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The Influence of Good Corporate Governance on Company Value in Registered State-Owned Companies on the Indonesian Stock Exchange

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Abstract

One of the company's goals is to increase the welfare or maximize the wealth of shareholders through increasing company value. Company value can be influenced by several factors, including the number of company assets and how long the company has been established and also through good corporate governance. The internal elements of good corporate governance used in this research include institutional ownership and managerial ownership. Sampling using non-probability sampling obtained a sample of 20 companies so that the research data amounted to 100. The data collection technique used documentation from financial reports published on the official website of the Indonesia Stock Exchange, namely www.idx.co.id. The analysis techniques used are descriptive analysis, classical assumption test, panel data regression model, panel data regression analysis, partial test (t test), simultaneous test (f test), and coefficient of determination test (r2). The results of this research indicate that institutional ownership has a significant influence on company value. Managerial ownership has a significant and influential effect on company value. Then overall institutional ownership and managerial ownership influence company value.

Keywords: Institutional Ownership, Managerial Ownership, and Company Value.

Introduction

It is noted that the current global business conditions are experiencing significant and rapid growth. This strengthening and growth are accompanied by an increase in inter-corporate competition, which requires company managers to be able to implement the right and effective business direction, with the hope that corporate value increases so that the corporation can compete in a healthy business environment. Company value can be influenced by several factors, including the number of company assets and how long the company has been established and also through good corporate governance (Tarigan, 2021).

The value of a company can be said to be good if corporate governance is implemented well. To obtain good management, the company must implement good corporate governance (GCG) (Fatoni et al., 2020). The implementation of Good Corporate Governance in accordance with statutory regulations is also expected to be able to minimize the possibility of losses that arise in order to maximize company performance, marked by increasing the company's profits (Tarigan, 2021). Abidin and Prabantarikso (2021) also emphasized that the implementation of good corporate governance is crucial to prevent cases and various forms of violations within the company. The level of success in implementing Good Corporate Governance can be measured by an index of several composite values of good corporate governance.

The internal elements of good corporate governance used in this research include institutional ownership and managerial ownership. The implementation of governance can be encouraged from two sides, namely from the ethical side and the regulatory side. Meanwhile, the push from regulations (regulatory driven) arises from its coercive nature so companies are required to comply with applicable laws and regulations. Success in a company is largely determined by the company's strategic and managerial characteristics. As one of the mechanisms of good corporate governance, the presence of institutional ownership that oversees the majority of shares will of course be an effective monitoring tool and is also used to monitor management performance.

Another factor used to measure company value is managerial ownership. The company management as the company manager has a goal, namely maximizing company value as one of the company's long-term goals. Then, agency theory also discusses several company interest owners such as institutional ownership and managerial ownership. Then the difference between institutional ownership and managerial ownership lies in share ownership. Institutional ownership shares are shares owned by agencies or bodies that are investors in the company. Then there are managerial ownership shares, namely shares owned by an individual, usually the director of the company, the director is the manager of the company but also an investor. Company management is expected to act in making decisions in the interests of investors. However, in practice, we often encounter conflicts between these parties, so this conflict is called agency conflict.

Agency theory raises arguments for the existence of real conflict between owners, namely investors, and managers. This conflict arises due to differences in interests and opinions. Investors want increased wealth for investors, while managers also want increased wealth for managers . Investors are more interested in maximizing returns and security prices from their investments, while managers have other interests in the form of a psychological need to maximize their compensation. So what is called agency costs arise to avoid this condition. Based on this description, the researcher took research entitled "The Influence of Good Corporate Governance on Company Value in State-Owned Companies Listed on the Indonesian Stock Exchange."

Literature Review

Agency Theory

The agency theory, pioneered by Jensen & Meckling (1976), explains the conflict of interest between shareholders (principals) and management (agents). Differences in goals and interests between these two parties can lead to conflicts of interest. Although management, as the agent of the owners, is supposed to act in the owners' best interest, in decision-making, they also consider the risks they may face. This difference in interests can trigger conflicts that give rise to agency problems (Hardiningsih & Octaviani, 2012). Abidin and Prabantarikso (2021) stated that management plays a key role in determining a company's success. When objectives are achieved through effective management, it contributes to improving the welfare of shareholders as well as those managing the organization.

Company Value

Noerirawan & Muid (2012) stated that a company's value is able to reflect the reputation that has been built by the company based on public trust, as the company’s activities evolve from its founding until the present. From this explanation, it can be concluded that corporate value is a reflection of corporate market value, as seen in its stock price, where an increase in stock price can benefit investors.

Good Corporate Governance

According to Susilo and Simarmata in Putra (2014), GCG (Good Corporate Governance) is a set of norms that governs the interaction between the board of directors, investors, commissioners, company management, and other parties with the aim of increasing long-term investor value while considering the interests of other stakeholders. Abidin and Prabantarikso (2021) further explains that GCG functions as a system that manages interactions within the structure and processes of a company. These interactions may involve other parties with differing interests, which can sometimes be conflicting. The internal elements of good corporate governance used in this research include institutional ownership and managerial ownership.

Institutional Ownership

Larasati in Kartikasari et al., (2022) explains that institutional ownership refers to ownership certificates held by institutions such as pension funds, mutual funds, corporations, and others in significant amounts. Jensen & Meckling (1976) state that the presence of institutional ownership in a company is considered capable of serving as a monitoring mechanism, or in other words, an effective oversight component in every managerial decision-making process.

Managerial Ownership

Nur'aeni (2010) in Kartikasari et al., (2022)explains that managerial ownership refers to the number of shares and options owned by the board of commissioners and directors in a corporation. Managerial ownership of company shares can align internal and external interests, reducing the reliance on debt to lower agency costs. Significant ownership by internal parties encourages them to be cautious in using debt and to avoid opportunistic actions due to the tendency to limit debt usage (Kartikasari et al., 2022).

The Influence of Good Corporate Governance on Company Value

Research conducted by Pratiwi & Abidin (2024) with the results of their research shows that there is an influence of Risk Management on company value, there is an influence of corporate governance on company value. and the influence of corporate social responsibility on company value. Then enterprise risk management, corporate governance, corporate social responsibility simultaneously influence company value.

Research conducted by Ulfa (2019) with the results of his research shows that good corporate governance and company characteristics show that only institutional ownership variables, company size have an influence on company value.

Research conducted by Fatimah et al. (2019)shows that good corporate governance as proxied by managerial ownership has a positive effect on company value. Good corporate governance as proxied by managerial ownership has a significant positive effect on financial performance. Financial performance as proxied by return on equity (ROE) has a positive effect on company value. Financial performance is able to mediate the relationship between good corporate governance and company value.

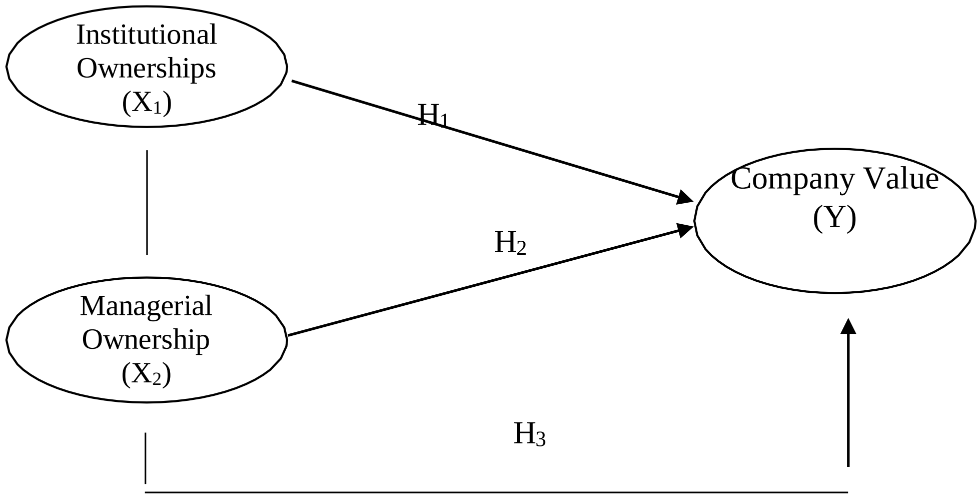
Research conducted by Fawaid (2020) with the results of his research shows that good corporate governance has no direct effect on PBV. Good corporate governance directly and significantly influences ROA. Good corporate governance directly and significantly influences EPS. EPS has no effect on PBV. EPS as an intervening variable is not significant to company value.

Research conducted by Permatasari (2019) with research results shows that corporate social responsibility can increase company value. Good corporate governance has a direct effect on company value. Profitability can strengthen corporate social responsibility towards company value.

Research conducted by Novalia (2016) di dalam Nugraha and Asyik (2021) with the results of her research shows that managerial ownership has no effect on company value, institutional ownership has a positive and significant effect on company value, an independent board of commissioners has no effect on company value. Managerial ownership, institutional ownership and an independent board of commissioners together influence company value. Return on assets as a moderating variable cannot moderate the relationship between managerial ownership, institutional ownership and the board of commissioners on company value.

The Influence of Good Corporate Governance on Company Value in Registered State-Owned Companies on the Indonesian Stock Exchange for the 2019-2023 period

Upon examining the explanation regarding the relationship between the study variables and the proposed hypothesis design, the conceptual framework of the research is presented as shown in the diagram below.



The hypothetical thinking framework which consist of:

H1 : Institutional ownership has a significant influence on the value of companies in State-Owned Enterprises (BUMN) listed on the Indonesia Stock Exchange.

H2 : Managerial ownership has a significant influence on the value of companies in State-Owned Enterprises (BUMN) listed on the Indonesia Stock Exchange.

H3 : Institutional ownership and managerial ownership simultaneously influence the value of companies in State-Owned Enterprises (BUMN) listed on the Indonesia Stock Exchange.

Research Method

This research uses a quantitative approach. A quantitative approach is an approach that generally uses data in the form of numbers in statistical analysis. This research is a correlational study with causality type, which aims to determine the influence between the dependent variable, namely company value, and the independent variable, namely good corporate governance, which consists of institutional ownership and managerial ownership on company value.

In this research, the sample was taken using a non-probability sampling approach. Samples are taken based on certain characteristics to obtain data that can be compared. The sample in this research was 20 state-owned companies registered on the Indonesian BEI for the 2019-2023 period. The data used in this research are quantitative data sources. Then the secondary data collection method uses documentation techniques.

The data analysis method in this research is descriptive statistics. Descriptive statistics aims to describe or provide an overview of the object under study. Furthermore, the classical assumption tests used in this research are normality tests, autocorrelation tests, multicollinearity tests, and heteroscedasticity tests.

Then the researchers also used panel data regression analysis consisting of the Common Effect Model, Fixed Effect Model, and Random Effect Model. Furthermore, several tests were carried out on the three models to determine which model was appropriate for this research. These tests include the Chow test, Hausman test, and Lagrange multiplier test. After carrying out the panel data regression analysis, the next test will be carried out. Panel data regression analysis is used to measure the influence between more than one variable. These tests include partial tests (t tests), simultaneous tests (f tests), and coefficient of determination tests (r2).

Result

Company Value

Weston & Copelan (2008)indicate that the assessment of corporate value can be conducted through the use of evaluation ratios, one of which is Tobin's Q Ratio, which is the focus of this study.

$$\text{Tobin's Q} = \frac{\sum \text{Stock Market value+Debt}}{\sum \text{Assets Value}}$$

Institutional Ownership

Jensen & Meckling (1976) state that the presence of institutional ownership in a company is considered capable of serving as a monitoring mechanism, or in other words, an effective oversight component in every managerial decision-making process. The ratio of institutional ownership can be measured as follows (Ismiati & Yuniati, 2017).

$$\text{Institutional Ownership } = \frac{\sum \text{Institutional shares}}{\sum \text{outstanding shares}}$$

Managerial Ownership

Managerial ownership of company shares can align internal and external interests, reducing the reliance on debt to lower agency costs. Significant ownership by internal parties encourages them to be cautious in using debt and to avoid opportunistic actions due to the tendency to limit debt usage (Cahyasari, 2022). Managerial ownership, according to Ismiati and Yuniati (2017), can be measured using the following formula.

$$\text{Managerial Ownership } = \frac{\sum \text{Manager owned} - \text{shares}}{\sum \text{outstanding shares}}$$

The Influence of Good Corporate Governance on Company Value in Registered State-Owned Companies on the Indonesian Stock Exchange for the 2019-2023 period

Discussion

Table 1. Statistic Description Analysis

	Y	X_1	X_2
Mean	25,0949	0,8823	0,6509
Median	12,5271	0,5678	0,6500
Maximum	323,2031	3,0669	0,9002

Minimum	0,0042	0,0101	0,1571
Std. Dev.	15,2865	0,6070	0,1590
Observations	100	100	100

Descriptive statistics are descriptions of data that are reflected in the mean, maximum, minimum, and standard deviation values (Ghozali, 2013). As shown in Table 1, the total data in this study amounts to 100 for each variable, namely the company value as the dependent variable (Y), institutional ownership as the independent variable (X_1), and managerial ownership as the independent variable (X_2). For the variable company value (Y), the mean value obtained is 25,0949, median value is 12,5271, maximum value is 323,2031, minimum value is 0,0042, and the standard deviation is 15,2865. For the variable institutional ownership (X_1), the mean value is 0,8823, the median value is 0,5678, the maximum value is 3,0069, the minimum value is 0,0101, and the standard deviation value is 0,6070. For the variable managerial ownership (X_2) we can find the mean value is 0,6509, the median value is 0,6500, the maximum value is 0,9002, the minimum value is 0,1571, and the standard deviation is 0,1590. According to Ghozali (2013:61), a descriptive test is considered good if the mean value is greater than the standard deviation value. From Table 1, the variables Y, X_1, and X_2 show that the mean values are greater than the standard deviation values, thus it can be concluded that all variable has met the criteria for the descriptive test.

Table 2. Chow Test

Redundant Fixed Effects Tests			
Equation: Untitled			
Test period fixed effects			
Effects Test	Statistic	d.f.	Prob.
Period F	0.353303	(4,39)	0.0401
Period Chi-square	1.637377	4	0.0021

Table 3. Hausman Test

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test period random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Period random	0.686469	2	0.7095

The analyzes Table 2 and Table 3 are related to the selection of CEM, FEM, REM models. Researchers used the Chow test and Hausman test methods, so researchers can conclude that the model used in this research is the random effect model (REM).

Based on the normality test that shows in table 4 below, the researcher can conclude that the normality test on the research results shows that the Jarque Bera probability test has a probability value of 0.651408 > 0.05, so it can be concluded that the residuals are normally distributed.

Table 4 Normality Test

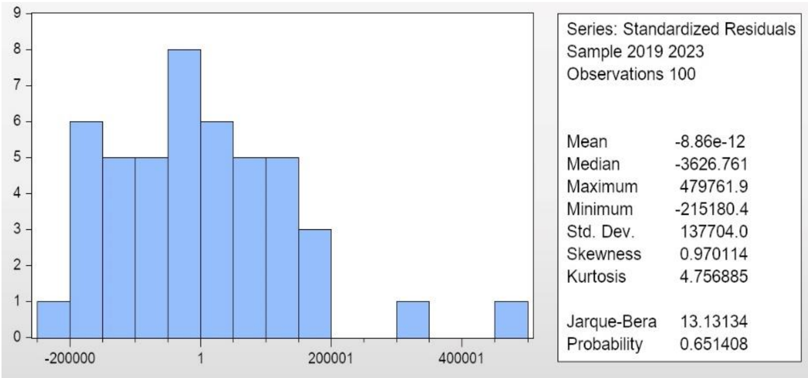


Table 5 Autocorrelation Test

R-squared	0.588527	Mean dependent var	128420.0
Adjusted R-squared	0.557784	S.D. dependent var	152865.5
S.E. of regression	140870.0	Sum squared resid	8.53E+11
F-statistic	4.995028	Durbin-Watson stat	0.000000
Prob(F-statistic)	0.011205		
Unweighted Statistics			
R-squared	0.188527	Mean dependent var	128420.0
Sum squared resid	8.53E+11	Durbin-Watson stat	1.817145

Based on the table 5, researchers can conclude that the autocorrelation test in this research model does not have autocorrelation problems, either positive autocorrelation or negative autocorrelation.

Table 6 Multicollinerity Test

	X_1	X_2
X_1	1.000000	0.111571
X_2	0.111571	1.000000

Based on the multicollinearity test at table 6, researchers can conclude the correlation value for each dependent (independent) variable, institutional ownership (X_1) and managerial ownership (X_2) has a value of less than 0.8, meaning that there is no multicollinearity problem in the independent variables. contained in this research.

Based on the heteroscedasticity test at table 6 below , researchers can conclude that the heteroscedasticity test shows that in this research the real level used is 5% (α= 0.05). The table above shows the Prob value. F is 0.4782 > 0.05, meaning that in this regression model there are no symptoms of heteroscedasticity in the research.

Table 7. Heteroscedasticity Test (*Glejser Test*)

Heteroskedasticity Test: Glejser			
F-statistic	0.792498	Prob. F(8,82)	0.4782
Obs*R-squared	5.680161	Prob. Chi-Square (3)	0.5776
Scaled explained SS	8.817190	Prob. Chi-Square (3)	0.2660

Table 8. t Test (Partial Test)

Dependent Variable: NP				
Method: Panel EGLS (Period random effects)				
Date: 08/09/24 Time: 09:01				
Sample: 2019 2023				
Periods included: 5				
Cross-sections included: 20				
Total panel (unbalanced) observations: 100				
Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
KI	9.534066	3.291853	2.896261	0.0059
KM	32.77447	21.71742	3.509133	0.0386
C	397883.9	142522.9	2.791718	0.0078
Effects Specification			S.D.	Rho
Period random			0.000000	0.0000
Idiosyncratic random			145308.6	1.0000
	Weighted Statistics			
R-squared	0.588527	Mean dependent var		128420.0
Adjusted R-squared	0.557784	S.D. dependent var		152865.5
S.E. of regression	140870.0	Sum squared resid		8.53E+11
F-statistic	4.995028	Durbin-Watson stat		1.817145
Prob(F-statistic)	0.011205			
Unweighted Statistics				
R-squared	0.188527	Mean dependent var		128420.0
Sum squared resid	8.53E+11	Durbin-Watson stat		0.000000

Based on the partial test (t test) using random effect model, the regression model equation is:

$$\text{Company value} = 397883{,}9 + 9{,}534066X_1 + 32{,}77447X_2.$$

From the table 8, researchers can conclude that institutional ownership or as proxied by X_1 has a probability value less than the significant level, namely (0.0059 < 0.05). Then from the explanation of these values it can be concluded that institutional ownership has an effect on company value and H1 is accepted or H0 is rejected. Then, the institutional ownership variable has a positive relationship with company value. This can be seen in the coefficient value which gives a positive number, namely 9.534066. This value explains that assuming that the institutional ownership variable has a fixed value (does not change), then every increase in institutional ownership of 1 unit will increase the company value by 9.534066. This result is significant at an alpha level of 5% from the T-test. Research by Nurhasanah (2017) also indicates that institutional ownership also has a significant effect on company value. What this means is that if the institutional ownership factor increases, it will have the impact of increasing the company value of state-owned companies and vice versa, if the institutional ownership factor decreases, the impact will decrease the company value of the state-owned company.

Based on partial test (t test). Researchers can conclude that managerial ownership or as proxied by X_2 has a probability value less than the significant level, namely (0.0386 < 0.05). Then from the explanation of these values it can be concluded that managerial ownership influences company value and H2 is accepted or H0 is rejected. Then, the managerial ownership variable has a positive relationship with company value. This can be seen in the coefficient value which gives a positive number, namely 32.77447. This value explains that if the assumption is that the managerial ownership variable has a fixed value (does not change), then every increase that occurs in managerial ownership by 1 unit will increase the company value by 32.77447. This result is significant at the 5% alpha level of the t test. The meaning of this explanation is that if the managerial ownership factor increases, it will have an impact on increasing the company value of state-owned companies and vice versa, if the managerial ownership factor decreases, it will have the impact of reducing the company value of the state-owned company.

Based on the simultaneous test (f test) in the explanation regarding the estimation model, the chosen method is the random effect model, it can be concluded that there is an overall or simultaneous influence between institutional ownership and managerial ownership on company value with the prob value. smaller than the significant level, namely (0.011205 < 0.05). Then, from the explanation of this value, it can be concluded that institutional ownership and managerial ownership simultaneously influence company value.

Based on the partial test (t test) it is known that the Adjust R Square value is 0.557784. It is known that the Adjust R Square value in this study is close to 1. So the independent variable in this study has a strong influence on the dependent variable. Then it can be concluded that the independent variables in the research consisting of institutional ownership and managerial ownership are able to influence the dependent, namely the company value of 0.557784 or 55.77%, while the remaining 44.23% of the company value is influenced by other variables not examined by the researcher.

Conclusion

Institutional ownership has a probability value of 0.0059, which is less than the significant level of 0.05, indicating a significant effect on company value. This relationship is further supported by a positive coefficient of 9.534066, demonstrating that institutional ownership positively impacts company value. Similarly, managerial ownership also shows a probability value of 0.0386, which is below the significance threshold. The positive coefficient of 32.77447 suggests that managerial ownership significantly influences company value as well. When considered together, both institutional and managerial ownership have a cumulative impact on company value, evidenced by an overall probability value of 0.011205, which is again less than the significant level. Therefore, it can be concluded that both institutional and managerial ownership significantly affect company value.

To improve research on this topic, future studies should explore different sectors with larger sample sizes and include additional variables influencing company value in State-Owned Enterprises (BUMN), such as company risk, operating costs, and Return on Assets (ROA).

Extending the research period to include recent years would also enhance the findings' relevance and provide a deeper understanding of the factors affecting company value.

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