GOOD CORPORATE GOVERNANCE MECHANISM AND COMPANY VALUE IN INDONESIA

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ABSTRACT

Companies as economic entities generally have short-term goals, namely obtaining maximum profits, and long-term goals, increasing company value. Factors that can influence company value are good corporate governance and environmental disclosure. This research examines the influence of managerial ownership on company value, with an independent board of commissioners and board of directors moderating managerial ownership on company value. The analysis technique in this research uses literature studies from various studies. This research shows that managerial ownership influences company value, and the influence of the independent board of commissioners and board of directors can strengthen or weaken managerial ownership on company value.

Keywords: **Company Value, Managerial Ownership, Independent Board of Commissioners, Board of Directors**

INTRODUCTION

Companies as economic entities generally have short-term and long-term goals. The company's short-term goal is to obtain maximum profits, while the long-term goal is to increase the company's value. Company value is investors' perception of a company which is related to share prices. A company is said to have good value if the company's performance is also good. The higher the share price, the higher the value of the company. Investors also tend to be more interested in investing their shares in companies that have good performance in increasing company value. Maximizing company value is very important for the company, because maximizing company value means maximizing shareholder prosperity, which is the company's main goal. Based on data available on the Indonesian Stock Exchange, there is a trend of increasing company value which will influence the confidence of potential investors to invest their capital in the company. The value of manufacturing companies listed on the Indonesian Stock Exchange in the 2015-2017 period is presented in Figure 1 as follows.

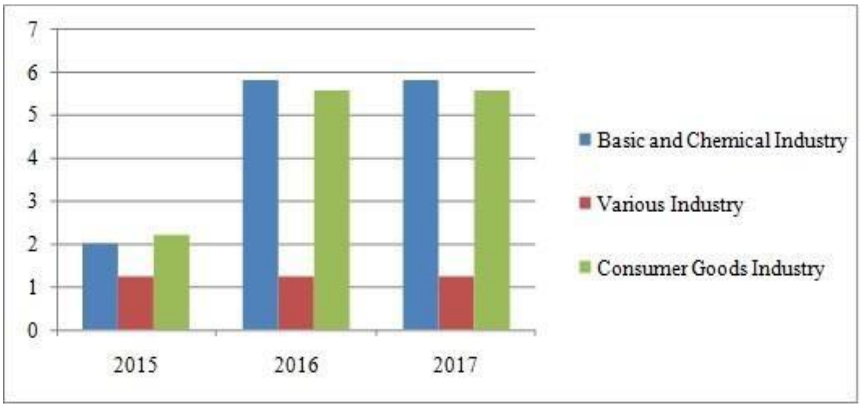

Figure 1: Manufacturing Company Value for the 2015-2017 Period
Source:www.idx.co.id

One of the factors that influences company value is through the implementation of good corporate governance, namely Good Corporate Governance (GCG). The implementation of GCG is expected to improve the company's financial performance so that it can create added value that can provide benefits to shareholders or company owners. The structure or organs of GCG include the ownership structure and composition of the independent board of commissioners. Ownership structure is very important in determining company value. A factor that influences company value apart from ownership structure is the existence of an independent board of commissioners. The board of commissioners is the party that carries out the supervisory function of management performance, while the board of directors is the party that carries out the company's operational functions. The function of the board of commissioners is to supervise the directors regarding the directors' policies and behavior and provide advice or input to the directors.

There are two ownership structures, namely, institutional ownership and managerial ownership. Managerial ownership, where there is share ownership by management, will be motivated to improve the company's performance so that it is hoped that managers will act in accordance with the wishes of shareholders which will later increase the value of the company. Managerial ownership is a condition where the manager is the owner of the company's shares, so apart from being the manager of the company the manager is also the owner of the company. Managerial parties in a company are parties who play an active role in making decisions to run the company. The company's board of commissioners and board of directors are parties who play an active role in the company. Referring to research conducted (Abbasi, Kalantari, & Abbasi (2012), Suryanto & Dai (2016), Hadiwijaya et al. (2016) and Pratiwi et al. (2016)), it was found that managerial ownership influences company value. This is different from research results (Nurhayati & Medyawati (2012), Rahmatia & Andayani (2015), Hatem (2015), Sulistianingsih (2016), and Alfinur (2016)), who found that managerial ownership has no influence on company value.

Supervision is very important in a company so that every activity can be monitored properly so as to minimize the occurrence of conflict. Supervision is very necessary for companies listed on the Indonesian Stock Exchange which is useful for knowing developments in company performance. One of the supervisory bodies that has the authority to supervise the board of directors is the independent board of commissioners. Independent boards of directors and boards of commissioners are based on the idea that when a company has a managerial ownership structure, whether it comes from the founder or owner of the company, it can also be obtained because of incentive or compensation or achievement policies. Therefore, high managerial ownership, the role of an independent board of directors and board of commissioners is needed to improve monitoring of management performance, and it is hoped that they can make various decisions that are in line with the company's main objective, namely maximizing company value.

The influence of managerial ownership on company value does not depend on the presence of an independent board of commissioners. Previous research shows that the involvement of the board of commissioners from external parties is not related to improvement
company performance, this is consistent with research (Hermalin & Weisbach, 1991), does not create a more optimal monitoring mechanism (Agrawal & Knoeber, 1996), does not influence company performance (Drakos & Bekiris, 2010), nor provides a meaningful response to stock prices (Ding et al.). In Pakistan, findings (Latief et al., 2014) show that the existence of a board of directors has no effect on increasing company performance and company value in Malaysia (Yusoff & Alhaji, 2012); (Zabri et al., 2016), China (Wang, 2017), Indonesia (Situmorang & Simanjutak, 2019); India (Yameen et al., 2019), the same thing also happens in United States companies which shows that independent boards have no relationship with company performance (Hermalin & Weisbach, 2003).

Based on this description, this research contributes ideas for management to improve the tabulation of Good Corporate Governance (GCG) data in managerial ownership which is moderated by the independent board of commissioners and the board of directors on company value. This research aims to provide in-depth insight into how the interaction between The Independent Board of Commissioners and Board of Directors can shape company policies and practices, while also considering the implications of managerial ownership.

METHOD

The research method used in this article is to conduct an article review to determine the effect of managerial ownership on company value with the independent board of commissioners and board of directors as moderating variables. The results of this test can be used as a basis for developing a governance mechanism framework for company value.

RESULTS AND DISCUSSION

Agency Theory (Agency Theory)

Agency theory is a theoretical concept that has been used as a basis for company business practices. Jensen and Meckling (2008) state that agency theory is a contract made between the principal and agent. In this theory, the principal is a shareholder where the party gives orders to the agent to act on behalf of the principal, while the agent is intended as a management party trusted by the principal to carry out activities in managing the company. Theory emphasizes the importance of separating interests between principal and agent. The aim of separating management from company ownership is for the principal to obtain the maximum possible profit at the most efficient cost possible when the company is managed by an agent (Yulia, 2015).

Agency conflict occurs due to differences in interests between owners and managers (Jensen and Meckling, 1976). This conflict of interest gives rise to costs, which arise from imperfections in drafting contracts between agents and principals due to information asymmetry (Yulia, 2015). Information asymmetry, namely unbalanced information caused by unequal distribution of information between principals and (agent Khafid, 2014). Conflicts that occur between shareholders and management due to information asymmetry can give rise to costs called agency costs. To avoid the occurrence of information asymmetry, it is necessary to separate ownership between management and company owners. This aims to create efficiency and effectiveness by employing professional agents in managing the company.

According to Eisenhardt Benandhi (2013), there are three basic human nature assumptions that can be used to explain agency theory, namely:

1. In general, humans care about themselves.
2. Human thinking has limitations related to future perception.
3. Humans always try to avoid risks.

Managerial ownership

Managerial ownership is the proportion of managerial shareholders who actively participate in company decision making (directors and commissioners) (Perdana, 2014). The existence of managerial ownership in a company will give rise to the interesting assumption that the value of the company increases as a result of increasing managerial ownership. The large proportion of ownership by managers will be effective in monitoring every activity carried out by the company. Jensen Adan Meckling (1976), added that management will also be increasingly active in fulfilling the interests of shareholders who are also themselves, so that agency problems it can be assumed that it will decrease and company performance will increase (Putri, 2011).The greater the proportion of management's share ownership in the company, the more active management tends to be in the interests of shareholders who are none other than themselves.

Jensen and Meckling (1976), stated that the separation of share ownership and company supervision would create a conflict of interest between shareholders and management. These conflicts will increase along with the management's desire to increase their own prosperity. When the proportion of managerial ownership increases, the interests of shareholders and management begin to become one (Nasser, 2008).

The value of the company

Company value according to Gusti et. al (2013: 727), interpreted as, "Market value, because if the company's share price increases, the company can provide prosperity to shareholders". According to Sukamulja in Permanasari, (2010:21). “Company value is an important indicator for investors to assess the company as a whole. Company value in research is measured using Tobin's Q because the information provided by Tobin's Q is considered the best. Tobin's Q shows that the company is not focused on investors in the form of shares only. According to Herawaty in Gusti et. al (2013: 728), said that, companies that have a Tobin's Q with a higher value indicate that the company's growth prospects are getting better, because investors will make more sacrifices for companies that have a market value of assets that is greater than their book value. If the Q value is smaller than 1, it means that investment in assets is not attractive."

Company value can be seen as one way to measure the extent to which a company can provide the level of return expected by shareholders. Company value can also be used to convince creditors that the company will not violate debt agreements. The company's value (firm value) will be reflected in the market price of its shares. If the share price is high, it means that the shares will be in demand by investors, and with increasing demand for shares, the value of the company will also increase. As the value of the company improves, the level of trust of shareholders will also be higher, so that they will invest their funds in the company, in which case the company will use these funds as capital to finance operational activities.

Independent Board of Commissioners

According to the National Committee for Governance Policy (2006:13), the independent board of commissioners is defined as a company organ tasked and collectively responsible for supervising and providing advice to the board of directors and ensuring that the company implements Good Corporate Governance (GCG). KNKG also states that the criteria for a board of commissioners to become an Independent Commissioner is if the prospective members of the Board of Commissioners are not members of and are influenced by the management board, members of the board of commissioners who serve as majority shareholders, and are free from cases.

The role and duties of the Independent Board of Commissioners are primary inter pares, which means coordinating all activities in other company organs. The implementation of the duties of the Independent Board of Commissioners can be effective if it is equipped with principles such as:

1. The composition of the Board of Commissioners must enable decision making effectively, precisely and quickly, and be able to act independently.
2. Members of the Board of Commissioners must be professional, that is, have integrity and have the ability so that they can carry out their functions well, including ensuring that the Board of Directors has shown all stakeholders.
3. The function of supervising and providing advice to the Board of Commissioners includes preventive, corrective, and even temporary dismissal (Hamdani, 2016: 82).

Board of Directors

The Board of Directors is an organ or internal party of the company which is entrusted with acting on behalf of the company in all kinds of legal actions to achieve the company's goals and interests. Each member of the Board of Directors does not work individually, but all actions taken by one of the Directors affect the duties of other directors and managers (Sutedi, 2012: 128).

The duties of the Board of Directors are contained in Law Number 40 of 2007 article 92, including:

1. The Board of Directors carries out the management of the Company for the interests of the Company and in accordance with the aims and objectives of the Company.
2. The Board of Directors has the authority to carry out management as intended in paragraph (1) in accordance with policies deemed appropriate, within the limits specified in this Law and/or the articles of association.
3. The Company's Board of Directors consists of 1 (one) member of the Board of Directors or more.
4. Public Companies are required to have at least 2 (two) members of the Board of Directors
5. In the event that the Board of Directors consists of 2 (two) members of the Board of Directors or more, the division of duties and management authority among the members of the Board of Directors is determined based on the decision of the GMS.

Relevant Empirical Research Results

Kafid and Sandy's research (2017), entitled Managerial Ownership, Corporate Governance and Earnings Quality: The Role of Institutional Ownership as Moderating Variable. This research shows that the composition of the supervisory board and audit committee has no influence on market outcomes. However, there is evidence that management ownership and accounting-based earnings quality, as a measure of earnings stability and predictability, influence market outcomes. Furthermore, institutional ownership does notinfluence on earnings quality in the three empirical research models. The institutional ownership variable strengthens the influence of managerial ownership on earnings quality. The existence of institutional shareholders does not directly affect earnings quality, but owners can increase the influence of management ownership on market results.

Citra, et al (2019), entitled The Effect of Independent Board of Commissioners, Institutional Ownership, and Managerial Ownership in Firm Values with Environmental Disclosure as Moderating Variable. That (1) the independent board of commissioners influences the value of manufacturing companies listed on the Indonesia Stock Exchange in 2015 - 2017, (2) institutional ownership influences the value of manufacturing companies listed on the Indonesia Stock Exchange in 2015 - 2017, (3) managerial ownership influences on the value of manufacturing companies listed on the Indonesia Stock Exchange in 2015 - 2017,

(4) environmental disclosure strengthens the influence of the independent board of

commissioners on the value of manufacturing companies listed on the Indonesia Stock Exchange in 2015 - 2017, (5) environmental disclosure strengthens the influence of institutional ownership on value of manufacturing companies listed on the Indonesia Stock Exchange in 2015 - 2017, (6) environmental disclosure strengthens the influence of the independent board of commissioners on the value of manufacturing companies listed on the Indonesia Stock Exchange in 2015 - 2017, (7) environmental disclosure strengthens the influence of the independent board of commissioners on value of manufacturing companies listed on the Indonesia Stock Exchange in 2015 - 2017, (8) environmental disclosure strengthens the influence of institutional ownership on the value of manufacturing companies listed on the Indonesian Stock Exchange in 2015 - 2017. (9) environmental disclosure strengthens the influence of managerial ownership on company value manufacturers listed on the Indonesian Stock Exchange 2015 – 2017.

Research by Aftab, et al (2019), entitled Impact of Intellectual Capital on Firm Value: The Moderating Role of Managerial Ownership. That studying the relationship between independent variables including intellectual capital and dependent variables including company value is the first goal of this research and this goal has been fully achieved, namely VAIC has an influence on company value. The results of this study are consistent with resource-based theory as well as research. In terms of component-based analysis, it can be concluded that two of the three components of VAIC, namely VACA and STVA, have a statistical relationship with the dependent variable, namely company value, where VACA is more important because it is higher and higher. The higher the value, the coefficient value is positive, while VAHU has a relationship that has no effect on company value. Investigating the role of managerial ownership between the independent variable, especially intellectual capital, and the dependent variable, especially firm value, is the second objective of this research. More specifically, the moderating role of managerial occupancy between independent and dependent variables is examined. It was concluded that moderation had no effect on managerial ownership between the independent and dependent variables. The negative relationship indicates that managerial ownership follows the entrenchment effect and not the interest adjustment effect as concluded.

Research by Rohim, et al (2019), entitled The Effect of Ownership Structure on Firm Value with Profitability as a Moderating Variable. That institutional ownership is not related to the firm value of the manufacturing companies involved in Indonesia Stock Exchange, so that institutional ownership is in conflict with company values which is proven to be true. Domestic institutional ownership has no effect on the company value of

manufacturing companies listed on the Indonesia Stock Exchange, so that domestic ownership of company value is proven to be true. Public ownership has no effect on the company value of manufacturing companies listed on the Indonesia Stock Exchange, so that public ownership of the company value is not proven to be true. Managerial ownership has no effect on company value in manufacturing companies listed on the Indonesia Stock Exchange, so that managerial ownership of company value is proven to be true. Profitability has no effect on the company value of manufacturing companies listed on the Indonesian Stock Exchange, so that profitability has a proven effect on company value. Profitability can moderate institutional ownership of company value in manufacturing companies listed on the Indonesia Stock Exchange, so that institutional ownership of company value and profitability as a moderating variable are proven to be true. Profitability can moderate domestic institutional ownership of company value in manufacturing companies listed on the Indonesia Stock Exchange so that domestic institutional ownership of
company value and profitability as a moderating variable are proven to be true. Profitability cannot moderate public ownership of company value in manufacturing companies listed on the Indonesia Stock Exchange, so that public ownership of company value and profitability as a moderating variable are not proven to be true. Profitability cannot moderate managerial ownership of company value in manufacturing companies listed on the Indonesia Stock Exchange, so that managerial ownership of company value and profitability as a moderating variable are not proven to be true. The research results also show that profitability is proven to strengthen the relationship between foreign institutional ownership and domestic ownership on firm value, but it is not proven to support the relationship between public ownership and managerial ownership on firm value. In this case, profitability can have the effect that profitability provides information for institutional shareholders to continue investing.

Luluk's research (2021), entitled Managerial ownership and firm value: The role of corporate social responsibility. Based on the research results that; (1) managerial ownership influences company value, (2) managerial ownership influences corporate social responsibility (CSR), (3) corporate social responsibility (CSR) influences company value. Apart from having theoretical contributions, the results of this research also have practical contributions. This research contributes to accounting theory regarding the influence of managerial ownership on CSR and company value by providing empirical evidence regarding the relationship between the variables studied in the Indonesian context.

Putu and Rasmini's research (2021), entitled Effect of Managerial Ownership and Institutional Ownership on Firm Value with Enterprise Risk Management Disclosure as Moderating Variables. That; (1) ERM disclosure moderates (strengthens) the influence of managerial ownership on the financial value of companies listed on the IDX in 2017-2019. ERM disclosure has been proven to be able to convince investors that the management, which is also the owner of the company, is focused on the survival of the company rather than being opportunistic so that the value of the company increases (Eisenhardt, 1989; Febyani & Devie, 2017). (2) ERM disclosure moderates (strengthens) the influence of institutional ownership on the value of financial companies listed on the IDX in 2017-2019. ERM disclosure in companies can increase company value even though the level of institutional ownership is high. ERM disclosure shows the existence of effective institutions in the composition of share ownership. Institutions are expected to carry out more intensive supervision compared to individual ownership as evidenced by the implementation of ERM. Investors who increasingly believe that the survival of the company is guaranteed from institutional ownership accompanied by ERM disclosure will increase the value of the company.

CONCLUSION

This research aims to examine the relationship between factors that influence the disclosure of Managerial Ownership, Independent Board of Commissioners, Board of Directors, Company Value. The research results show:

a. Managerial ownership has a positive influence on company value as shown by the research results of Citra, et al (2019), Luluk (2021), Abbasi, et al (2012), Suryanto & Dai (2016), Hadiwijaya et al. (2016) and Pratiwi et al. (2016).
   Managerial ownership has a negative effect on company value as shown by the research results of Rohim, et al (2019), Nurhayati & Medyawati (2012), Rahmatia & Andayani (2015), Hatem (2015), Sulistianingsih (2016), and Alfinur (2016).
b. An independent board of commissioners has a positive influence on company value as shown by the research results of Citra, et al (2019), Muryati and Suardhika (2014), Hidayati (2017)
   An independent board of commissioners has a negative influence on company value as shown by the research results of Herman & Weisbach (1991), Agrawal & Knoeber (1996), Drakos & Beikiris (2010)
c. The board of directors has a negative influence on company value as shown by

the research results of Yusoff & Alhaji (2012), Zabri et al (2016), Wang (2017), Situmorang & Simanjutak (2019), Yameen et al (2019)

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