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Analysis of The Effect of Good Corporate Governance on Company Value in Construction and Building Sub Sectors

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ABSTRACT

The study mainly aimed to analyze the effect of the mechanism of good corporate governance on the company value. The population of this study is the construction and building sub-sector companies in the period 2013 - 2017 registered in the Indonesia Stock Exchange. Data were obtained from 10 companies as the sample using purposive sampling method. The analytical method used was multiple linear regression using e-Viewers 9. The results of this study indicated that 90,697 percent of the company value is affected by independent variables including managerial ownership, institutional ownership, independent board of commissioners and board size, and 9.303 percent is explained by factors outside the regression model.
Keywords : Company Value, Good Corporate Governance, Ownership, Construction and Building

I. INTRODUCTION AND LITERATURE REVIEW

The crisis that hit Indonesia which began in the middle of 1997 was one of them due to the low implementation of corporate governance. This is marked by a lack of transparency in the company's management that makes public control very weak and the majority of large shareholders are held by families causing obvious intervention of the majority shareholders in the management of the company and creating conflicts of interest that greatly deviate from the norm of good corporate governance.

The emergence of conflicts of interest in a company results in opportunistic management resulting in low quality of earnings. The low quality of earnings will lead to mistakes in decision making from users such as investors and creditors, so that the company value will shrink (Siallagan and Machfoedz 2006).

Given that earnings information is an important part of the information provided by management, it is undeniable that manipulation of earnings is often done by management as well as from company owners. Less quality profits usually occur because, in running the company's business, management is not the owner of the company.

This separation of ownership can lead to conflicts in the control and implementation of company management which causes managers to act in accordance with the wishes of the owners. The conflicts that occur because of separation of the ownership are called agency conflicts. The view of agency theory where there is a separation between the agent and the principal which results in the emergence of potential conflicts can affect the quality of reported earnings. Management that have certain interests will tend to compile a profit report that is in accordance with their objectives and not for the interests of the principal.

Based on Gross Domestic Product (GDP) data, in the past 7 years (2011-2017), the construction business category had a large share of the structure of Indonesia's GDP, which is an average of 9.82%, or in the 4th in the structure of the Indonesian economy. The share of the construction business category has a tendency to continue to increase.

The construction sector has an important role in Indonesian economic growth. Where, foreign investment has increased every year, for example in 2017 the total foreign investment in the construction sector reached US $ 225 million, 20% higher than in 2016 which was US $ 187 million. Whereas there are increases and decreases in domestic investmen, for example in 2017 that reached Rp 30.34 billion. The increase in foreign capital investment from year to year followed by increased domestic capital investment. This has become one of the concentrations of economist to maintain the value of the company so that it still has a good perception for investors.

The value of the company is very important because it reflects the company's performance which can affect investors' perceptions of the company. Since the implementation of corporate governance is important to be done by companies that have go public, the government issues a decree that must be implemented by SOEs, namely the Minister Decree of StateOwned Enterprises (BUMN) No: Kep-117 / M-MBU / 2002 concerning the implementation of corporate governance. In general, investors make use of financial statements that reflect the value of the company to invest. Therefore, it is necessary to implement good corporate governance that is expected to control agency conflicts occured.

This study focuses to the analyze and find empirical evidence on any factors that can influence the mechanism of good corporate governance on value firm in the construction and building sub-sector for the period 2013-2017.

Theoritically, mechanism good corporate governance is applied in corporate practices for preventing agency conflict and increasing the value of the company. Therefor this study focuses to analyze the effect of good corporate governance on value of company.

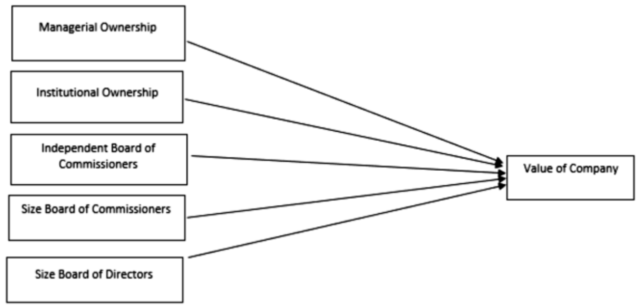

Figure 1: Framework of the Study

1.2 Research Objectives

Based on the formulation of the problem above, the purposes of this study is for analyzing the effect of the mechanism of good corporate governance on the company value of the construction and building sub-sector for the period 2013 - 2017.

II. RESEARCH METHODS

2.1 Research Methodology and Data Analysis

In order to analyze the effect of good corporate governance on firm value in the construction and building sub-sectors in 2013-2017. The data and variables used in this study are:

The Data used in this study are secondary data obtained from various relevant institutions in Indonesia in the form of a time series. Secondary data in this study were obtained from the Indonesia Stock Exchange (BEI) and the Central Bureau of Statistics (BPS). Observations were conducted from January 2013 until December 2017.

The Population of this study is all infrastructure companies in the construction and building sub-sectors registered in Indonesia. The data used are annual and financial reports. The sub-sectors that became the samples of this study were obtained with certain criteria (purpose sampling). There are ten companies which have complete criteria. Where, seventeen company are listed in Indonesia Stock Exchange period 2013-2017sub-sectors construction and building and seven companies have not complete data.

The Method this study used panel data from which an overview of the effect of variables on the company value of construction and building sub-sectors in Indonesia is expected to be provided. The use of the panel data method is based on Collin's study et al. 2001. The model is shown as follows:

$NPit = \beta 0 + \beta 1\ KM + \beta 2\ KI + \beta 3\ DKI + \beta 4\ UDD + \beta 5\ UDK + \varepsilon$

$\beta 1, \beta 2, \beta 3, \beta 4, \beta 5, \geq 0$ means the components of good corporate have a positive effect on the company value. Where, NP is value company, KM is managerial ownership, KI is institutional ownership, DKI is independent board of commissioners, UDD is size board of commissioners, and UDK is size board of directors.

2.2 Data Analysis to Identify Effect of the Variable of Good Corporate Governance on Company Value

The descriptive statistics from the data used in this study is includes the number of data (observations), average values (mean), maximum values, minimum values and standard deviations.

Table 1. Descriptive Statistics

	NP	KI	KM	DKI	UDD	UDK
Mean	1.511578	0.485944	0.026834	0.368905	5.840000	5.200000
Median	1.363420	0.411534	0.011069	0.333333	6.000000	6.000000
Maximum	4.146844	0.962608	0.099740	0.500000	9.000000	7.000000
Minimum	0.706536	0.126248	0.000000	0.166667	3.000000	2.000000
Std. Dev.	0.758973	0.223220	0.032449	0.065374	1.633326	1.124858

Fixed effect model (FEM) was used in this study. The result of the classical assumption test suggested that the normality test, autocorrelation test and heteroscedasticity test were in accordance with the criteria model, p>0.05.

Therefore, the data to be processed can generate the best estimator and be free from problems. The result of the regression was use fixed effect model, show in below table:

Table 2. Panel Data Regression Model

	Coefficient	Prob.
C	4.925145	0.0000
KM	26.36946	0.0000*
KI	0.305204	0.3311*
DKI	-3.600139	0.0000*
UDK	-0.335689	0.0000*
UDD	-0.207239	0.0007*
R-Square	0.906972	
Prob(F-Statistic)	0.000000	

R-squared value was 90,697 percent, which means that 90,697 percent of the variation in company value can be explained by the independent variables, while the remaining 9.303 percent is explained by factors or variables outside the regression model. The probability value of the F-statistic of the model showed values of 0.00000 which means its value smaller than α of 5 percent. This result indicates that all the independent variables including managerial ownership, independent board of commissioner, board size of commissioner, board size of director simultaneously had a positive effect in the dependent variable (company value).

The Effect of Managerial Ownership on Company Value

Managerial ownership (KM) variable had a positive significant effect on the company value at each model (smaller probability compared to the real level of 5 percent). The result of this study is in accordance with Soliha and Taswan's study (2002). Managerial ownership will align the interests of management with shareholders, so that they will directly gain benefit from the decisions taken as well as bear losses as a consequence of making wrong decisions. The effect will be the increase of the company value following the best decisions taken. It is significant that the influence of managerial ownership will encourage management to improve company's performance because they also own the company. The increase of company's performance will increase the company value (Sujoko and Soebiantoro, 2007).

The Effect of Institutional Ownership on Company Value

Institutional ownership (KI) variable had a negative effect on the company value (greater probability than the real level of 5 percent). The result of this study is in line with Sujoko and Soebiantoro (2007) that institutional ownership had a negative insignificant effect on the value company. Animah and Ramadhani's study (2009) explained that institutional ownership had an insignificant effect on the company value. Even though the company has large institutional ownership, it is considered not capable of carrying out the supervisory function of company activities related to improving company performance.

The Effect of the Independent Board of Commissioner on The Company Value

The variable of the independent board of commissioners (DKI) had a positive significant effect on company value (probability of 0.000 smaller than the real level of 5 percent). The higher the proportion of independent commissioner in the company, the more effective the supervisory and advisory to the directors the board of commissioners can carry out and this provides added value to the company (Carningsih, 2009). This is in line with the Siallagan and Machfoedz's study (2006) which used the proportion of independent commissioner to determine the effect on company value as measured by Tobin's Q, found that the proportion of independent commissioners had a positive effect on company value.

The Effect of Size of Board of Commissioner on Company Value

Board size of commissioner (UDK) variable had a positive effect on the company value (smaller probability than the real level of 5 percent). The probability value shown in each model showed the board size of commissioner (UDK) had a positive effect on the company value. The result of this study is in line with Kawatu's study (2009) which states that the board of commissioner had a positive significant effect on company value.

The Effect of Size of Board of Director on Company Value

The board size of director (UDD) variable had a positive significant effect on the company value at each model (smaller probability compared to the real level of 5 percent). The board size of director (UDD) with a smaller probability level than 5 percent level suggested the size of board of director (UDD) had a positive effect on the company value. The result of this study is in line with Susanti's study (2010) concluding that the board size or the number of board of directors had a positive significant effect on company value. From this relationship, it is shown that the number of board size (board size of directors) increases in line with the condition of the company, meaning that the management of the company by the board of directors is getting better, so that the company's performance will increase and the company value will accordingly increase.

III. FINDING AND CONCLUSION

This study discusses the effect of the good corporate governance mechanismon the value of the company in the sub-sector construction and building periode 2013-2017 that has been listed on Indonesia Stock Exchange. The finding show that the mechanism of good corporate governance had a positive significant effect on company value (NP). Components that had a positive significant effect are managerial ownership (KM), independent board of commissioner (DKI), board size of director (UDD) and board size of commissioner (UDK). This means that if one component of good corporate governance is increased, it will have a positive or increasing effect on the value of the company.

Partially, only the institutional ownership component (KI) showing insignificant effect on the company value. Institutional ownership had an insignificant effect on the company value Further studies are needed on institutional ownership of the construction and building sub-sectors. Overall the implementation of a good corporate governance mechanism which consist of managerial ownership, institutional ownership, the size of the board of directors and the size of the board of commissioners in sub-sector construction and building companies that are sampled in the study have a positive effect on increasing company value.

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