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The Effect of Corporate Governance on Firm Value in IICD Award Recipient Companies

Rizky Fadilla Nanda[1], Cacik Rut Damayanti [2]
[1,2] Universitas Brawijaya
Email: rizkyfadillananda@gmail.com

ABSTRACT

This study aims to examine and analyse the effect of corporate governance on firm value. Corporate governance is measured through institutional ownership, managerial ownership, the proportion of independent commissioners, the size of the board of commissioners, the female board of commissioners, the size of the board of directors and the size of the audit committee as independent variables, while firm value is measured by Tobin's Q as the dependent variable. The population in this study were IICD award-winning companies in 2014-2019 and obtained 12 companies as samples by purposive sampling using multiple linear regression data analysis techniques with SPSS 20. The results of the study simultaneously show that institutional ownership, managerial ownership, the proportion of independent commissioners, the size of the board of commissioners, the presence of female commissioners, the size of the board and the size of the audit committee have an effect on firm value.

Keywords: Corporate governance, Firm Value, IICD (Indonesian Institute for Corporate Director)

INTRODUCTION

There has been attention to corporate governance due to the many financial problems of several companies in various countries such as Enron, Tyco, WorldCom, and so on. The collapse of these companies was allegedly due to the fraud-stained practice of corporate governance that took place over a long period of time and without being detected. Corporate governance has become an increasingly popular term of the decade. This is because corporate governance is one of the keys to the success of the company's growth and development in the long term (Tadjuddin et al., 2016).

Corporate governance began to enter Indonesia and was introduced by the International Monetary Fund (IMF) through the signing of the Letter of Intent (LOI) in 1998 during the economic recovery period after the monetary crisis. It is introduced with the aim of understanding healthy corporate governance. Corporate governance, according to the OECD, is a collection of relationships between company management, boards of directors, shareholders, and other company stakeholders on how to achieve company goals and monitor performance. (Kusmayadi et al., 2015). Corporate governance is a mechanism used to ensure that the owners of corporate capital receive benefit from the activities carried out by managers (Manossoh, 2016).

The existence of corporate governance begins with agency problems that occur because of differences between principals and agents. In agency theory, the manager of a company acts as an agent and shareholders act as the principal, so that these differences in roles lead to conflict of interest (Jensen, M. C., & Meckling, 1976). Thus, the implementation of corporate governance is expected as a way to reduce the existing agency problems.

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The application of corporate governance can be an alternative in achieving company goals by maximizing company value through better decision making**.** Firm value is an investor's perception or view of the company (Pujiningsih, 2020). High company value will be followed by an increase in shareholder prosperity, so the company value becomes an important thing (Suroto, 2015). Tobin's Q ratio is one of the measuring tools to determine the value of the company in terms of internal and external companies.

One of the institutions that oversees the importance of corporate governance practices in Indonesia is the Indonesian Institute for Corporate Directorship (IICD) with an award event given by the IICD Corporate Governance Conference & Award. This activity aims to give awards to 100 Big Cap Public Listed Companies (PLCs) and 100 Mid Cap Public Listed Companies (PLCs). The assessment instrument used in this award is the ASEAN Corporate governance (CG) Scorecard which aims to improve CG standards and practices in ASEAN. There are several companies that received the award, one of which is PT. Garuda Indonesia (Persero). However, Garuda Indonesia was in the public spotlight in 2019 because of a series of cases against them on violation of the implementation of corporate governance. The case of Garuda Indonesia is inversely proportional to the IICD awards it received in 2014, 2015 and 2018. Therefore, this can indicate that the awards received are not in accordance with good corporate governance practices and the company's values.

Several previous studies by Prasetyo and Dewayanto (2019) and Ramadhanti (2020) have used indicators of institutional ownership, managerial ownership, the proportion of independent commissioners, the size of the board of commissioners, the presence of a female board of commissioners, the size of the board of directors and the size of the audit committee to measure the effect of corporate governance on firm value. More specifically, a study by Ramadhanti (2020) mentions that institutional ownership plays an important role in minimizing agency conflicts between managers and shareholders. This is because institutional investors are considered capable of being an effective monitoring mechanism for every decision made by managers accompanied by an increase in firm value. In managerial ownership as share ownership of the insiders, they will benefit directly from the decisions taken and accept the risk directly if the decisions they make are not appropriate. Therefore, managerial ownership is an incentive to increase company value and can minimize agency conflicts.

Ramadhanti's (2020) also stated that the proportion of independent commissioners has a role in monitoring the financial reporting process more effectively, so that they are able to ensure that managers can increase the value of the company as part of achieving company goals. Furthermore, the board of directors is responsible for the implementation of the company's operations. In addition, it is also a party trusted by shareholders to achieve company goals and increase company value. The audit committee is responsible for assisting auditors in maintaining their independence from management and can increase public trust. Therefore, if these results are achieved, the company value will also increase.

METHOD

The type of research used is explanatory research (explanation) using a quantitative approach. The source of data in this study is secondary data in the form of annual reports and financial reports obtained from the Indonesia Stock Exchange (IDX). The population used in this study were all companies that won the IICD (Indonesian Institute for Corporate Director) Corporate Governance Conference & Award 2014-2019 with a total of 83 companies and 12 companies were selected as the sample using purposive sampling technique. The selection criteria were companies that won IICD awards in 2014-2019 for six consecutive periods. Therefore, the unit of analysis in this study is 72. Companies that become the research sample are described in table 1 below.

Table 1
List of Companies that Become the Research Sample

No.	Issuer Code	Company Name
1	ANTM	PT. Aneka Tambang (Persero) Tbk
2	ASII	PT. Astra International, Tbk
3	BBCA	PT. Bank Central Asia Tbk.
4	BBNI	PT. Bank Negara Indonesia (Persero) Tbk.
5	BBRI	PT. Bank Rakyat Indonesia (Persero) Tbk.
6	BDMN	PT. Bank Danamon Tbk
7	BMRI	PT. Bank Mandiri (Persero) Tbk.
8	BNGA	PT. Bank CIMB Niaga Tbk
9.	EXCL	PT. XL Axiata Tbk
10	ITMG	PT. Indo Tambangraya Megah Tbk
11	JSMR	PT. Jasa Marga (Persero) Tbk
12	TLKM	PT. Telekomunikasi Indonesia (Persero) Tbk

Source: Processed Data, 2021

In this study, there are seven independent variables and one dependent variable. The measurement of each variable is explained in the table as follows:

Table 2
Measurement of Research Variables

Variable	Operational Definition	Measurement
Institutional Ownership (X1)	Institutional ownership compares the number of shares owned by the institution divided by the number of listed shares (Herdjiono & Sari, 2017)	$X1 = \frac{\text{Number of shares owned by the institution}}{\text{Number of listed shares}} x\, 100\%$
Managerial Ownership (X2)	Managerial ownership is measured by the number of shares owned by the management divided by the number of listed shares (Herdjiono & Sari, 2017)	$X2 = \frac{\text{Number of shares owned by management}}{\text{Number of listed shares}} x\, 100\%$
Proportion of Independent Commissioner s (X3)	The proportion of independent commissioners is measured by the number of independent commissioners divided by the board of commissioners (Sari & Sanjaya, 2018)	$X3 = \frac{\text{Number of independent commissioners}}{\text{Number of board commissioners}}$
Size of Board of	The size of the board commissioners is measured using the total members of the	X4 = Number of the firm’s board of commissioners

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Commissioners (X4)	board of commissioners in the company that includes independent commissioners in it (Sari & Sanjaya, 2018)	
The existence of the female board of commissioners (X5)	This variable is measured by using the number of female board members, the percentage of female commissioners divided by the board of commissioners (Prasetyo & Dewayanto, 2019)	$X5 = \frac{\text{Number of female board members}}{\text{Number of board commissioners}}$
Size of Board of Directors (X6)	The board of directors is measured by the number of members of the board of directors in a company (Herdjiono & Sari, 2017)	X6 = Number of the firm's company board of directors
Audit Committee Size (X7)	The audit committee is measured by the number of audit committees in the company (Herdjiono & Sari, 2017)	X7 = Number of the firm's audit committee
Tobin's Q (Y)	Tobin's Q value is the ratio of the closing price of shares at the end of the year, multiplied by the number of listed shares plus total debt and divided by total assets (Lestari & Cahyonowati, 2013)	$Y = \frac{\text{MVE} + \text{Debt}}{\text{TA}}$

Source: Processed Data, 2021

The data analysis technique is statistical tests using multiple regression analysis consisting of descriptive statistics, classical assumption tests, and hypothesis testing with the help of SPSS version 20. The analysis model is as follows:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + \beta 6X6 + \beta 7X7$$

RESULT AND DISCUSSION

Descriptive Statistics

Descriptive statistical measurement of the research variables observed in this study consists of the minimum, maximum, average (mean) and standard deviation values, which resulted in the calculations as listed in table 3.

Table 3
Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
Y	72	0.677	2690.000	130657.000	0.422
X1	72	0.651	0.990	0.854	0.099
X2	72	0.000	0.002	0.001	0.001
X3	72	0.286	0.714	0.449	0.109
X4	72	5.000	13.000	7.290	1699.000
X5	72	0.000	0.286	0.082	0.084
X6	72	4.000	12.000	8.670	2368.000
X7	72	2.000	7.000	4.370	1168.000
Valid N (listwise)	72				

Source: Processed Data, 2021

Classic Assumption Test

The test results from the classic assumption test consist of normality, autocorrelation, multicollinearity, and heteroscedasticity tests. In the normality test using the One-Sample Kolmogorov-Smirnov, the results obtained are 0.86 > 0.05, so it can be concluded that the data in this study are normally distributed. In the autocorrelation test, using the Durbin Watson test, from the results of data processing, the Durbin Watson value was obtained at 2,063 with the criteria dU < DW < 4-dU, so that 1.836 < 2.063 < 2.164 were obtained. It can be concluded that autocorrelation symptoms for the data in this study did not occur. In addition, the multicollinearity test obtained that the tolerance value of the seven variables was above 0.1 and the Variance Inflation Factor (VIF) was less than 10. Therefore, there was no multicollinearity in this study. The results of the heteroscedasticity test in this study are seen from the scatterplot, where the scatterplot results show the points spread randomly, do not form a certain clear pattern, and are spread both above and below the number 0 on the Y axis.

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Multiple Linear Regression Analysis

Table 4
Multiple Linear Regression Test

Model		Unstandardized Coefficients	
		B	Std. Error
1	(Constant)	-.178	.370
	X1	-.250	.212
	X2	-5.14	.000
	X3	-.286	.056
	X4	6.910	1.692
	X5	.102	.021
	X6	1.437	.773
	X7	.734	.413

a. Dependent Variable: TBQ

The equation of the multiple linear regression model from Table 4 above is as follows:

Y = -0.178 + (-0.25) institutional ownership + (-5.14) managerial ownership + (-0.286) proportion of independent commissioners + 6.91 size of board of commissioners + 0.102 female board of commissioners + 1,437 size of board of directors + 0.734 size of audit committee.

Hypothesis testing
Simultaneous F Test

Table 5
Simultaneous F-Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.154	7	.165	8.503	.000[b]
	Residual	.562	29	.019		
	Total	1.717	36			

a. Dependent Variable: TBQ
b. Predictors: (Constant): KI, KM, PDKI, UDK, DKW, UKA, UDD

It can be seen in Table 5 that the significance value is 0.00. If the significance value is less than 0.05, then the F test hypothesis is accepted, so 0.00 < 0.05. Thus, it can be concluded that institutional ownership, managerial ownership, the proportion of independent commissioners, the size of the board of commissioners, the presence of a female board of commissioners, the size of the board of directors, and the size of the audit committee together affect Tobin's Q.

Partial T Test

Table 6
Partial T-Test

Model	t	Sig.
(Constant)	-.480	.635
X1	-1.182	.247
X2	-1.764	.088
X3	-5.122	.000
X4	4.085	.000
X5	4.876	.000
X6	1.857	.073
X7	1.777	.086

a. *Dependent Variable*: TBQ

Discussion

The first hypothesis in this study, which states that institutional ownership (X1) has a negative and insignificant influence on firm value, is rejected. This is supported by the study of Solikin et al. (2015) and Israel et al. (2018) because it has a significance value of 0.25 > 0.05. There is no influence of institutional ownership due to information asymmetry between shareholders and company managers. Information asymmetry can occur because shareholders do not necessarily fully comprehend the information held by managers, so it is difficult for institutional parties to control managers. On the other hand, the high and low value of the company does not only depend on how good the supervision is provided by the institution. The large number of shareholders does not guarantee effectiveness in controlling managers in increasing company value and minimizing agency problems.

The second hypothesis in this study, which states that Managerial Ownership (X2) has a negative and insignificant influence on firm value, is rejected. This is supported by research Wibowo (2016) and Sari and Sanjaya (2018), with a significance value of 0.09 > 0.05. This is because the number of managerial share ownership in the company is still low, so it has not been able to bind the managerial parties who act as shareholders. In addition, regardless of the ownership of the shares invested, the managerial party still carries out their duties as the manager of the company. Therefore, it does not affect the value of the company and has not become an appropriate mechanism in reducing agency problems.

The third hypothesis in this study, which states that the proportion of Independent Commissioners (X3) has a negative influence on firm value, is accepted. This is supported by the studies of Rimardhani and Hidayat (2016) and Fadillah (2017), with a significance value of 0.00 < 0.05. In agency theory, proper oversight/monitoring mechanisms must be established to protect shareholders from management's personal interests. Therefore, the independent board of commissioners has an important role in the company. The optimal and rational proportion for independent commissioners ranges from 30%-50%. This shows that too many independent commissioners will reduce the value of the company and the diversity of expertise and

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experience of independent commissioners from outside the company causes difficulties in coordination, communication, and decision making which can reduce monitoring capabilities.

The fourth hypothesis in this study, which states that the size of the Board of Commissioners (X4) has a significant influence on firm value, is accepted. This is supported by Agustina (2017) and Sari and Sanjaya (2018), with a significance value of 0.00 < 0.05. The higher the number of commissioners will minimize fraud. Furthermore, supervision of several parts of the company will be more optimal and can minimize agency problems. In addition, the supervision carried out on management has become much better because the advice and input has become more diverse. This results in better management performance and also has an impact on increasing company value.

The fifth hypothesis in this study, which states that the Female Board of Commissioners (X5) has a significant influence on firm value, is accepted. This is supported by Darko et al. (2016) and Prasetyo and Dewayanto (2019) with a significance value of 0.00 < 0.05. This shows that the existence of a female board of commissioners can improve the quality of decision-making because it can trigger livelier discussions. Female board commissioners can play a large role in minimizing agency costs, as they can bring new insights to the board and make complex decisions. In addition, women also have different decision-making skills, can be trusted, and are committed to the organization (Assenga et al., 2018). It can be said that the existence of a female board of commissioners can lead to a better dynamic of the board of commissioners which will be accompanied by an increase in the value of the company.

The sixth hypothesis in this study, which states that the size of the Board of Directors (X6) has no effect on firm value, is rejected. This is supported by the study of Rimardhani and Hidayat (2016) and Siregar and Nuzula (2020) with a significance value of 0.07 > 0.05. Compared to paying attention to the quantity of the board of directors, it is better to pay more attention to qualities such as competence, skills, and professionalism with various activities such as training. Therefore, the size of a board of directors in a company does not guarantee its effectiveness in carrying out its responsibilities as company managers. Furthermore, the board of directors does not influence the value of the company and cannot minimize the existing agency problems.

The seventh hypothesis in this study, which states that the size of the Audit Committee (X7) has no effect on firm value, is rejected. This is supported by the study of Rimardhani and Hidayat (2016) and Sarafina and Saifi (2017) with a significance value of 0.09 > 0.05. The audit committee in a company is formed on the basis of compliance with regulations. The number of audit committees in the company has not been able to maximize its function in carrying out accounting practices. Therefore, the existence of audit committees is less effective and cannot guarantee an increase in company value and has not become a mechanism to reduce agency problems.

CONCLUSIONS

Based on the results of this study, it shows that the proportion of independent commissioners, the size of the board of commissioners and the existence of female commissioners have a partial influence on firm value and is in line with agency theory. Meanwhile, institutional ownership, managerial ownership, size of the board of directors, and size of audit committee, have no influence on the value of the company and is not in line with existing agency theory. The results of this study simultaneously show that institutional ownership, managerial ownership, the proportion of independent commissioners, the size of the board of commissioners, the existence of female commissioners, the size of the board of directors, and the size of the audit committee influence the value of the company in the company that won the IICD (Indonesian Institute for Corporate Director) corporate governance conference & award.

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