THE INFLUENCE OF GOOD CORPORATE GOVERNANCE ON FIRM VALUE: EMPIRICAL STUDY OF COMPANIES LISTED IN IDX30 INDEX WITHIN 2013-2017 PERIOD

PENGARUH GOOD CORPORATE GOVERNANCE PADA NILAI PERUSAHAAN: STUDI EMPIRIS PADA PERUSAHAAN YANG TERDAFTAR PADA INDEKS IDX30 PERIODE 2013-2017

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Abstract: In Indonesia, the implementation of Good Corporate Governance is still very poor compared to other ASEAN countries. However, if the implementation is done properly and correctly, it can increase the investor confidence and maximize firm value. This study aims to determine the effect of the GCG mechanism, especially Managerial Ownership, Institutional Ownership, Independent Board of Commissioners, and Audit Committee in increasing the firm value. Moreover, this study also aims to find out whether behind companies with high liquidity, GCG plays a role in influencing the firm value. The population of this study are companies listed on the IDX30 index within 2013-2017 period. The sample consists of 8 companies selected by purposive sampling technique. Data were analyzed descriptively and statistically using linear regression. Findings indicate that the GCG mechanism is significantly influenced firm value. While Institutional ownership is significantly influenced firm value. On the contrary, Managerial Ownership, Independent Board of Commissioners and Audit Committee has no influence on firm value significantly. It is recommended for companies to implement the GCG mechanism very well and consistent with the applicable rules, but not only for formality but as the actual application for the long-term development of the company.

Keywords: *good corporate governance, managerial ownership, institutional ownership, independent board of commisioner, audit committee, firm value*

***Abstrak**: Di Indonesia, penerapan Good Corporate Governance masih sangat kurang dibandingkan dengan negara-negara ASEAN lainnya. Namun, jika penerapannya dilakukan dengan benar dan tepat, dapat meningkatkan kepercayaan investor sehingga dapat memaksimalkan nilai perusahaan. Penelitian ini bertujuan untuk mengetahui pengaruh mekanisme GCG, khususnya Kepemilikan Manajerial, Kepemilikan Institusional, Komisaris Independen, dan Komite Audit dalam meningkatkan nilai perusahaan. Selain itu, penelitian ini juga bertujuan untuk mengetahui apakah di balik perusahaan dengan likuiditas tinggi, GCG berperan dalam mempengaruhi nilai perusahaan. Populasi dari penelitian ini adalah perusahaan yang terdaftar pada indeks IDX30 pada periode 2013-2017. Sampel terdiri dari 8 perusahaan yang dipilih dengan teknik purposive sampling. Data dianalisis secara deskriptif dan secara statistik menggunakan regresi linier. Temuan menunjukkan bahwa mekanisme GCG secara signifikan dan simultan mempengaruhi nilai perusahaan. Sedangkan kepemilikan institusional secara signifikan mempengaruhi nilai perusahaan. Sebaliknya, Kepemilikan Manajerial, Dewan Komisaris Independen dan Komite Audit tidak memiliki pengaruh terhadap nilai perusahaan secara signifikan. Disarankan bagi perusahaan untuk menerapkan mekanisme GCG dengan sebaik-baiknya dan konsisten dengan aturan yang berlaku, tetapi tidak hanya untuk formalitas namun sebagai aplikasi yang sebenarnya untuk pengembangan jangka panjang perusahaan.*

***Kata Kunci:** good corporate governance, kepemilikan manajerial, kepemilikan institusional, dewan komisaris independen, komite audit, nilai perusahaan*

INTRODUCTION

Research Background

Over the past few decades, Indonesia's economic has fell during periods of financial and economic crisis in Asia in 1997-1998. After the crisis, people began to lose hoards and their stores were depleted because people were amassing and robbing things. The company went bankrupt, the property market and banks swayed on the edge of the fall and the price of basic food rocketed. The crisis in Indonesia is caused by a lack of confidence by foreign investors who suddenly begin to withdraw their money out of Indonesia as they do elsewhere in Asia (Hays, 2015).

Meanwhile, the economic crisis that happens not only due to macroeconomic aspects but also due to poor corporate governance, such as the lack of legitimate and accounting standards, financial audits have not been settled, less structured capital markets, risks faced, and indifference to the rights of minority shares (Iskander and Chamlou, 2000) This proves that Good Corporate Governance plays an important role in the development process of a company and in the interests of shareholders, as it affects the economies of developing countries.

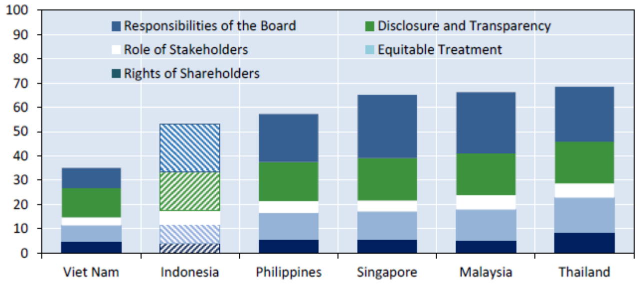

Figure 1. Corporate Governance Scores, 2013
Source: Asian Development Bank (2014)

Based on the data above, Indonesia has lower corporate governance score than some other ASEAN countries. Indonesia is the second lowest after Vietnam. In order to compete in the Global Market, Indonesia have to maintain good corporate governance to maximize its firm value. In 2013, Indonesia, especially the Financial Services Authority (OJK), along with other parties was planned to improve the corporate governance by create the GCG roadmap (Asian Development Bank Corporation, 2017).

The credible and effective Good Corporate Governance framework will benefit in boost domestic investor confidence, decrease costs capital, ease the access to the equity markets, and finally encourage a more stable financing sources (Organization for Economic Cooperation and Development Corporation, 2015). Good Corporate Governance mainly focus on the associations between corporate managers, directors, and shareholders, to reduce the potential agency problem of harmonizing interests of management and shareholders (Rezaee and Riley, 2009).

The mechanism of GCG is become one way to reduce control and ownership problems as it is also related to the increase of firm performance that will result in the increase of firm value. Companies that score high in corporate governance measurements tend to outperform other companies with lower scores (Adams, Hermalin and Weisbach, 2010). The increase in enterprise value is usually marked by the rise of stock prices in the market, as the stock market price of the company reflects the overall investor's valuation for each equity owned by the company. This research use IDX30 as the object of the research due to its high liquidity companies. Compared to the LQ45 stock index, IDX30 shares are considered more stable. This is because the 30 stocks contained in the index is a representation of leading stocks in each sector. Through the description above, this research aims to analyze whether the GCG mechanism have an impact behind the high liquidity companies on its value.

Research Objective

The objectives of this research are to analyze the influence GCG mechanism, which are managerial ownership, institutional ownership, independent board of commissioner, and audit committee on firm value.

THEORETICAL FRAMEWORK

Agency Theory

Jensen and Meckling (1976) stated that agency theory is the relationship between one or more person called principal (shareholder), and another person called agent (management). An agent have the authority to make decisions based on the principal's interests. As the matter of the fact, agent and principal have their own interest. Differences of interest between the agent and the principal bring up inter-interests issues. One of the methods used to monitor the agency relationship is through the corporate governance mechanism as it may reduce the agency problem.

Good Corporate Governance

Fung (2014) stated that corporate governance is about the practice of authority over corporate entities. The main driving force of governance within an enterprise is the board. It also determines whether corporate governance is good. The main purpose of GCG is to contribute to enhanced firm performance. As a guide to the development of good corporate governance, there are some of the most influential principles of corporate governance, which are fairness, accountability, transparency, responsibility and independence. Moreover there are corporate governance mechanism that are used on this study. The mechanism of GCG is a set of mechanisms that affect the decision to be taken by the manager when there is a segregation between ownership and control (Mukhtaruddin, Relasari, & Messa, 2014). The mechanism are as follows:

1. Managerial Ownership
   Managerial ownership is the amount of shares from the total outstanding shares owned by the management which are the directors, the managers, and the board of commissioners (Fermana, 2017).
2. Institutional Ownership
   In good corporate governance mechanisms, institutional ownership plays an important role, which is to minimize agency conflicts between management and shareholders (Jensen and Meckling, 1976).
3. Independent Board of Commissioner
   Independent Commissioners are those who are not members of management, majority shareholders, and officials or otherwise interconnect or indirectly with the majority shareholder of a company that oversees the management of the company.
4. Audit Committee
   Audit Committee is a group of persons selected by a higher-level group (Board of Commissioners) to assist the group to carry out their duties and functions (Tugiman in Kumalasari and Widyawati, 2017).

Firm Value

Firm value is the market value of an enterprise as a whole business that reflects the size of the economy. It is a collection of all holders of securities which are common and preferred equity holders, minority shareholders, debt holders, etc. In this study, the authors indicate firm value with Tobin's Q. According to Smithers and Wright (2007) the value of the company is proxied with the value of Tobin's Q given the symbol Q, calculated by using the ratio of Tobin's Q with the following formula:

$$Tobin's\ Q = \frac{MVE + Debt}{BVE + Debt}$$

Where:

Tobin's Q	: Firm Value
MVE	: Market Value Equity
D	: Book value of Total Debt
BVE	: Book Value Equity

Previous Research

Fredrick (2015) is studied about the relationship between corporate governance and firm value of companies listed in Nairobi Stock Exchange. The author using sample of 30 companies out of population of 63 companies from the period 2010 to 2011. The authors aims to compare the effect of corporate governance attributes on firm value. It reveal that institutionalization of good corporate governance attributes: board size, board composition, audit committee have strong and significant marginal effects on return on assets while the institutionalization of good corporate governance attributes have positive but insignificant effects on market to book value ratio.

A research by Mukhtaruddin, Relasari, and Felmania (2014) studied about Good Corporate Governance Mechanism, Corporate Social Responsibility Disclosure on Firm Value (Empirical Study on Listed Company in Indonesia Stock Exchange) focuses on the influence of corporate governance mechanism (commissaries board, independent commissaries board, institutional owners, managerial owners, and audit committee) and CSR Disclosure towards firm value. The sample consists of 33 companies selected by purposive sampling technique. It founds that Managerial Ownership and Audit Committee have positive and significant impact on firm value, while the Board Size, CSR Disclosure and Institutional Ownership have positive but no significant effect on Firm Value. The other variable, which is Independent Board of Commissioners has negative and no significant impact on firm value.

Ararat, Black, and Yurtoglu (2016) studied about the association between corporate governance and firm market value and profitability in Turkey, and which specific aspects of governance drive that association. It has built the Turkey Corporate Governance Index from 2006 to 2012, covering almost all publicly traded Turkish Firm. The result shows that TCGI predicts higher Tobin's q with both firm fixed effects (FE) and firm random effect (RE) specifications. The principal subindex driving these results is disclosure. The link between TCGI and profitability is weaker: TCGI predicts higher profitability with firm RE; coefficients are similar but not statistically significant with firm FE.

Conceptual Framework

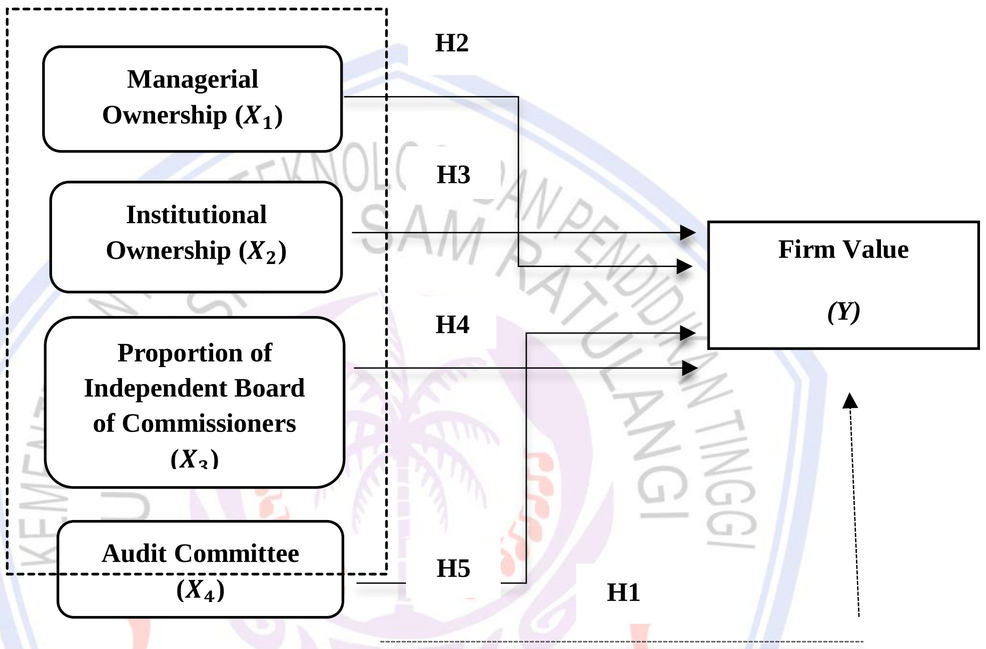

Figure 2. Conceptual Framework
Source: Theoretical Framework (2018)

RESEARCH METHOD

Research Approach

This study used Causal type of research. Causal study is the description of cause and effect of one variables to another (Sekaran & Bougie, 2013). The type of data used in this study is quantitative data. Quantitative data is data obtained in numerical form and can be calculated and measured, that are obtained from research objects.

Population, Sample and Sampling Technique

In this research, the population is companies listed in IDX30 stock group in Indonesian Stock Exchange. A good sample contains most of the information from the population parameters. In this research, it use non-probability sampling, especially purposive sampling, as according to the purpose of this study. The sample criteria's are:

1. Non-bank companies that are incorporated in IDX30 Index on Indonesia Stock Exchange for 5 consecutive years within 2013-2017 period.
2. Companies that publish their annual report in the period of 2013-2017 and have a year-end closing on December 31.
3. Companies that have complete data on managerial ownership structure, institutional ownership, independent board of commissioner and audit committee.

Data Collection Method

This research used secondary data types as the data source. According to Johnston (2014), secondary data analysis is the analysis of data collected by others for other main purposes. Data sources needed in this study are secondary data in the form of company financial report.

Data Analysis Method

Descriptive Statistic

Descriptive Statistic is the way to describe the large amount of data by making it simple. According to Watt and Berg (2002), descriptive statistics are divided into two, which are the measure of central tendency and the measure of variability, or spread. Measures of central tendency include the mean, maximum, and minimum that are used in this research.

Multiple Linear Regression

Multiple linear regression illustrates how one variable Y depends on one or more X variables. Uyanik and Guler (2013) stated that Multiple Linear Regression Analysis is the statistic tool for estimating the relationship between independent and dependent variables and the relation result. Through this model, the linear equation of relationship between dependent and independent variables is formed. The equation of multiple linear regression on this study can be seen as follows:

$$\mathbf{FV = \alpha + \beta 1MO + \beta 2IO + \beta 3IBC + \beta 4AC + e}$$

Where:

FV = Firm Value
α = Intercept
β1, β2, β3, β4 = The regression coefficient of each variable
MO = Managerial Ownership
IO = Institutional Ownerhsip
IBC = Independent Board of Commissioners
AC = Audit Committee
e = Error

RESULT AND DISCUSSION

Descriptive Statistic

Table 1. Descriptive Statistic of Research Variables

	N	Minimum	Maximum	Mean
MO	40	.0000	.1515	.017121
IO	40	.4391	.7555	.573932
IBC	40	.3000	.5000	.386052
TOBINSQ	40	.6377	4.0439	1.802344
Valid N (listwise)	40			

Source: Data Processed, 2018

The descriptive statistic table explain about the data characteristic on this research. Managerial Ownership (MO) has minimum value of 0.000000165, maximum value of 0.151508448 and mean value of 0.017121057. While Institutional Ownership has mean value of 0.573931619, minimum value of 0.43911218 and a maximum value of 0.755469344. The average value of Independent Board of Commissioner is 0.386052489 with a minimum value of 0.3 and a maximum value of 0.5. Tobin's Q has a mean value of 1.802343588, with a minimum value of 0.637679685 and a maximum value of 4.04385482.

Table 2. Descriptive Statistic of Audit Committee

Code	Description	Amount	Percentage
0	No financial or accounting background	13	32,5%
1	Have financial or accounting background	27	67,5%
	Total	40	100%

Source: Data Processed (2018)

Based on the results of the descriptive statistics of audit committee show that 67.5% company has an audit committee member with an accounting or financial background, while 32.5% of companies do not have an audit committee member with an accounting or financial background.

Classical Assumption Test

Result of Normality Test

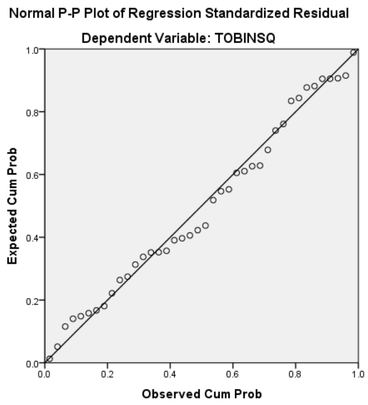

Figure 3. Normality Test

Source: Data Processed (2018)

The figure shows that data is scattered near diagonal lines, and follows the diagonal line. Therefore, the regression model of this study has met the assumption of normality.

Multicollinearity Test

Table 3. Result of Multicollinearity Test

Model		Collinearity Statistics Tolerance	
1	(Constant)		
	MO	.295	3.391
	IO	.730	1.370
	IBC	.609	1.643
	AC	.378	2.646

Source: Data Processed, 2018

In table 2, it can be seen that each variable has a tolerance value greater than 0.10 (tolerance> 0.10) and VIF value is less than 10 (VIF <10). Therefore, it can be stated that between the independent variables in this study there are no symptoms of multicollinearity and are suitable to be used for research.

Autocorrelation Test

Table 4. Result of Autocorrelation Test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.512[a]	.262	.178	.31413	2.261

Source: SPSS Statistic (2018)

Based on the result, it can be calculated that the DW of regression is 2.261, while from DW table with the significance of 0.05, n = 40 and k = 5 obtained DU value of 1.7209 and 4-DU of 2.2791. Since the DW (2.261) the value is in the region between DU (1.7209) until 4-DU (2.2791), or DU <DW <4-DU (1.7209 <2.261 <2.2791), it can be concluded that there is no autocorrelation to the data.

Heteroscedasticity Test

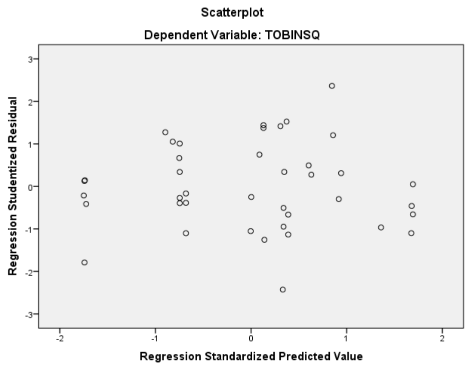

Figure 3. Heteroscedasticity Result

Source: Data Processed (2018)

Based on the results shown in Figure 3, the data spread around the number 0 on the Y axis and did not form a pattern. This indicates that this multiple regression model meets data linearity requirements.

Multiple Regression Test

Table 5. Result of Multiple Regression Test

Coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	.122	.057		2.129	.041
	MO	.012	.032	.104	.374	.711
	IO	1.559	.454	.485	3.433	.002
	IBC	.748	.377	.293	1.985	.055
	AC	-.056	.429	-.035	-.131	.896

Source: Data Processed (2018)

Based on table 5, there are beta coefficients for each variable, which can be written in the equation below:

$Y = 0.122 + 0.012X1 + 1.559X2 + 0.748X3 + (-0.056X4) + e$

Coefficient of Determination (R2 And R)

Table 6. Result of Coefficient of Determination Test

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.583a	.340	.263	.29939

Source: Data Processed (2018)

In the table above, the correlation coefficient value is 0.583 means that Managerial Ownership (X1), Institutional Ownership (X2), Independent Board of Commissioner (X3) and Audit Committee (X4) have a strong and positive moderate relationship to Firm Value (Y), because the R value is above 0.5 and below 0.75. While the coefficient of determination (R2) is 0.340, means that the contribution of all the independent variable is 34% to the dependent variable. The rest 66% is explained by other factors outside the model or not examined in this research.

Simultaneously Test (f-test)

Table 7. Result of Simultaneously Test

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.573	4	.393	4.387	.006[b]
	Residual	3.048	34	.090		
	Total	4.620	38			

Source: Data Processed (2018)

Based on the output in table 7, it shows that the significance value for the influence of each variable simultaneously on Y is 0.006 < 0.05 and the Fcount > Ftable is 4.387 > 2.63. Therefore, it can be concluded that Ha is accepted which means that there is an influence from Managerial Ownership, Institutional Ownership variables. Independent Board of Commissioner, and Audit Committee on Firm Value simultaneously.

Partially Test (T-test)

Table 8. T-test Result

Variable	T_{count}	T_{table}
Managerial Ownership (X1)	0.374	2.03011
Institutional Ownership (X2)	3.433	2.03011
Independent Board of Commissioner (X3)	1.985	2.03011
Audit Committee (X4)	-0.131	2.03011

Source: Data Processed (2018)

Based on the calculation on the table 4.8, the interpretation is as follow:

1. The t_{count} for Managerial Ownership (X1) is 0.374 which is less than the value of t_{table} (2.03011) means that Managerial Ownership has no significant influence on the Firm Value partially.
2. The t_{count} for Institutional Ownership (X2) is 3.433 which is greater than the value of t_{table} (2.03011) means that Institutional Ownership has a significant influence on the Firm Value partially.
3. The t_{count} for Independent Board of Commissioner (X3) is 1.985 which is less than the value of t_{table} (2.03011) means that the Independent Board of Commissioner has no significant influence on the Firm Value partially.
4. The t_{count} for Audit Committee (X4) is -0.131 which is less than the value of t_{table} (2.03011) means that the Audit Committee has no significant influence on the Firm Value partially.

Discussion

The Influence of Good Corporate Governance Mechanism on Firm Value

The results of this study support the hypothesis which states that Good Corporate Governance which include Managerial Ownership, Institutional Ownership, Independent Board of Commissioner, and Audit Committee influence the Firm Value. This is in line with the research conducted by Abassi, Kalantari and Abassi (2012) stating that the better corporate governance, then the better the firm value. Meanwhile, according to research by Ardie and Simanungkalit (2014), GCG is an important thing related to firm value, because if GCG has increased, the firm value will also increase. This reveals that the implementation of GCG in companies listed on the IDX30 index is appropriate and well organized. This application will increase the value of the company to shareholders because the essentially the purpose of GCG is to create value added for the company.

The Influence of Managerial Ownership on Firm Value

In the results of the statistics that have been processed, it proves that managerial ownership does not affect the firm value. This is not in accordance with the hypothesis proposed (H2), that Managerial Ownership affects the firm value. This result is consistent with research by Fitri and Norita (2017) who find that firm value cannot be significantly influenced by managerial ownership. In this study, the average number of shares owned by managers shows a small amount. There are also some companies that does not have any of managerial ownership. This illustrates how the risk of the manager as a shareholder, only limited to the number of shares that they held.

The Influence of Institutional Ownership on Firm Value

Based on the statistical test, Institutional Ownership influence Firm value, which proves the Hypothesis (H3). Institutional ownership acts as the controlling party because as the major shareholder, its consideration really matters to reduce agency conflicts. The greater the level of ownership by institutions, then the control mechanisms on performance management will be more effective, and will result in the increase of firm value. This finding supports the research of Soesetio in Mukhtaruddin, Relasari, and Messa (2014) which proves that there is a positive relationship between institutional ownership and firm value.

The Influence of Independent Board of Commissioner on Firm Value

The statistical test revealed that there is no significant relationship between the proportion of the Independent Board of Commissioner and Firm Value. This reject the hypothesis (H4). The results of this study support previous research from Carningsih (2009) and Agustina (2017) who found that the proportion of independent board of directors did not have a significant relationship with the firm value. It can be explained that a small proportion of the independent commissioner in the board of the company is not a guarantee if the company is free from fraud problems. This study found that independent commissioners were those who were still affiliated with the company, not outsiders, while the requirements for independent commissioners are to be outside parties and elected by official meetings.

The influence of Audit Committee on Firm Value

In the results of the statistics test that have been processed, it proves that the audit committee does not affect the firm value, then this reject the hypothesis (H5). It was found that some of the companies in IDX30 Index did not apply the regulations that is an audit committee member should have accounting or financial background. This study is consistent with research conducted by Tambunan, Saifi and Hidayat (2017) and Soedaryono and Riduifana (2013) who found that the audit committee had a negative and insignificant influence on the firm value.

CONCLUSION AND RECOMMENDATION

Conclusion

There are conclusions based on the data that has been examined in this study, which are:

1. Good Corporate Governance have a significant influence on the firm value simultaneously
2. Managerial Ownership has no significant influence on the firm value partially
3. Institutional Ownership has a significant influence on the firm value partially
4. Independent Board of Commissioner has no significant influence on the firm value partially
5. Audit Committee has no significant influence on the firm value partially

Recommendation

1. Based on this research, there is a suggestion for investors as well as other capital market participants, which is to consider if the company already apply the GCG principles and mechanism, because the role of GCG really matters on the increase of firm value. One of the mechanism that worth to consider is institutional ownership, because with large amount of institutional ownership, it will affect the decision-making process by management as it will also prevent the agency problem and increase the firm value.
2. It is recommended for companies to implement the GCG mechanism very well and consistent with the applicable rules, but not only for formality but as the actual application for the long-term development of the company.
3. While for the next author is expected to find another index group as the samples in order to identify the application of GCG.

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