

Conference Paper

How Important Are the Roles of GCG, Capital Structure and Profitability in the Company Values?

Yuli Agustina and Febiyana Dwi Safitri

Universitas Negeri Malang

Abstract

The purpose of this study is to examine the effect of the independent board of commissioners, managerial ownership, capital structure and profitability on company value, both partially and simultaneously. The sample in this study were 25 Consumer Goods Industries that were listed on the Indonesia Stock Exchange in 2013-2016. Purposive sampling method was used with certain criteria. In order to analyze the collected data, descriptive analysis and multiple linear regression analysis were used. The results of this study indicate that partially the independent board of commissioners and capital structure do not affect the value of the company, managerial ownership and profitability affect the value of the company. While simultaneously the independent board of commissioners, managerial ownership, capital structure and profitability affect the company value. This is because managers are successful in managing their business well. So the company can compete with other companies and gain maximum profit for the company. Future studies are expected to be able to use different variables or add to the proxy of Good Corporate Governance such as the audit committee, institutional ownership and so on.

Corresponding Author:

Yuli Agustina

yuli.agustina.fe@um.ac.id

Received: 27 December 2019

Accepted: 15 April 2020

Published: 23 April 2020

Publishing services provided by

Knowledge E

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Selection and Peer-review under

the responsibility of the 3rd

IRCEB Conference Committee.

Keywords: Company Value, Independent Commissioners, Managerial Ownership, Capital Structure and Profitability.

1. Introduction

As time goes by, the business world is developing so rapidly today. This is shown by the presence of manufacturing, trading and service companies. This research was conducted at the consumer goods industry company. The company sector has become one of the fastest growing businesses, thus it has attracted many investors. However, economic growth in that sector increased fluctuating growth during 2013-2016. This study developed from previous studies of Purwantini (2013), Dewi and Nugrahanti (2014) due to the research gap in research regarding independent commissioners and managerial ownership. Therefore, researchers are interested in examining again by adding capital structure and profitability variables. So that this study aims to determine

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the effect of independent board commissioners, managerial ownership, capital structure and profitability of company value, either partially or simultaneously.

According to Dewi and Wirajaya (2013) stated that the company value is the price that a potential buyers are willing to pay if the company is sold. If the performance of the company is good, it will affect the increasing value of the company. In the other hand, if the company's performance is not good, then it will affect the declining value of the company. The ups and downs of the company value can be seen from the company's stock price. There are several ways that can be used in measuring the value of the company, one of which uses Tobins'Q ration which was firstly introduced by James Tobin. Weston and Copeland (1995: 245) said that Tobins'Q ratio can be calculated by dividing the market value of all securities, then divided by the replacement cost of assets.

Either good or poor company value will be related to how the system of corporate governance (GCG). Sutedi (2011: 1) indicated that corporate governance is a process and structure used by the company (shareholders / capital owners, commissioners / supervisory board and directors) to improve the success of the business and corporate accountability in order to create value for shareholders in the long term and continually consider other stakeholders, based on legislation and ethical values.

In this study, good corporate governance can be seen from the independent board of commissioners and managerial ownership. An independent board of commissioners is a board member who is not affiliated with the management and controlling shareholders. The existence of an independent board can improve the effectiveness of supervision as well as the quality of financial reporting (Dechow et al, 1996). The independent board of commissioners can be measured by dividing the number of independent commissioners divided by the number of commissioners.

While the managerial ownership is a party in the company which plays the role as manager and shareholder, the existence of this managerial ownership can cause agency problems that occur between the manager (agent) and the owner of the company (principal). This is due to the differences of interests between managers and company owners. Therefore, it is necessary to control the mechanism to align the differences in interest between the manager and the company owner to be able to increase the company value.

Despite good corporate governance, capital structure and profitability can also affect the company value. The capital structure is a balance between debt and equity in the long-term financial structure of a company. Good or poor capital structure will indirectly

affect the company’s financial position. The capital structure can be calculated using Debt Equity Ratio (DER), by dividing total debt by total own capital.

The amount level of capital structure used by the company will determine how much profit can be generated by the company. Profitability is the company’s ability to generate profits. The amount of the profits generated by the company will give an idea whether the company has good prospects or not in the future. Profitability can be calculated using Return On Assets (ROA), i.e. by dividing net income after tax by total assets.

2. Method

The method used in this study was quantitative research method associative that aims to find out the relationship between two or more variables. The independent variables in this study were the independent board of commissioners (X1), managerial ownership (X2), capital structure (X3) and profitability (X4).

The population in this study was 44 companies in the Consumer Goods Industry. The sampling used was a purposive sampling technique with certain criteria. Based on predetermined criteria, there were 15 companies that would be used as research samples. This study used multiple linear regression analysis methods, the following regression model equation:

$$Y = \alpha + b1X1 + b2X2 + b3X3 + b4X4 + e$$

The next step, in order to provide a more accurate data the researchers used SPSS for windows version 23.

3. Result & Discussion

3.1. Result

Based on research that has been done, obtained the following results:

TABLE 1: Descriptive Statistics.

KET.	Tobins'Q	DKI	KM	DER	ROA
Average	2.47	0.39	0.10	0.62	0.07
Value Max.	15.07	0.75	0.81	1.72	0.26
Value Min.	0.05	0.33	0,00	0.07	-0.10

Source: Data are processed by researcher

Overall Tobins'Q average in the consumer goods industry companies in 2013-2016 was 2.47. This means if every 1 book company value is valued by the market at 2.47. On Tobins'Q average > 1 means that the company has successfully managed their assets well. Thus the company can increase its investment growth. Most of the investors who invest in the consumer goods industry will gain maximum returns. This is because the company is experiencing rapid growth as evidenced by the durability of the manufacturing sector supported by consumer companies. The performance of these companies is also higher than the other two sectors, namely various industrial sectors and basic chemical industries which are also becoming part of the manufacturing index to invest their funds (<http://www.kemenperin.go.id>).

The average independent board of commissioners during 2013-2016 was 0.39 or 39%. This means that from 100% members of the board of commissioners there are 39% who become independent commissioners. This percentage is in accordance with the regulations of the Financial Services Authority Number 57 in 2017 in which companies are required to have an independent board of commissioners at least 30% of the members of the commissioners' board. There are 5 companies that have independent commissioners above the average. While 10 companies have independent commissioners below average. Based on the data obtained, it can be seen if the sample of consumer goods industry companies listing on the IDX is classified as good. This is because the number of independent commissioners has exceeded the minimum requirement of 30%.

Managerial ownership in consumer goods industry companies in 2013-2016 has an overall average of 0.10 or 10%. This means that 100% of total shares owned by the company there are 10% of shares owned by management. There are 11 companies that have a managerial ownership below the average and the remaining four companies have managerial ownership above the average. The fewer the number of managerial ownership in the company, it is difficult for managers and owners of the companies to unite their interests. Thus the difference in interest may encourage managers to skew the results in losses for the company owner. In the other hand, the higher the number of managerial ownership can reduce agency conflict that occurs between managers (agents) and company owners (principal).

The average capital structure (DER) in the consumer goods industry companies in 2013 to 2016 was 0.62 or 62%. This means if 100% of capital owned by the company there are 62% derived from debt. The use of the capital structure can be said to be reasonable because it has a DER level below 100%. There are 7 companies that have capital structure above the average, while the remaining 8 companies have capital

structure below average. The higher the DER value, the higher the risks of the company to immediately return the loan to the debt holder, and vice versa.

While profitability (ROA) in consumer goods industry companies during 2013-2016 had an overall average of 0.07 or 7%, this means that from 100% of total assets, the company is able to provide a profit of 7%. There are 8 companies that have profitability levels above average. While the remaining seven companies had a lower level of profitability on average. The higher the ROA level can be interpreted if the company has sufficient ability to generate profits. Thus, it can generate a positive perception for investors if the company has good prospects in the future.

From the results of multiple linear regression analysis, the constant value (α) of 3.828 is obtained. That is when the variables of independent commissioners, managerial ownership, capital structure and profitability in a state of constant or zero, the average value of the company (Tobins'Q) amounted to 3,828. The independent board of commissioners produced β value of 0.992 with 0.053 significance value > 0.05 , it means if the board of independent commissioners has no effect on the company value. Managerial ownership has a β value of 0.108 to 0.019 significance value < 0.05 . This means that managerial ownership affects the value of the company.

Capital structure has β value of -0.039 with significant value of 0.7776 > 0.05 , it means that the capital structure does not affect the company value. While profitability produces β value of 0.729 with significance value of 0.0000 < 0.05 .

3.2. Discussion

The consumer goods industry companies in this study indicate that the independent board of commissioners is still very low. However, it has an average independent commissioner board that has exceeded the regulations of the FSA which is 38.9%. The results of this study indicate that the size of the proportion of the board of independent commissioners has not been able to help the company in increasing the company value.

The existence of the board of commissioners does not affect the company value, because the sample companies only make the independent board of commissioners a formality that must be fulfilled as a securities company. This causes the independent board of commissioners cannot be able to carry out the oversight function and provide advice to the board of directors. Darwis (2009) investigated that there is a possibility that the placement or addition of independent commissioners is only to meet regulatory requirements. Research conducted by Darwis (2009) and Purwantini (2011) supports the results of this study, which states that the independent board of commissioners

does not affect the company value. This is due to the role of the independent board of commissioners has not been felt even though there are regulations governing it. However, the results of this study are not in line with studies conducted by Siallagan and Machfoedz (2006), Abbasi et al (2012) and Dewi and Nugrahanti (2014) who stated that if an independent board of commissioners had an effect on company value.

In accordance with agency theory which is by high managerial ownership can reduce agency conflict that occurs between managers (agents) and company owners (principals). So that it can increase the company value. This is because the manager and the company owner will align their different interests. A high proportion of managerial ownership can make managers more active in carrying out the interests of shareholders who are none other than themselves. The results of this study are consistent with research conducted by Purwantini (2011), Abbasi et al (2012) and Muhtar et al (2014) which showed that managerial ownership affects company value. The greater the percentage of the number of shares owned by one individual or institution can increase the company value. However, the results of this study are not in line with research conducted by Siallagan and Machfoedz (2006), Dewi and Nugrahanti (2014) who stated that managerial ownership has no effect on company value.

Capital structure has no effect on company value. This is because every company has its own policy regarding how much funding the company will use to carry out operational activities. The absence of a relationship between capital structure (DER) and company value can be interpreted if interest costs and capital costs are relatively the same and each has advantages and disadvantages. Sofyaningsih and Hardiningsih (2011) found that the use of debt will be beneficial if the business climate is in good condition, so that the benefits of using debt will be greater than the cost of interest. On the contrary, if the business climate is uncertain, the benefits of using debt can be less than the interest costs incurred.

The results of this study are in accordance with irrelevance theory, which states if the capital structure does not affect the company value (Sudana, 2015: 168). But it is influenced by the investment made by the company and the rate of return that will be obtained by investors. Dhani and Utama (2017) supports the results of research that states if the capital structure (DER) has no effect on company value. This is because companies that have high capital structure influence the decline in the company value. However, the results of this study are not in line with Moniaga (2013) and Muhtar et al (2014) which stated that capital structure influences company value.

The company used as the sample of this study had a high level of profitability. The higher profitability (ROA) can be interpreted if the company has good performance, so

that it can attract investors to invest in the company. With so many investors who invest in companies indirectly can increase stock prices. Thus, the high and low stock prices will affect the company value. The results of this study are in accordance with agency theory, the theory states that if a company has a management function and a separation of ownership functions between managers and owners can cause agency problems. This is because the manager will know in advance information about the development of the company. Therefore, in notifying company information must be done openly and in accordance with company conditions. Thus, investors will see this as a good prospect in the future, which can later increase the company value.

The results of this study are in line with research conducted by Wijaya and Sedana (2015), Dhani and Utama (2017) which found that profitability has an effect on company value. This is because the company has increased profits, so it gives an idea if the company has good performance. However, the results of this study are not in line with Moniaga (2013) which said that profitability has no effect on company value.

4. Conclusion

The independent board of commissioners does not affect the company value, managerial ownership affects the company value, capital structure does not affect the company value, profitability affects the company value and the independent board of commissioners, managerial ownership, capital structure and profitability simultaneously affect company value. Due to the manager managed the business well. Good corporate performance management indicates if the company has made the right decision, one of which is in the use of capital structure. Thus the company can compete with other companies and produce maximum profit. The higher profits generated can attract investors to invest in the company. This is because the company has good prospects in the future. Future studies are expected to use different variables, because the independent commissioner and capital structure variables cannot be used to influence the company value. In addition, it can also use more complex Good Corporate Governance proxies such as audit committees, institutional ownership and so on.

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