesis. The detailed results of hypothesis testing can be found in the following table, where the relationship between the variables has been studied statistically.

Table 2. Hypothesis Testing Results

Ha	Relations between Variables	Original Sample (O)	Sample Average	Deviation Standard	T Statistics	Significant
H1	GCG (Z) -> Company Value	0.415	0.420	0.080	5,201	Significant
H2	Investment Decision (X1) -> GCG (Z)	0.115	0.147	0.099	1.167	Not significant
H3	Investment Decision (X1) -> Firm Value (Y)	0.262	0.224	0.143	1,826	Not significant
H4	Funding Decision (X2) -> GCG (Z).	-0.204	-0.204	0.055	3,704	Significant
H5	Funding Decision (X2) -> Firm Value (Y)	-0.010	0.009	0.134	0.076	Not significant
H6	Funding Decision (X2) -> GCG (Z) -> Firm Value (Y)	-0.085	-0.085	0.025	3,323	Significant
H7	Investment Decision (X1) -> GCG (Z) -> Firm Value (Y)	0.048	0.062	0.044	1.075	Not significant

Source: Data is processed

DISCUSSION

The results of the hypotheses and the relationship between variables in manufacturing companies tested from 2019-2021 are as follows:

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1. The direct relationship between Good Corporate Governance (GCG) and Corporate Values shows that there is a significant direct relationship between GCG and Company Values, with Good Corporate Governance (GCG) being an indicator of the Board of Directors, while company values are using an indicator of Book Value. This means that the implementation of good GCG practices contributes positively to increasing the value of manufacturing companies. The high statistical t value (5.201) indicates a strong influence between these two variables. By implementing good GCG, companies can improve their performance and long-term sustainability.
2. The influence of Investment Decisions on Good Corporate Governance shows that there is no significant relationship between Investment Decisions and Good Corporate Governance. These results indicate that in the sample studied, investment decisions do not have a significant influence on the implementation of Good Corporate Governance in manufacturing companies.
3. The influence of investment decisions on firm value indicates that there is no significant relationship between investment decisions and firm value. This shows that in the context of this study, investment decisions do not significantly affect firm value.
4. Direct Effect of Funding Decisions on Good Corporate Governance: This finding shows that Funding Decisions have a significant direct influence on GCG. This shows that the right funding decisions can help strengthen the implementation of good GCG practices in manufacturing companies. This significant effect is shown by the high statistical t value (3.704). By making good funding decisions, companies can strengthen sound and effective corporate governance.
5. The influence of Funding Decisions on Firm Value indicates that there is no significant relationship between Funding Decisions and Company Value. This shows that funding decisions do not significantly affect firm value in the context of this study.
6. The direct effect of Funding Decisions on Corporate Value with mediation assistance from Good Corporate Governance indicates that Funding Decisions have a direct but not significant effect on Company Value. However, with GCG mediation, the influence of Funding Decisions on Firm Value becomes significant. This shows that GCG plays an important role in linking Funding Decisions with Corporate Values. In this context, GCG acts as a mediator that helps translate good funding decisions into increasing corporate value. This effect is indicated by a high statistical t value (3.323). By implementing good GCG, companies can optimize the positive effect of funding decisions on company value.
7. The influence of Good Corporate Governance on Corporate Value through the mediation of Investment Decisions shows that there is no significant relationship between Investment Decisions and Good Corporate Governance, which in turn affects Company Value. This indicates that in the context of this study, Good Corporate Governance does not mediate the influence between investment decisions and firm value.

Good GCG implementation has a significant direct effect on Company Value. Funding Decisions also have a direct influence on GCG, and with the help of GCG mediation, Funding Decisions can have a significant effect on Company Value. The role of GCG in linking funding decisions with achieving optimal corporate value. By implementing good GCG practices and making the right funding decisions, manufacturing companies can increase their company value and strengthen their long-term performance.

CONCLUSION

The conclusions from the results of the study are as follows:

1. Good Corporate Governance has a positive and significant effect on Company Value. This shows that good implementation of Good Corporate Governance (GCG) has a significant influence on increasing the value of manufacturing companies. By implementing good GCG practices, companies can improve their performance and long-term sustainability.
2. Investment decisions do not have a significant influence on the implementation of GCG in manufacturing companies. This shows that in the sample studied, investment decisions do not contribute significantly to GCG practices.
3. Investment decisions do not have a significant effect on the value of manufacturing companies. That is, investment decisions do not directly affect the achievement of firm value.
4. Funding decisions have a significant influence on GCG implementation in manufacturing companies. By making good funding decisions, companies can strengthen sound and effective corporate governance.
5. Funding decisions do not have a significant effect on the value of manufacturing companies. This shows that funding decisions do not directly affect the achievement of firm value.
6. With the mediation of GCG, the influence of Funding Decisions on company value becomes significant. GCG acts as a mediator that helps translate sound funding decisions into increased corporate value. Good GCG implementation can optimize the positive effect of funding decisions on company value.
7. Good Corporate Governance does not mediate the influence between investment decisions and company value. This indicates that GCG does not play a mediator role between investment decisions and company value.

Optimization to achieve high corporate value, manufacturing companies must prioritize the implementation of effective Good Corporate Governance (GCG) practices. In addition, funding decisions also need to be managed carefully so that they can make a positive contribution to achieving better corporate value. The implication is that the role of GCG is very important in linking funding decisions with firm value, while investment decisions do not have a significant impact in the context of this research.

SUGGESTION

Following are some suggestions for this research:

1. Expand the range of research time in order to gain a more comprehensive understanding of the relationship between the variables studied.
2. Do a comparative study involving companies from other countries to gain a broader perspective.
3. Vertical statistical analysis can be used to deepen understanding of the relationship between variables in more detail.
4. Conduct longitudinal research to observe changes and long-term impacts of Good Corporate Governance (GCG) implementation and funding decisions.

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