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Analysis of the Influence of Good Corporate Governance on Company Value in All Manufacturing Companies Listed On Idx 2018-2020

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Abstract

This study aims to test the effect of Good Corporate Governance to Price to Book Value of All Registered Manufacturing Companies in Indonesia Stock Exchange from 2018-2020. Type of data used in this study is secondary data. The population of this study is all manufacture companies listed in Indonesia Stock Exchange from 2018-2020. To retrieve the sample, the writer employed purposive sampling method and applied criteria listed in Indonesia Stock Exchange, reported annually subsequently from 2018-2020 in Indonesia Stock Exchange and there was Managerial ownership, Institutional ownership, Independent commissioner, Audit committee, and frequency of board commissioners meeting in the company. The result of this study shows that Managerial ownership, Institutional ownership, Independent commissioner, Audit committee and frequency of board commissioners meeting positively and significantly influenced Price to Book Value in Manufacture company in Indonesia from 2018-2020.

Keywords
managerial ownership; institutional ownership; independent commissioners; audit committee; board commissioners meeting; price to book value

I. Introduction

Financial reports are needed in making decisions both large and small and also to assess the performance of a company. Firm value is a component that is the center of attention in financial reporting for decision making, especially for investors. Increasing the value of the company can be achieved if the company is able to operate by achieving profit targets supported by management who carry out good corporate governance so that the interests of the company can be achieved. Good Corporate Governance is briefly defined as a set of systems that regulate and control the company to create added value for stakeholders.

Financial statements are basically a source of information for investors as one of the basic considerations in making capital market investment decisions and also as a means of management responsibility for the resources entrusted to them (Prayoga and Afrizal 2021) . Financial performance is a measuring instrument to know the process of implementing the company's financial resources. It sees how much management of the company succeeds, and provides benefits to the community. Sharia banking is contained in the Law of the Republic of Indonesia No.21 of 2008 article 5, in which the Financial Services Authority is assigned to supervise and supervise banks. (Ichsan, R. et al. 2021)

In its implementation, the OECD (Organization of Economics and Development) compiles the principles governing Good Corporate Governance including: Transparency, Accountability, Responsibility, Indenpendency, and Fairness. Transparency is openness in presenting material and relevant information, Accountability is the clarity of functions, structures and systems in the company, Responsibility is a responsibility that must be fulfilled

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regularly in accordance with applicable laws, Independence is the management of the company in a professional manner and Fairness is fairness and equity in fulfill the rights of stakeholders. The Corporate Governance mechanism shows the relationship between various users of interest, both internal and external to the company, which is useful in determining the strategic direction and monitoring the company's performance. The Corporate Governance mechanism used in this research is Managerial Ownership, Institutional Ownership, Independent Commissioner, Audit Committee, and Board of Commissioners Meeting.

Economic actors, basically have very important functions. Because it has two functions at once, namely as a supplier of all the needs of the community, both primary, secondary and tertiary. At the same time, they also function as absorbers of community labor, which can economically increase purchasing power. (Ansari, T. 2019)

Firm value is very important because high corporate value will be followed by high shareholder prosperity (Hardiningsih, et al 2018). Increasing the value of the company can be achieved if the company is able to operate by achieving the targeted profit. Through the profits obtained, the company will be able to provide dividends to shareholders, increase the growth of the company and maintain the sustainability of the company's operations. Firm value is influenced by the performance of good corporate governance (Werdi, 2015).

Managerial share ownership is ownership of company shares owned by management, both directors and commissioners, with certain requirements to own the shares. The higher managerial ownership in the company is expected to increase the value of the company, where management will try as much as possible for the interests of shareholders (Kusumawati & Rosady, 2018), whileInstitutional ownership is a condition where the institution owns shares in a company. Institutions can be government institutions, private institutions, domestic, and foreign. Control from institutional parties that have good resources can increase profitability, increase company performance, and increase the company's ability to pay debts (Sugiyanto, 2018).

Independent commissioners are commissioners who come from outside the issuer/public. The main task of the independent commissioner is to carry out supervision of management policies in general, both regarding issuers and issuers' businesses and provide advice to the board of directors (Wiguna & Yusuf, 2019), while the audit committee is a committee formed to assist the board of commissioners in order to improve the quality of financial reports. The existence of an audit committee is expected to prevent agency behavior within the company, thus the financial reports published to investors are of high quality and trusted by them so as to increase the value of the company (Widianingsih, 2018).

Board of commissioners meeting is a meeting held to supervise and evaluate the running of the company. The more the board of commissioners conducts meetings, it indicates that the more they care about the company, they can increase supervision within the company and make decisions (Wiguna & Yusuf, 2019).

The purpose of this study is to determine whether managerial ownership, institutional ownership, independent commissioners, audit committees, and board of commissioners meetings have a positive effect on firm value in all manufacturing companies listed on the Indonesia Stock Exchange in 2018-2020.

II. Review of Literature

2.1 Signal Theory

Signal theory suggests that a company should give signals to users of financial statements. Signal theory can help agents, principals, and parties outside the company to reduce information asymmetry by producing quality or integrity of financial statement information. To ensure that interested parties believe in the reliability of the financial information submitted by the agent, it is necessary to obtain an opinion from an independent party on the financial statements. (Hardiningsih, et al 2018). Information published as an announcement will provide a signal for investors in making investment decisions. If the announcement contains a positive value, it is expected that the market will react when the announcement is received by the market.

Managerial share ownership is ownership of company shares owned by management, both directors and commissioners, with certain requirements to own the shares. The higher managerial ownership in the company is expected to increase the value of the company, where management will try as much as possible for the interests of shareholders (Kusumawati & Rosady, 2018).. Research conducted by Ni Putu Ayu, et al (2018), found the conclusion that managerial ownership has a positive effect on firm value because when management's share ownership in a company increases, it will minimize leeway between agents and principals which can increase firm value.

Based on the explanation above, the hypothesis proposed in this study is as follows:

H1: Managerial ownership has a positive effect on firm value

Institutional ownership is a condition where the institution owns shares in a company. These institutions can be government, private or foreign institutions. The company's corporate actions give meaning to outsiders, the information is generally known as a negative signal, which is followed by a market reaction. If the signal is positive, the market reacts and increases stock prices and is further influenced by the company's performance, increased profitability and liquidity which reflects the company's ability to pay debts (Sugiyanto, 2018). Citra Ayuning Sari, et al (2016), in their research on institutional ownership on firm value found that institutional ownership had a positive effect on firm value.

Based on the explanation above, the hypothesis proposed in this study is as follows:

H2: Institutional ownership has a positive effect on firm value

The independent commissioner plays a very important role in the company, especially in the implementation of mechanisms *good corporate governance*. According to the Forum for Corporate Governance in Indonesia, an independent board of commissioners is tasked with ensuring the implementation of corporate strategy, supervising management in managing the company, and requiring accountability. The goal is to create good corporate governance so that it has a good impact on the perspective of investors who reflect good company performance, so as to increase company value (Silviana, 2020). In a study conducted by Nina Thaharah & Nur Fadjrih Asyik (2016), it was shown that the independent commissioner variable partially has a positive effect on firm value, because with the independent commissioner, the implementation of corporate governance activities, management and supervision is directly supervised by the independent commissioner so as to create good corporate governance.

Based on the explanation above, the hypothesis proposed in this study is as follows:

H3: Independent commissioners have a positive effect on firm value

The audit committee is a committee formed to assist the board of commissioners in improving the quality of financial reports. The existence of an audit committee is expected to prevent agency behavior within the company, thus the financial statements published to investors are of high quality and trusted by them so as to increase the value of the company. In maintaining its independence from management. (Widyaningsih, 2018).

In a study conducted by Citra Ayuning and Widyawati (2016), it was found that the audit committee had a significant positive effect on firm value, because with the audit committee, information in the form of financial statements received by investors, both positive and negative signals, was valid and reliable so that can increase the value of the company.

Based on the explanation above, the hypothesis proposed in this study is as follows:

H4: The audit committee has a positive effect on firm value

Board of commissioners meeting is a meeting held to supervise and evaluate the running of the company. The more the board of commissioners conducts meetings, it indicates that the more they care about the company, they can increase supervision within the company and make decisions (Wiguna & Yusuf, 2019). Research conducted by Wiguna & Yusuf (2019), found that board of commissioners meetings have a positive effect on company value because the frequency of meetings reflects a lot of concern for the company so that it can increase company value. The high frequency of meetings indicates the level of supervision of the company and the quality of decision making within the company.

Based on the explanation above, the hypothesis proposed in this study is as follows:

H5: Board of commissioners meeting has a positive effect on firm value

III. Research Method

3.1 Firm Value (Price to Book Value)

The value of the company is a certain condition that has been achieved by a company and the value of the company is a description of the public's trust in the company (Sunardi, 2017). The main goal of the company is to maximize the wealth or value of the company so that the prosperity of shareholders can be achieved. Company value or Price to Book Value can be measured by the formula: (Sunardi, 2019).

$$PBV = \frac{\text{Market Price per Share}}{\text{Book Value per Share}}$$

3.2 Good Corporate Governance

The Forum for Corporate Governance Indonesia (FCGI), citing the Cadbury Committee's definition defines Corporate Governance as a set of regulations governing the relationship between shareholders, company management, creditors, government, employees and other internal and external stakeholders related to their rights and obligations (Yuono & Widyawati, 2016). Corporate (Kepemilikan Saham Manajerial to the variables of this study include:

a. Managerial ownership

Management share ownership is share Managerial Share Ownership ement, both directors, commissioners and employees with c... es to reduce agency problems between managers and shareholders. Managerial ownership in a company can be measured by the formula: (Nurfaza, Gustyana, & Iradianty, 2017).

$$\text{Managerial ownership} = \frac{\textit{Kepemilikan saham manajerial}}{\text{Total Shares outstanding}}$$

b. Institutional ownership

Institutional ownership is a condition where the institution owns shares in a company. These institutions can be in the form of government institutions, private institutions, domestic and foreign institutions that have greater resources than other shareholders so that they are considered capable of implementing a good supervisory mechanism. Institutional ownership can be measured by the formula: (Nurfaza, Gustyana, & Iradianty, 2017).

$$\text{Managerial ownership} = \frac{\text{Institutional shareholding}}{\text{Number of outstanding shares}}$$

c. Independent commissioner

The independent board of commissioners plays an important role in the company, especially in implementing the Good Corporate Governance mechanism. The independent commissioner is tasked with ensuring the implementation of the company's strategy, supervising management in managing the company and requiring accountability. Independent commissioners can be measured by the formula: (Thaharah & Asyik, 2016).

$$\text{Independent commissioner} = \frac{\text{Number of independent}}{\text{Number of commissioners}}$$

d. Audit Committee

The audit committee is a group of people elected from the company's board of commissioners who are responsible for assisting the auditor in maintaining his independence from management. The audit committee can be measured by the formula: (Widyaningsih, 2018).

$$\text{Audit committee} = \frac{\text{Number of external audit committee}}{\text{All members of the audit committee}}$$

e. Board of Commissioners meeting

According to the regulation of the Financial Services Authority (OJK) Number 33/POJK.04/2014 concerning the board of directors and commissioners of issuers or public companies, the meeting held by the board of commissioners is at least 1 (one) time in 2 (two) months, the meeting can run if attended majority of the total members of the board of commissioners. Board of commissioners meeting is measured by the formula: (Marsha & Ghozali, 2017).

$$RDK = \textit{Number of board of commissioners meetings in 1 year}$$

IV. Result and Discussion

4.1. Description Analysis

Table 1. Table of Descriptive Statistics

	N	Minimum	Maximum	mean	Std Deviation	Skewness		Kurtosis	
KM	161	.00	.35	.0265	.04358	4.126	.191	24.066	.380
KI	161	.39	.98	.7424	.12845	-.483	.191	-.410	.380
KIN	161	.20	.60	.3933	.07860	.666	.191	-.709	.380
KA	161	.33	.67	.3468	.06448	4.711	.191	20,727	.380
DRC	161	2	17	7.02	2,642	1,139	.191	.815	.380
PBV	161	-.02	6.46	1,274	1.07431	1,602	.191	3.265	.380
Valid N (listwise)	161								

4.2. Analysis Result

Table 2. Table of analysis results

Normality Test (Skewness Kurtosis) Before data transformation	N	Skewness		Kurtosis	
	Statistics	Statistics	Std.Error	Statistics	Std.Error
Unstandardized Residual	183	.6402	.180	75,927	.357
Normality test After data transformation	N	Skewness		Kurtosis	
	Statistics	Statistics	Std.Error	Statistics	Std.error
Unstandardized Residual	161	.077	.191	-.184	.380

Autocorrelation Test (Durbin Watson)	R	R. Square	Adjusted R Square	Durbin Watson
	.419a	.175	.149	1,890

F Uji test	F	Sig
Regression	.6583	.000b

Model	Heteroscedasticity test (Glejser)			Multicollinearity test (VIF)			t test	
	B	t	Sig	B	Colinearity Statistics		t	Sig
					Tolerance	VIF		
(Constant)	-.835	-1.221	.224	-.930			-1.087	.279
KM	7.141	1,693	.092	3.966	.915	1.092	2.110	.036
KI	.528	1.013	.313	1,278	.874	1.145	1,938	.049
KA	3.029	.029	.977	4.011	.924	1.082	3,867	.000
DRC	1.209	.548	.584	3.660	.930	1.075	-2,905	.004
	2.134	1,940	.059	.120	.812	1,231	3.646	.000

a. Dependent Variable: PBV

4.3. Normality test

Based on table2, the skewness value is 0.3988 and the kurtosis value is -0.4817. The value of skewness and kurtosis is between -1.96 to 1.96, so it can be decided that the residual data is normally distributed.

4.4. Classic assumption test

a. Heteroscedasticity test

Based on table 4.2, the significance number of each managerial ownership variable (KM) is 0.092, institutional ownership (KI) is 0.313, independent commissioner (Kin) is 0.977, audit committee (KA) is 0.584, and board of commissioners meeting (RDK) is 0.059, all of which are greater than the 0.05 significance limit and it can be stated that there is no heteroscedasticity error in the research regression model.

b. Autocorrelation test

Based on table 4.2, it is known that the value of dL = 1.62, the value of dU = 1.72. dU<DW□ 1.72 < 1.890. DW< 4 -dU 1.890 < 2.28. Because dU<DW and DW<4-dU, it can be concluded that the regression model is free from autocorrelation problems.\

4.5. Multicollinearity test

Based on table 4.2, the tolerance value for each variable is greater than 0.10 and the VIF value for each variable is less than 10.00, so it can be concluded that there is no multicollinearity problem in the research regression model.

4.6. Multiple regression analysis

Based on table 4.2, the results of the multiple regression equation are obtained as follows:

$$PBV = -0.930 + 3.966KM + 1.278KI + 4.011Kin + 3.660KA + 0.120RDK$$

4.7. Model test

a. Test the coefficient of determination

Based on table 4.2, it is known that the Adjusted R Square value is 0.149 which explains that managerial ownership, institutional ownership, independent commissioners, audit committees and board of commissioners meetings can explain the firm value of 14.9% and the remaining 85.1% is explained by other factors outside study.

b. F Uji test

Based on the table4.2 it is known that the significance value is 0.000 <0.05. This shows that the independent variables of the study simultaneously affect the dependent variable. Thus, the research model is declared feasible.

4.8. Effect of managerial ownership on firm value

Based on table 4.2, it is known that the Beta value of managerial ownership is 3.966 and a significance value of 0.036 <0.05. This shows that managerial ownership has a positive and significant effect on firm value, so the first hypothesis (H1), which states that managerial ownership has a positive effect on firm value, is accepted. Managerial share ownership is ownership of company shares owned by management, both directors and commissioners, with certain requirements to own the shares. The higher managerial ownership in the company is expected to increase the value of the company, where management will try as much as possible for the interests of shareholders (Kusumawati & Rosady, 2018). This research is in line with that conducted by Ni Putu Ayu A, et al (2018)

4.9. The effect of institutional ownership on firm value

Based on table 4.2, it is known that the Beta value of institutional ownership is 1.278 and the significance value is 0.049<005. This shows that institutional ownership has a positive and significant effect on firm value, so the second hypothesis (H2), which states that institutional ownership has a positive effect on firm value, is accepted. Institutional ownership is a condition where the institution owns shares in a company. Institutions can be government institutions, private institutions, domestic, and foreign. Control from institutional parties that have good resources can increase profitability, increase company performance, and increase the company's ability to pay debts (Sugiyanto, 2018). The results of this study are in line with the findings of Yuono et al (2016) which states that institutional ownership has a positive effect on firm value. Institutional ownership can increase supervision of companies and support companies in implementing good corporate governance practices as expected by investors, so that the performance and value of the company will be better.

4.10. The effect of independent commissioners on firm value

Based on table 4.2, it is known that the independent commissioner's Beta value is 4.011 and the significance value is 0.000 <0.05. This shows that the independent commissioner has a positive and significant effect on firm value, so the third hypothesis (H3), which states that the independent commissioner has a positive effect on firm value, is accepted. Independent commissioners are commissioners who come from outside the issuer/public. The main task of the independent commissioner is to carry out supervision over management policies in general, both regarding issuers and issuers' businesses and provide advice to the board of directors (Wiguna & Yusuf, 2019). The results of this study are in line with the findings of Thaharak and Asyik (2016) which state that the independent commissioner variable partially has a positive effect on firm value.

4.11. Effect of audit committee on firm value

Based on table 4.2, it is known that the Beta value of the audit committee is 3.660 and the significance value is 0.004 <0.05. This shows that the audit committee has a positive and significant effect on firm value, so the fourth hypothesis (H4), which states that the audit committee has a positive effect on firm value, is accepted. The audit committee is a committee formed to assist the board of commissioners in improving the quality of financial reports. The existence of an audit committee is expected to prevent agency behavior within the company, thus the financial reports published to investors are of high quality and trusted by them so as to increase the value of the company (Wiguna & Yusuf, 2019). The results of this study are in line with the findings of Citra Ayuning and Widyawati (2016) which states that the audit committee has a positive and significant effect on firm value because the existence of an audit committee can assist commissioners in creating quality financial reports that can be trusted by investors so as to increase firm value.

4.12. The effect of board of commissioners meeting on firm value

Based on table 4.2, it is known that the Beta value of the board of commissioners meeting is 0.120 and the significance value is 0.000 <0.05. This shows that the board of commissioners meeting has a positive and significant effect on firm value, so that the fifth hypothesis (H5) which states that the board of commissioners meeting has a positive effect on firm value is accepted. Board of commissioners meeting is a meeting held to supervise and evaluate the running of the company. The more the board of commissioners hold meetings, it indicates that the more they care about the company, the more oversight in the company and decision-making. This research is in line with the findings of Wiguna and Yusuf (2019) which states that the board of commissioners meeting has a positive effect on the value of the company because the frequency of meetings reflects a lot of concern for the company so that it can increase the value of the company. The high frequency of meetings indicates the level of supervision within the company and the quality of decision making within the company.

V. Conclusion

Based on the results of the analysis, hypothesis testing and coefficient testing, the conclusions obtained in this study are as follows:

1. Managerial ownership has a positive and significant effect on firm value
2. Institutional ownership has a positive and significant effect on firm value
3. Independent commissioners have a positive and significant effect on firm value
4. The audit committee has a positive and significant effect on firm value
5. Board of commissioners meeting has a positive and significant effect on firm value.

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