THE INFLUENCE OF THE MECHANISM OF GOOD CORPORATE GOVERNANCE AND CAPITAL STRUCTURE ON VALUE OF FIRM IN BANKING SUB SECTOR THAT WENT PUBLIC IN IDX IN 2010-2014

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Abstract: The purpose of this study to analyze the conditions and the influence of good corporate governance mechanisms are proxied by institutional ownership, independent commissioner and audit committee as well as the capital structure Debt Equity Ratio is proxied by the value of companies in the banking industry that went public during the 2010-2014 period. This study using purposive sampling and non-probability sampling technique with a total sample of 26 banks from 46 banks. The results showed that the joint mechanism of good corporate governance and capital structure provides weak influence on firm value. Hypothesis testing together shows that the mechanisms of good corporate governance and capital structure significantly affect the value of the company, while the partial mechanism of Good Corporate Governance provides a very weak influence the direction of positive correlation and significantly affect the value of the company. Then the capital structure provides a very weak influence the direction of the relationship is a negative and significant effect on firm value.

Keywords: Good Corporate Governance, institutional ownership, independent commissioner, audit committee, capital structure, a value of the firm.
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Bank Indonesia (BI) revealed that 69 percent of domestic banks still violate Good Corporate Governance (GCG) rules as regulated in PBI Number 4/2006 which was updated with PBI Number 14/2006. Violations that occurred mainly in the cases of independent commissioners, which reached 53 percent, followed by violations in the formation of committees, which reached 30.7 percent, the number of independent commissioners which was not fulfilled about 18 percent, violations in the independence of president director of shareholders reached 10 percent, and cases of dual positions reached 7 percent. In addition to several cases of violations of the implementation of Good Corporate Governance, several banks also have made substantial loans to China Development Bank for with the total of US $3 billion or equal to 42.28 trillion rupiahs to finance the development of infrastructure and trade, especially performed by two countries. Many violations that occur in the banking industry can reduce investor confidence to invest in companies, which ultimately can reduce the value of the firm.

The results of the previous research indicate that the ownership measured from the percentage of share ownership by the institution has an effect on the value of firm (Muryati and I Made (2014), Sari and Akhmad (2012), Herawati (2008), and Lastanti (2004)). While the results of the research conducted by Ningtyas, et al. (2014), Tarjo (2008), and Demsetz and Belen (2001), stated that institutional ownership has no effect on the value of the firm. Moreover, results of research conducted by Alfinur (2016), Sudana and Putu (2011), and Kyereboah (2007), showed that independent commissioners positively influence the value of the firm. The results of research conducted by Muryati and I Made (2014), stated that audit committee does not affect the value of firm, while the results of research conducted by Chan and Jeane (2008), stated that the audit committee serves to supervise internal controls, and the presence of such supervision will increase the value of firm. The research conducted by Cahyono, et al. (2014), stated DER has a significant effect on Tobin’s Q, while research conducted by Ogolmagai (2013), stated DER has no relationship or cannot affect the value of the firm.

Due to the existence of some phenomena of violation done by banking sector and some research results which are still contradictory, hence this research is aimed to analyze the influence of mechanism of good corporate governance (institutional ownership, independent commissioner and audit committee) and capital structure (debt-equity ratio) on value of firm, either jointly or partially on banking which went public in period of 2010-2014.

Good Corporate Governance

GCG (Good Corporate Governance) is a system that regulates and controls the company that leads to increasing the value of the company. Good Corporate Governance (GCG) is a set of laws, regulations, and rules that must be fulfilled, which can drive the performance of company resources to function efficiently and produce long-term and sustainable economic value for both shareholders and the surrounding community as a whole ((World Bank) in Effendi, 2009).

According to Muryati and I Made (2014), state that Internal Mechanism is a way to control a company by using internal structure and internal process, such as a general meeting of shareholders, composition of the board of commissioners, composition of the board of directors, meeting with the board of directors. Board of independent commissioners is measured from the percentage of independent commissioners to the total number of members of the board of commissioners. Murni and Adriana (2007):

\[
\text{Kepemilikan Institusional} = \frac{\sum \text{saham yang dimiliki institusi}}{\sum \text{saham beredar}} \times 100\%
\]
In the attachment of decree of the board of directors of Jakarta Stock Exchange No.Kep-315 / BEJ/ 06-2000 point 2f, regulation on the establishment of the audit committee. The audit committee will play an effective role in enhancing the credibility of the financial statements and helping the board of commissioners gain the trust of shareholders, in order to fulfill the obligation to deliver information. The audit committee is measured from the percentage of independent audit committees to the total number of commissioners Surya and Ivan (2006):

\[
\text{Komisaris Audit} = \frac{\sum \text{komite audit independen}}{\sum \text{seluruh komisaris}} \times 100\%
\]

The ownership structure of the company is the main internal control in the implementation of mechanism which is divided into 2 (two), namely: (a) the concentration level in which a company is said to have a concentrated ownership structure if most of the shares are owned by a small number of individuals or institutions. While a company is said to have an ownership structure that is not concentrated if the share ownership is equally distributed to the public, so no one has a huge share of stock than the others (Wehdawati and Sufi, 2015). (b) Ownership of company, which is the ownership by institutional investors will encourage more optimal supervision of management performance. Institutional ownership, as measured by the percentage of share ownership by Murni and Adriana (2007):

\[
\text{Kepemilikan Institusional} = \frac{\sum \text{saham yang dimiliki institusi}}{\sum \text{saham beredar}} \times 100\%
\]

**Capital Structure**

Capital is a number of funds that become the basis for establishing a company. Source of capital can come from own capital or borrowed capital. Both types of capital will determine the capital structure of a company. According to Gitman (2006), capital structure is the capital from company’s long-term financing, which is shown on the right balance in addition to short-term debt. Capital structure theory explains whether there is an influence of capital structure on a value of the firm. The capital structure can be measured by debt to total equity (DER), which can describe the size of a company’s risk, the return, and revenue that will be received by the company. Debt to Equity Ratio (DER) can be formulated as follows Horne and Wachowics (2012):

\[
\text{DER} = \frac{\text{Total Hutang}}{\text{Total Ekuitas}}
\]

**Value of Firm**

The value of the firm is the price that the prospective buyer is willing to pay if the company is IDXng sold. Company value can be measured by Tobin’s Q ratio which shows a management performance in managing the assets of the company (Purwantini, 2011). Tobin’s Q ratio describes various phenomena in corporate activities, such as the difference of cross-sectional in investment decision-making process as well as the relationship between management stock ownership and value of the firm. Tobin’s Q includes all the elements of loan and stock capital of the company, not just common stock ele-
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Brealey, et al. (2000), mentions that companies with high Tobin’s Q usually have a very strong corporate brand image. Here is a formula to calculate the value of Tobin’s Q (Smithers and Stephen, 2007):

\[ Q = \frac{EMV + D}{EBV + D} \]

In which:
- **Q**: Value of Firm
- **EMV**: Market Value of Equity (EMV = closing price x number of stock)
- **EBV**: Book Value of Total Assets
- **D**: Book Value of Total Loan

**Hypothesis**

Good Corporate Governance mechanism is demonstrated by the concentration of institutional ownership, the number of independent commissioners, and the number of audit committees. Institutional ownership acts as a party to monitor company in general and as managers of the company in particular so that managers can act more carefully in making financing and investment decisions, in order to maximize the performance, which ultimately can maximize the value of the firm. The results of the research conducted by Muryati and I Made (2014), stated that institutional ownership affects the value of the firm. The value of firm is also influenced by a board of independent commissioners. The number of independent commissioners is proportional to the number of shares owned by non-controlling shareholders with the provision of the number of independent commissioners at least 30% of the total members of commissioner (Lastanti, 2004). The higher the board of independent commissioners, the better the board of commissioners independent conduct supervision and coordination function in the company; therefore, managers can act more carefully to maximize the value of the firm. The results research conducted by Ningtyas, et al. (2014), Muryati and I Made (2014), Perdana (2014), and Kyereboah (2007), indicate that independent commissioners significantly influence the value of the firm.

In addition to a board of independent commissioners, the audit committee has an effective role in improving the credibility of financial statements in order to make investors trust in the company, so that investors will be interested to invest in the company, which will increase the value of firm. Results of research conducted by Ningtyas, et al. (2014), and Muryati and I Made (2014) stated that audit committees significantly influence the value of the firm. One of the most important decisions that require control and supervision is funding decision. The funding decision is related to the establishment of funding mix. Funding from loan provides cheaper cost of capital, but the use of fund from a loan which is too much can lead to high-interest costs; therefore, it can reduce the profit of the company that can ultimately reduce the value of the firm. According to Sudana and Putu (2011), the value of firm decreases if the debt used is higher. The results of research conducted by Cahyono, et al. (2014), Dewi, et al. (2014), and Chowdhury and Chowdhury (2010), show that capital structure influences the value of the firm.

Thus, the hypotheses that can be proposed are as follows:

H1: There is an influence of the mechanism of Good Corporate Governance (institutional ownership, independent commissioner, and audit committee) and capital structure (Debt to Equity Ratio) on the value of firm jointly in public banking period of 2010-2014.

H2: There is an influence of Good Corporate Governance (institutional ownership, independent commissioner, and audit committee) and capital structure (Debt to Equity Ratio) on the value of firm partially in public banking period of 2010-2014.

**Method**

The type of method used in this research is explanatory survey method. The explanatory survey is a study that explains the causal relationship between the variables through hypothesis testing (Hermawan, 2009). The data used as the basis for testing the hypothesis is secondary data obtained from the financial statements of the company. Data
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The independent variables consist of (a) Good Corporate Governance (GCG) mechanism measured by institutional ownership (X1) with indicator of the percentage of institutional ownership, independent commissioner (X2) with indicator of the percentage of independent commissioners, and audit committee (X3) with indicator of the percentage of audit committee (b) capital structure measured by Debt to Equity Ratio (DER). While (2) the dependent variable is value of firm measured by Tobin's Q ratio.

The populations in this research were 46 banking companies that went public during the period of 2010-2014. From the existing population, there are some companies that do not have complete data, so that from 46 companies, samples that could be taken were only 26 companies. The sampling method used is purposive sampling. Multiple regression with panel data was used to examine the influence of the mechanism of Good Corporate Governance and capital structure on a value of the firm. To obtain accurate results, then analysis test performed was normality test of data by using Jarque-Bera (J-B) coefficient. Furthermore, classical assumption test consists of multicollinearity test with tolerance value $\geq 0.10$ or equals to VIF value $\leq 10$, heteroscedasticity test measured by using Breusch-Pagan-Godfrey by regressing the square of residual value (error) against all independent variables, autocorrelation test by using Durbin-Watson (DW) test. Panel data used in this study would be tested with Pooled least square (PLS), fixed effects least square dummy variable model, fixed effect within group model and random effect model. To determine the model of panel data regression used, then panel data was selected by using Chow Test to determine PLS or fixed effect. Hausman Test was used to determine fixed effect model or random effect model. Lagrange Multiplier (LM) test was used to determine random effect or PLS. The hypothesis was tested by using F test for joint test and t test for partial test, by using significance level of $\alpha = 0.05$ or 5% with a degree of freedom $df = n - k - 1$.

Research Results

The level of institutional ownership of banking which went public in a period of 2010-2014 tends to be stable. The ups and downs of the percentage of institutional share ownership are due to the ups and downs of shares owned by institutions, such as governmental institutions or private institutions. The level of independent commissioners tends to increase. A significant increase occurred in 2012 and a significant decline occurred in 2014. The ups and downs of the percentage of the number of board of independent commissioners were due to the increase in the number of board of independent commissioners compared to the total number of board of commissioners. The higher the board of independent commissioners, then the better the independent board of commissioners in performing the monitoring and coordination function in the company, which will increase the value of the firm. The percentage of audit committee members tends to increase. The ups and downs of audit committee were due to the ups and downs of the number of audit committees established by the board of commissioners to supervise the management of the company. The existence of audit committee in a company will contribute to the quality of financial statements, which can increase the value of the firm. The condition of the capital structure of company tends to decrease. A significant decrease occurred in 2011 until 2013. The size of the capital structure of company measured by debt to equity ratio is determined by the large proportion of funding sources used. In banking company, high debt to equity ratio shows that the company can attract a lot of funds from the community.

The level of value of firm tends to decrease, but in 2012 there were companies that experienced a very significant increase, and in 2014 there were some companies experienced a significant decline in the value of the firm. The increase of value of firm was due to the improvement in financial performance of the company, which was followed by the increase in stock price of company, while the decline in the value of firm was due to the decline...
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in the financial performance of company, which was followed by the decline in stock price of company. If it is related to the previous analysis, it can be seen that the ups and downs of institutional ownership, independent commissioners, audit committees, and capital structure can affect firm value. Based on the description above, examining the influence of the mechanism of Good Corporate Governance and capital structure on a value of the firm with panel data was done by determining the best model based on some of the test mentioned above. Here are the results of data processing to determine the panel data regression model:

<table>
<thead>
<tr>
<th>Test</th>
<th>Test Results</th>
<th>Conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chow Test</td>
<td>p-value 0.000 &lt; 0.05</td>
<td>Fixed Effect Model</td>
</tr>
<tr>
<td>Hausman Test</td>
<td>p-value 0.6950 &gt; 0.05</td>
<td>Random Effect Model</td>
</tr>
<tr>
<td>Lagrange Multiplier (LM) test</td>
<td>Prob. Breusch-Pagan 0.0000 &lt; 0.05</td>
<td>Random Effect Model</td>
</tr>
</tbody>
</table>

Source: Results of data processing using Eviews 7

Before conducting regression test by using random effect approach, regression analysis of panel data of the influence of Good Corporate Governance mechanism and capital structure to a value of the firm in banking company that went public in the period of 2010-2014 must meet several assumptions, so that the result is not biased. Some classical assumption test results obtained are as follows:

Table 2 Results of Data Normality Test and Classic Assumptions

<table>
<thead>
<tr>
<th>Test</th>
<th>Test result</th>
<th>Conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normality Test</td>
<td>Jarque-Bera Test: 0.542701 &gt; 0.05</td>
<td>Normal distributed</td>
</tr>
<tr>
<td>Multicollinierity Test</td>
<td>Institutional ownership (1.141291 &lt; 10)</td>
<td>No multicollinierity</td>
</tr>
<tr>
<td></td>
<td>Independent commissioners (1.125003 &lt; 10)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Audit committee (1.125874 &lt; 10)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Capital structure (1.154882 &lt; 10)</td>
<td></td>
</tr>
<tr>
<td>Heteroscedasticity Test</td>
<td>R-squared (3.54328) &lt; c² (9.488)</td>
<td>No heteroscedasticity symptoms</td>
</tr>
<tr>
<td>Autocorrelation Test</td>
<td>The value of DW is in the range of 1.777&lt;2.040409&lt;2.223</td>
<td>No positive and negative autocorrelation in regression model</td>
</tr>
</tbody>
</table>

Source: Results of data processing using Eviews 7

Based on the test result, the regression model equation used was multiple regression analysis for panel data by using random effect. The following table presents the regression model that is formed:

Regression model formed based on the results of this research is as follows:

\[ Y = 1.015547 + 0.092901 X_1 + 0.167623 X_2 + 0.111855 X_3 - 0.034665 X_4 \]

From the regression equation above, a constant value obtained is 1.015547. It means that if the variable of firm value is not affected by the mechanism
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Table 3  Multiple Linear Regression

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership_institutional</td>
<td>0.092901</td>
<td>0.030160</td>
<td>3.080225</td>
<td>0.0025</td>
</tr>
<tr>
<td>Commissione_independent</td>
<td>0.167623</td>
<td>0.073851</td>
<td>2.269748</td>
<td>0.0249</td>
</tr>
<tr>
<td>Committee_audit</td>
<td>0.111855</td>
<td>0.040251</td>
<td>2.778965</td>
<td>0.0063</td>
</tr>
<tr>
<td>Structure_capity</td>
<td>-0.034665</td>
<td>0.007040</td>
<td>-4.923809</td>
<td>0.0000</td>
</tr>
<tr>
<td>C</td>
<td>1.015547</td>
<td>0.097953</td>
<td>10.36765</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Source: Results of Output Eviews 7

of GCG measured by institutional ownership, independent commissioner, audit committee, and capital structure, then the value of the firm is 1.015547. The value of regression coefficient of institutional ownership amounted to 0.092901 means that if the percentage of institutional ownership increases by 1%, then the value of the firm will increase by 0.092901%. Then the regression coefficient for the variable of board independent commissioner amounted to 0.167623 means that the percentage of independent commissioner increases by 1%, then the value of the firm will increase by 0.167623%. Furthermore, the regression coefficient of audit committee amounted to 0.111855 means that the percentage of audit committee increases by 1%, then the value of the firm will increase by 0.111855%. Then, the regression coefficient of capital structure amounted to -0.034665 means that each increase in capital structure by 1% will decrease the value of the firm by 0.034665%.

A regression model that has been obtained need to perform fit model (Goodness and Fit) test by using determination coefficient test. Based on the results of data processing, value of R2 obtained is 0.380895 which means that the variability of firm value can be explained by GCG mechanism measured by institutional ownership, independent commissioner, audit committee, and variable of capital structure in this research is 38.08%, while the rest is 61.92% is explained by other variables outside the research model. The value of Prob (F-statistic) amounted to 0.000 means that the panel data regression model has met good of the fit, meaning that the panel data is compatible with the existing theory. Thus, it can be concluded that together with the mechanism of Good Corporate Governance measured by using institutional ownership, independent commissioner, an audit committee, and variable of capital structure significantly influence the value of the firm.

While the partial test obtained the result of the amount of sub-variable of institutional ownership in giving influence to the variable of company value is 8.19%. The amount of sub-variable of the independent commissioner in giving influence to a variable of the value of the firm is 5.32%. The amount of sub-variable of audit committee in giving influence to a variable of company value is 5.95%. The amount of capital structure variable in giving effect to a variable of firm value is 18.64%. The results of the partial hypothesis test (t-test) indicate that the mechanism of Good Corporate Governance with sub-variable of institutional ownership, independent commissioner, audit committee, and capital structure significantly influence the value of firm partially because it has prob value < 0.05.

Discussions

Based on the results of the hypothesis test, it can be concluded that the mechanism of Good Corporate Governance both jointly and partially which is measured by using institutional ownership, independent commissioner, audit committee, and variable of capital structure significantly influences the variable of firm value. According to Effendi (2009), companies that do not implement GCG are less appreciated by the society; therefore, it can reduce the trust of society to invest in the company, which in turn will reduce the value of the firm.
The results of this study are also supported by the results of the previous discussion which stated that the concentration of institutional ownership is share owned by institutions such as insurance companies, investment companies and other institutional ownership (Tarjo, 2008). Institutional ownership acts as a party that monitors company in general and as manager of the company in particular. Institutional ownership has important meaning in monitoring management because institutional ownership will lead to more optimal supervision on management performance, so management will be more careful in making a decision. The higher the level of institutional ownership, then the control of the company becomes stronger; therefore, the value of the firm will be increased. The results of this study are supported by the results of research conducted by Muryati and I Made (2014), Sari and Akhmad (2012), Herawati (2008), and Lastanti (2004), which indicate that institutional ownership affects the value of the firm.

Board independent or board of independent commissioners is the number of board of commissioners in the company. Based on the Law number 1 of 1995 about Limited Liability Company, duties of the board of commissioners are: (1) to supervise the directors’ policies in running company, and (2) to give advice to the directors. Furthermore, in the regulations issued by Jakarta Stock Exchange regarding independent commissioners, the total number of independent commissioners is proportional to the number of shares owned by non-controlling shareholders with the number of independent commissioners shall be at least 30% of the total members of the board of commissioners (Lastanti, 2004). The higher the board of independent commissioners, the better the independent board of commissioners in performing the monitoring and coordination function in the company, which will increase the value of the firm. The results of this study are supported by results of studies conducted by Muryati and I Made (2014), and Ningtyas, et al. (2014), which indicates that independent commissioners influence the value of the firm.

The audit committee also plays a role in overseeing the financial reporting process of the company, which is aimed at realizing the financial statements prepared through audit process with the integrity and objectivity of the auditor. The audit committee will play an effective role in enhancing the credibility of financial statements and helping the board of commissioners gain the trust of shareholders to fulfill the obligation to deliver information. The existence of audit committee in a company will give contribution in the quality of financial statements, which can increase the value of the firm (Ningtyas, et al., 2014). Therefore, the higher the audit committee, the higher the value of the firm. The results of this study contradict the results of research which were conducted by Muryati and I Made (2014), which show that audit committee does not affect the value of the firm.

Capital structure is an important aspect for every company because it has a direct effect on the financial position of the company. Capital structure is often associated with a value of the firm. This is because company’s capital structure can show the risk level of a company. The company that has high DER levels indicates that it uses a lot of debt, so if it is not followed by a large increase in profits, it would be a negative signal for companies that resulted in a decrease in investor trust in investing in the company. As the result, investors will draw their capital, so that the value of firm may decrease. Therefore, the higher the capital structure, the lower the value of the firm. The results of this study are supported by the results of research conducted by Cahyono, et al. (2014) and Chowdhury and Chowdhury (2010), which shows that debt to equity ratio (DER) affects the value of the firm.

CONCLUSIONS

Mechanism of GCG measured by institutional ownership, independent commissioners, and audit committees can provide control for management in financial decision-making, so management will be more cautious in any strategic decision making for company. This will increase the trust of the investor in the investment so that the value of the firm will increase. The value of firm is also influenced by capital structure. The capital structure shows the risk level of a company. Companies that can in-
crease the revenues of shareholders for their investment of funds used will be able to increase the value of the firm. The results of statistical tests show that the GCG mechanism and capital structure significantly influence the value of the firm, either partially or partially.

Suggestions
Banking sector should use the mechanism of GCG and capital structure of company in order to implement GCG in accordance with the provisions set by Bank Indonesia in order to increase public trust in saving their money in banks and increase the trust of investors in investing in the share of company because the results of the study show that those two variables have significant influence.

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