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The Effect of *Good Corporate Governance* on Firm Value

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ABSTRACT

This study aims to prove the effect of Good Corporate Governance (GCG) procedures which include the Board of Commissioners, Independent Commissioners, Audit Committee, Managerial Ownership and Institutional Ownership on Company Value. This research is a quantitative research because it aims to generalize the research results. The type of data used is secondary data with a research sample of non-financial state-owned companies that regularly publish financial reports on the Indonesian Stock Exchange during the period 2016 to 2018. Data analysis uses multiple linear regression using the SPSS program. The results of the analysis on the t test show that the variables of the Board of Commissioners and Institutional Ownership have an effect on firm value. While the three independent variables, the size of the Independent Commissioner, the Audit Committee and Managerial Ownership have no effect on firm value.

ABSTRAK

Penelitian ini bertujuan untuk membuktikan pengaruh prosedur Good Corporate Governance (GCG) yang meliputi Dewan Komisaris, Komisaris Independen, Komite Audit, Kepemilikan Manajerial dan Kepemilikan Institusional terhadap Nilai Perusahaan. Penelitian ini merupakan penelitian kuantitatif karena bertujuan untuk menggeneralisasi hasil penelitian. Jenis data yang digunakan adalah data sekunder dengan sampel penelitian perusahaan BUMN non-keuangan yang secara rutin mempublikasikan laporan keuangan pada Bursa Efek Indonesia selama periode tahun 2016 hingga tahun 2018. Analisa data memakai regresi linear berganda dengan memakai program SPSS. Hasil analisis pada uji t memperlihatkan jika variabel Dewan Komisaris dan Kepemilikan Institusional berpengaruh terhadap nilai perusahaan. Sedangkan ketiga variabel bebas Ukuran Komisaris Independen, Komite Audit dan Kepemilikan Manajerial tidak berpengaruh terhadap nilai perusahaan.

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INTRODUCTION

Since there is separation between owner and management, every company will experience problems, namely agency problems. There are many research stated that Good Corporate Governance (GCG) disclosure can overcome these problems. In the concept of Good Corporate Governance (GCG), there are several policies, regulations, and agencies that are able to influence the direction, operation, and supervision of a company.

The previous research under similar topic resulted in different results, such as Mutmainah (2015); Thesarani (2017); Nurfaza, Gustyana, & Iradianty (2017); Syafitri, Nuzula, & Nurlaily (2018) explained that GCG brings positive influence on Firm Value. Meanwhile, the research by Yefni, Zarefar, & Arumega (2017) showed the opposite result, in which the ability of Good Corporate Governance (GCG) brings negative influence on Firm Value. Based on this explanation, the author was motivated to conduct research on a similar topic with the premise that Good Corporate Governance (GCG) has greater effect on Firm Value.

LITERARY STUDY

Agency Theory

Agency theory is a theoretical depiction of a contractual relationship between the manager (*agent*) and the company owner (*principal*). The contractual relationship consists of one or more people (*principal*) who have agreed to hand over certain responsibilities and authorities to the manager (*agent*) to determine the best resolution toward company's problems (Jensen & Meckling, 1976). The manager is assumed to hold more information about the prospects of the company than the company owner, so that any differences in information between the two can lead to certain agency related conflicts. One of the ways to minimize agency conflicts is by disclosing GCG in the hope that it can increase the firm value. With this disclosure, the performance carried out by the agent is able to be monitored, it can also increase the confidence of *the principal* regarding the assets that have been mandated to the company has been processed and carried out properly by *the agent* and to his/her responsibilities and functions in order to increase firm value (Hamdani, 2016).

Good Corporate Governance (GCG)

Good Corporate governance (GCG) is described as a company control system so that company's activities that have been managed by managers are in line with stakeholders' expectations. Along with this system, it is hoped that it can accelerate the company's performance, protect the interests of stakeholders based on existing laws and ethical values (Kusmayadi et al., 2015). Sutedi (2011) stated that Good Corporate Governance (GCG) is a structure that can be used by company's employees (Directors, Commissioners, or Supervisory Boards, and Shareholders), by this system it is expected to have an impact on the accountability and success of the company in manifesting the value and wealth of stakeholders based on the existing laws and ethical values.

Size of the Board of Commissioners and Independent Commissioners

The Law of the Republic of Indonesia number 40 of 2007 defines the board of commissioners as a part of the company that is obliged to carry out both general and specific controls aligned with the basic allocation of association and provide the best advice to the board of directors in accordance with goals and interests of the company. Rimardhani, Hidayat, & Dwiatmanto (2016) explained that the board of commissioners is not allowed to interact with the company's managers, and members of the independent commissioners of a company are allowed as many as 30% of the total members of the company's commissioners. It is hoped that the establishment of an independent board of commissioners can protect the interests of shareholders.

Managerial ownership

According to Mutmainah (2015), managerial ownership can be used to refer to shareholders who are in the board of commissioners or as creditors. Managerial ownership is the percentage number of shares owned by managers and directors of the company at the end of each observation period (Mutmainah, 2015). Manager is in charge of the company's growth and size, so that shareholders are able to maximize their wealth through the current cash flow value that comes from the company's investment activities.

Institutional Ownership

The definition of institutional ownership according to Mutmainah (2015) is the number of shares that an institution owned (government, foreign companies and financial institutions) in a company. As stated by Subagyo, Masruroh, and Bastian (2018) that institutional ownership has experience as well as mechanism that can be used to diminish problems between managers, internal parties and shareholders.

Audit Committee

The Indonesian Audit Committee Association portrays an audit committee as a body or committee whose form and dismissal can only be arranged at the General Meeting of Shareholders (GMS). The audit committee assists in checking, examining, and implementing important tasks of a company. In the audit committee, at least one member is drawn from the independent commissioner and there are at least two people from outside of the company.

Firm Value

Firm value can be used to observe the condition of a company, because through firm value, it can be concluded whether the firm value increasing or decreasing. Potential investors will consider to purchase if the company is in good condition (Mutmainah, 2015). Surjadi & Tobing (2016) explained the results of the company's equity and book value of the company, both in the form of equity market value, book value of total debt and book value of total equity can be known through firm value. One of value measurement is the Tobin's Q ratio. This ratio gives an overview and information of various events of the company's activities, such as whether there are cross-sectional diversity in making investment decisions or information about the relationship between management share ownership and firm value. The calculation of Tobin's Q ratio is follow:

$$\text{Tobin's Q} = \frac{MVE+DEBT}{TA}\frac{MVE+DEBT}{TA}$$

Notes:

MVE = The closing share price at the end of the financial year.

DEBT = (Current debt – Current assets) + inventory book value + long term debt.

TA = Book value of Total Assets.

Hypothesis Development

Effect of the Board of Commissioners on Firm Value

If the company experiences an increase in firm value, it heavily means that the company's performance also increases. The achievement of firm value is inseparable from the role of company management, but it will have a negative impact if the company management works without proper control and advice from the board of commissioners. Hence, the board of commissioners must evaluate and provide suggestions for the progress of the company. As the representative of internal shareholders, the board of commissioners can oversee management performance which can be used as an evaluation so that it can be continuously improved. Based on the findings in the study of Yefni et al. (2017), the size of the board of commissioners has positive and significant effect on firm value, therefore the better the work of the board of commissioners of a company, the more the firm value will increase.

H_1: Board of Commissioners Size Affects Firm Value

The Effect of Independent Commissioners on Firm Value

Independent commissioner is a member of the commissioner who comes from an external party and is not affiliated with the company management. The independent commissioner has duty and work to supervise and provide advice regarding the company managerial conditions to its management so that it positively affects the firm value. To discover the firm value, we can calculate it by combining certain aspects, such as total assets, debt, and current assets which can be the reflection of the company's performance, so that it will have an impact on the company's image in the eyes of capital owners. The study of Yefni et al. (2017) explained that the size of the independent commissioner shows positive and significant effect on firm value, hence the better the work of an independent commissioner in a company, the more the firm value will increase.

H_2: The Size of the Independent Commissioner Affects Firm Value

The Effect of the Audit Committee on Firm Value

The board of commissioners needs an audit committee to help oversee the management of the company (Rimardhani et al. 2016). The audit committee acts as a bridge that connects the commissioners and shareholders with management to perform control over the company. Thus, the audit committee has a role in ensuring that the activities and implementation of company documentation are carried out properly to increase firm value. There are similarities in the research of Surjadi & Tobing (2016), showing that there is a significant effect of the audit committee on firm value, hence the better the work of an audit committee in a company, the more the firm value will increase.

H_3: Audit Committee Size Has Positive Effect on Firm Value

The Effect of Managerial Ownership on Firm Value

Managerial ownership can be used as one of the steps in balancing the opportunistic behavior of managers or office holders in the company. The combination of the number of managerial ownership encourages policy actors in the company to focus on achieving overall company performance. Companies that have been registered on the IDX can have good firm value in the market because of the impact of management activities which have implemented the managerial ownership mechanism. The study of Yefni et al. (2017) showed that managerial ownership has significant positive effect on firm value, meaning that an increase in the managerial ownership works can encourage corporate value to increase.

H_4: Managerial Ownership has a Positive Effect on Firm Value

The Effect of Institutional Ownership on Firm Value

Third parties who hold shares and are not related to the company is the definition of institutional ownership. Through institutional ownership, broader support is intended in such a way managerial decisions are done optimally, in order to increase the firm value in the stock market. The studies held by Yefni et al. (2017) and Nuraina (2012) said that institutional ownership has a positive effect on firm value. Thus, if there is a gain in the function of institutional ownership, the firm value will rise as well.

H_5: The Effect of Institutional Ownership on Firm Value

RESEARCH METHOD

Type of research

The type of research chosen in this study is a case study. Case study is a way for researchers to gather various information related to a particular set of businesses or organizations (Sekaran & Bougie, 2016). Based on the hypothesis that has been described above, this research can be categorized as a causal research, which is one of the studies that learns the changes in a variable toward other variables (Sekaran & Bougie, 2016).

Population and Sample

Population refers to all groups or people, events or objects, that will be studied (Sekaran & Bougie, 2016). The population used is all non-financial State-Owned Enterprises listed on the IDX. This type of company is selected according to the contents of the Minister of State-Owned Enterprises Decree No. Kep. 117 / M-MBU / 2002 which reinforces the obligation of State-Owned Enterprises companies to use GCG. State-Owned Enterprises companies are owned by the government and listed on the Indonesia Stock Exchange (IDX), so that they are expected to be able to provide examples of good governance practices to all other companies in Indonesia. The author employed the saturated sampling method to determine the research samples because all members of the population are considered as samples in the study. This sample selection is chosen when the population is relatively small (Sugiyono, 2011).

Data Collection Technique and Analysis

Research data can be obtained by implementing documentation and observation techniques. Observation includes the activities of observing, recording, and analyzing an object or symptom (Sekaran & Bougie, 2016: 127). The author made observations of data that were related to the needs of this study. The documentation technique was done by using notes in the company's financial statement documents in the IDX website or the company's website. Meanwhile, the data analysis used multiple regression techniques using the SPSS program.

RESULTS AND DISCUSSION

Results

Normality test

The normality test aims to test whether in the regression model, both dependent variable and the independent variable have normal data distribution. The results of the normality test based on table 1 show that the Asymp. Sig. (2-tailed) of 0.817 which exceeds 0.05. In other words, the residual data is normally distributed.

Table 1. The Result of Normality Test

		Unstandardized Residual
N		45
Normal Parameters a.b	Mean	.0000000
	Std. Deviation	.048060014
Most Extreme	Absolute	.094
Differences	Positive	.094
	Negative	-.079
Kolmogorov-Smirnov Z		.633
Asymp. Sig. (2-tailed)		.817

Source: SPSS Output

Coefficient of Determination

The coefficient of determination represents the information about the suitability of the regression model (Sekaran & Bougie, 2016), which is the percentage of the role of the independent variable in predicting the variation in the extent of the dependent variable. Table 2 shows the coefficient of determination (Adjusted R^2) is 0.527. The results illustrate that changes in the independent variable have an influence on the magnitude of the dependent variable, namely firm value (Y) 52.7% and the remaining 47.3% are influenced by other variables not present in this study, such as government policy variables, inflation, interest rates, etc.

Table 2. Coefficient of Determination Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.762[a]	.581	527	2.1754

Source: SPSS Output

Simultaneous Effect Test

Based on the magnitude of the determination coefficient that is described above, then this effect is tested whether the value of the independent variable in this study can indicate a major influence on the dependent variable using the F test. According to the results of the simultaneous effect test of this study are shown in Table 3. The results of F-test shows the number 10,795 with support for a significance level of 0.000. Therefore, the H_0 in the study is accepted and H_1 is rejected, meaning that the independent variables in this study which include the size of the board of commissioners (X_1), independent commissioners (X_2), audit committee (X_3), managerial ownership (X_4), and institutional ownership (X_5). There is a significant influence on the dependent variable, namely Firm Value (Y).

Table 3. Simultaneous Effect Test Result

Model		F	Sig
1	Regression Residual	10.795	.000[a]
	Total		

Source: SPSS Output

Partial Effect Test

The partial effect test is used to see the significance value of the regression coefficient in each of the independent variables of this study. In accordance with Table 4, it can be seen that the variable size of the board of commissioners (X_1) and institutional ownership (X_5) show a significant impact on firm value since the two variables show a significance value below 0.05, while the variables that show no effect on firm value are the variables. independent commissioner (X_2), audit committee (X_3) and managerial ownership (X_4), because the level of significance of the three variables is> 0.05.

Table 4. Partial Effect Test Result

Independent Variables	T_{test}	Significances (p)	Conclusion
Board of Commissioners Size	-6.405	0.000	Significant
Independent Commissioners	1.474	0.148	Not Significant
Audit Committee	-1.360	0.182	Not Significant

Managerial Ownership	-0.783	0.438	Not Significant
Institutional Ownership	2.475	0.018	Significant

Source: SPSS Output

Discussion

Effect of Size of the Board of Commissioners on Firm Value

Based on the results of data analysis, it shows that there is an influence of the board of commissioner size on firm value. So that an increase in the size of the board of commissioners will have a significant effect on decreasing firm value. The results of this analysis are consistent with the study of Yefni et al. (2017) which said that the size of the board of commissioners has an influence on firm value.

Yefni et al. (2017) stated that commissioners can limit managers who behave only for personal purposes, where the behavior is not in accordance with the objectives of the company owner. In State-Owned Enterprises, the board of commissioners is directly appointed by the government in power so that the board of commissioners has certain political motivations and this can affect managers in managing the company. This can certainly have an impact if the large number of commissioners has personal interests so that it can affect the firm value in the eyes of investors. If the company has a smaller number of commissioners, it can focus its management in accordance with the company's objectives so that it can increase the firm value in the eyes of investors.

Effect of Size of the Independent Board of Commissioners on Firm Value

Based on the results of data analysis, it shows that there is no effect of the size of the independent commissioner on firm value, which means that an increase in the size of the independent commissioner does not significantly affect the increase in firm value. The results of the analysis have the same results with the researches of Mutmainah (2015) and Rimardhani et al. (2016).

According to Rimardhani et al. (2016), establishing independent commissioners is an effort to protect the interests of shareholders. In a company, the minimum total number of independent commissioners is 30% of the total number of commissioners. Independent commissioners are people who are not affiliated with the company management and have an obligation to supervise and direct management policies so that the company can run well. In the eyes of investors, the composition of independent commissioners who are appointed by an active government will be seen as a political reciprocation from the government to certain people (Nursasi, 2018). This can indicate that the composition or size of the independent commissioners has no effect on firm value.

The Effect of Audit Committee Size on Firm Value

Based on data analysis, it shows that there is no effect of audit committee size on firm value, meaning that an increase in the size of the audit committee does not have an effect on increasing firm value. The increasing size of the audit committee does not have much effect on changes in firm value. So that this finding has similarities with the research of Rimardhani et al. (2016).

According to Rimardhani et al. (2016), the audit committee is expected to support the board of commissioners in carrying out company supervision. The audit committee has the responsibility of supervising the company documentation process or corporate financial reporting. As a bridge between shareholders, commissioners, and management, the audit committee functions in an effort to solve company control problems. The chairman of the audit committee will come from at least one independent commissioner and two people from other external parties. The finding of his research shows that the audit committee does not affect firm value, because the linkage of the object of this research is only to state-owned companies. The position of the audit committee in the eyes of investors is an official who comes from an independent commissioner entrusted by the ruling regime, so that the functions of financial and management supervision carried out by the audit committee do not have an effect on firm value. This can be proven based on examples of cases that have been experienced by PT Wijaya Karya, where one member of the company's audit committee did not come from an independent commissioner but came from the commissioner board. If it is adjusted to the rules for membership requirements, the audit committee is not someone who currently has a job or has the authority and responsibility when programming, leading, controlling or supervising the company's activities during the last 6 months, except as an independent commissioner.

The Effect of Managerial Ownership on Firm Value

Based on the results of data analysis, it is evident that managerial ownership does not bring any influence on firm value, meaning that an increase or decrease in the number of managerial ownership do not have an impact on the decrease or increase in firm value. The finding showed similarities with Mutmainah's research (2015), concluding that managerial ownership do not affect firm value

According to Mutmainah (2015), every shareholder who is positioned or authorized in company management, such as creditors or as the board of commissioners of a company, can be considered as managerial ownership. Managerial ownership is an attempt to balance potential differences between shareholders and management interests (Jensen, 2001). Thus, managerial compensation in the form of shares can be trusted to be one of the main ways that can reduce opportunistic behavior, especially in State-Owned Enterprises companies. So that management officers who also act as shareholders will act as best as possible in improving the performance of the company. The results of this analysis show that managerial ownership has no effect on firm value because the portion of managerial ownership based on the data above shows that the value is not more than 1%. Based on annual financial reports for the 2016-2018 period, it shows that all state-owned companies that have gone public and listed on the IDX only provide less than one thousandth percent of the total shares in order to be owned by company directors. This condition causes the company's performance which is hoped to be motivated in obtaining personal profits and dividends among the directors to be relatively very small, so this is the reason the firm value cannot decrease significantly in the eyes of investors.

The Effect of Institutional Ownership on Firm Value

Based on the results of data analysis, if institutional ownership has an influence on firm value, meaning that an increase or decrease in the amount of institutional ownership will have a significant impact on increasing or decreasing firm value. Based on this finding, it showed similar results as researches done by Yefni et al. (2015) and Rimardhani et al. (2016).

Institutional ownership is the amount of share ownership that the company externally owns (government, foreign companies, and financial institutions) in a company (Mutmainah, 2015). The level of institutional ownership that has increased can also lead to the improving supervision attempt to reduce opportunistic behavior. Institutional shareholders have a big role when compared to personal investors, especially majority institutional shareholders or those who have share ownership of more than 5% (Mutmainah, 2015). The high level of supervision by institutional owners is believed to provide assurance that company performance can be properly monitored in accordance with the interests of investors. Thus, institutional ownership in state-owned companies that go public shows a positive influence on firm value.

CONCLUSION

In accordance with the findings of the data analysis above, it is concluded that increasing the size of the board of commissioners will have an effect on reducing the firm value of State-Owned Enterprises that go public on the IDX. Increasing the size of independent commissioners will not have an effect on the decline in the firm value of State-Owned Enterprises that go public on the IDX. The increase in the size of the audit committee has no impact on increasing the firm value of State-Owned Enterprises companies that go public on the IDX. The increase in the size of managerial ownership shows no influence on the firm value of State-Owned Enterprises going public on the IDX. The increase in institutional ownership has a significant impact on increasing the firm value of state-owned enterprises to go public on the IDX by 52.7%. Therefore, the five independent variables of this study, namely the Board of Commissioners, the Size of Independent Commissioners, Audit Committee, Managerial Ownership, and Institutional Ownership, are able to explain their effect on firm value. The remaining 47.3% get the influence from other variables, such as government policy variables, inflation, interest rates, where these variables are not included in the study.

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