The Effects of Capital Structure and Good Corporate Governance on Company Value

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Abstract---*This study aims to analyze the effect of capital structure and good corporate governance on firm value in the plantation subsector listed on the IDX for the period 2012-2016. Capital structure is measured by debt to equity ratio, good corporate governance measured by independent commissioners and institutional ownership, and company value is measured by Tobin's Q. The research method used is descriptive statistical method. The tests performed consist of classical assumption tests, panel data tests, F tests and t tests. The population in this study is the plantation sub-sector companies listed on the Stock Exchange in the period of 2012-2016 as many as 16 companies. The selection of samples used is purposive sampling method, with the number of sample companies, namely as many as 9 companies. The data analysis used is panel data regression analysis with multiple linear regression methods at a significance level of 5%. The results showed that capital structure as measured by debt to equity ratio had a positive effect on firm value, good corporate governance (GCG) as measured by independent commissioners had no effect on company value, and good corporate governance as measured by institutional ownership had a positive effect on firm value.*

Keywords---*Capital structure, GCG, Independent commissioner, Institusional ownership, Corporate value*

I. RESEARCH BACKGROUND

Basically, every company definitely needs funds to carry out its operations. These funds can be obtained from internal companies and from external companies such as loans. The funding decision will certainly affect the condition of the company's capital structure. Capital structure is the proportion betseen equity and loans. Capital structure will have a broad impact especially if the company is too large in using debt, so the fixed burden that must be borne by the company is also greater. This also means that it will increase financial risk, namely the risk when the company is unable to pay the interest expense or installments of its debts. Therefore, companies need an optimal capital structure both from their own capital and from debt to produce the best capital structure that can improve the welfare of the owners (Eristy and Riski, 2017).

Capital structure is said to be optimal when the portion of equity and debt is able to improve the welfare of the company. If the company uses debt means the company must have the ability to fulfill its obligations. The results of the Priya K, Nimalathasan B, and Piratheepan T (2015) research on companies in Sri Lanka state that the capital structure has a significant effect on corporate value. Capital structure that shows the comparison between long-term external capital and internal capital, is an important aspect for the company. Modigliani and Miller (MM) theory states that if there is an increase in the value of the company, it is caused by the addition of debt as long as the structure is below its optimal point. This is explained by the Trade-off theory where the benefits of increasing debt are still greater than the sacrifices incurred. Capital structure can have an impact on matters relating to management

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activities of the company (Saudi, 2018). Therefore, capital and debt must be considered as financial instruments and Good Corporate Governance (GCG).

Given that there has been so much news about fraud and business downturn that has occurred as a result of mistakes made by management executives, the fraud perpetrators have not realized that the actions they take can have a huge impact not only on shareholders, but it also harms the economy of the country as a whole. So this raises questions about the application of GCG. GCG by The Indonesian Institute for Corporate Governance defined as the process and structure applied in running a company with the main goal of increasing shareholder value in the long term while still observing the interests of other stakeholders.

Increasingly intense competition makes the companies concerned compete to get good image, perception, and recognition from every stakeholder. With the existence of increasingly high competition, the company is expected to be able to run in balance by paying attention to GCG. GCG can be measured in several dimensions. One of them is the monitoring mechanism of internal control, namely independent commissioners and monitoring of share ownership, namely institutional ownership (Anggunsari, 2017: 18).

The independent commissioner aims to balance the decision of the board of commissioners. The proportion of independent commissioners must be such that it allows effective, timely and effective decision making and can act independently (Sarafina and Muhammad Saifi, 2017: 111). Listed in the requirements for listing shares on the IDX that the number of independent commissioners must be not less than 30% (thirty percents) of the total members of the board of commissioners (idx.co.id).

Research conducted in Indonesia by Okta Rezkia Praditia (2010); Laurensia Chintia Dewi (2014); Kristie Onasis and Robin (2016); Salsabila and Muhammad Saifi (2017) state that good corporate governance measured by independent commissioners has a significant effect on firm value. The existence of independent commissioners in the company in conducting GCG. The proportion of independent commissioners can contribute effectively to the results of the process of preparing quality financial reports. Thus independent commissioners will reduce fraud in financial reporting and are expected to increase the effectiveness of supervision and strive to improve the quality of financial statements. Good supervision will minimize fraudulent actions taken by management in financial reporting. Thus the quality of financial statements will also improve and attract investor confidence to invest in the company. While the research conducted by Titah Kinanti Kusumaningtyas (2015) states that good corporate governance measured by independent commissioners does not affect the value of the company. The existence of independent commissioners in the company is considered not effective enough to monitor company managers and market participants do not fully trust the performance of independent commissioners in the company.

Institusional ownership has a very important role in minimizing agency conflicts that occur between managers and stockholders. The existence of institutional investors is considered capable of being an effective monitoring mechanism in every decision taken by the manager. This is because institutional investors are involved in strategic decision making within the company (Jensen and Mecklin in Sinarmayarani, 2016: 3). Companies with large institutional ownership indicate their ability to monitor management. The greater the institutional ownership, the more efficient utilization of company assets by management. Thus the proportion of institutional ownership acts as a prevention of waste carried out by management (Veno in Santoso, 2017). As a result, it will provide a greater impetus to increase the value of the company.

Research conducted by Abdul Rasyid (2015); Titah Kinanti Kusumaningtyas (2015); Kadek Apriada and Made Sadha Suardhika (2016); Suryanto and R. Meisa Dai (2016) state that GCG as measured by institusional ownership has a significant effect on company value. Whereas, research conducted by Elva Nuraina (2012) states that good corporate governance measured by institutional ownership does not affect the company value. In this case, the size of the proportion of institusional ownership in company is considered not able to control and supervise opportunistic manager actions in the company.

II. HYPOTHESIS DEVELOPMENT

II.I. Capital Structure against Company Values

According to Sjahrial (2014: 250) capital structure is a consideration between the use of loan capital consisting of permanent shot-term debt, long-term debt, with own capital consisting of preffered stocks and and common stocks. Modigliani and Miller theory states that if an increase in company value is caused by the addition of debt as long as

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the capital structure is below its optimal point, this is explained by the Trade-off theory where the benefit of increasing debt is greater than the sacrifice. The increase in company value due to the amount of debt (below the optimal point) is caused by the management of the company that uses the debt to expand the company's business. So that it directly increases the value of the company.According to Anup Chowdhury and Suman Paul Chowdhury (2010); Fifin Syahadatina (2015); and Rahman Rusdi Hamidy, et al (2015) capital structure influences company value. This ratio describes the proportion of own capital and debt capital of a company. Capital structure that shows the comparison between long-term external capital and internal capital, is an important aspect for the company. Each investor will certainly make the condition of the company's capital structure as the basis for investing in the company. With investor interest in the company will have an impact on the high demand from investors to the company's shares so that directly increase company value. The increase in company value due to the amount of debt (below its optimal point) is caused by the management of the company that uses the debt for business expansion from the company.

H1: Capital structure as measured by the debt to equity ratio affects company value

II.II. Independent Commissioner against Company Values

According to Sarafina and Muhammad Saifi (2017) independent commissioners aim to balance the board of commissioners' decision making. The proportion of independent commissioners must be such that it allows effective, timely and effective decision making and can act independently. Then Jensen and Meckling (1976) in Yuniar (2016: 53) revealed that the more the number of monitors the lower the likelihood of conflict occurring. This will grow the trust of investors, third-party companies, independent commissioners are expected to be able to increase the supervision of the running of business activities from fraudulent practices so that the company value will increase.

According to Laurensia Chintia Dewi (2014); Kristie Onasis and Robin (2016); Salsabila and Muhammad Saifi (2017) independent commissioners have a positive effect on company value. The existence of independent commissioners in the company can monitor and improve the company in making an effective contribution to the results of the process of preparing a quality financial report. Thus independent commissioners will reduce fraud in financial reporting and are expected to increase the effectiveness of supervision and strive to improve the quality of financial statements. Good supervision will minimize fraudulent actions taken by management in financial reporting. Thus the quality of financial statements will also improve and attract investor confidence to invest in the company. The investor's interest will increase stock prices which directly increase the company’s value.

H2: Good Corporate Governance as measured by independent commissioners influences the company value.

II.III. Institutional Ownership of Corporate Values

According to Nabela (2012: 2), institusional ownership is the proportion of shares held by institution at the end of the year as measured by percentage. The proportion of shares held by institutions such as insurance companies, banks, investment companies is measured by the percentage of shares oened by the institution. With the ownership of institutional shares, it encourages more effective supervision of activities that occur within the company. Such supervision will guarantee an increase in shareholder prosperity.

According to Kinanti Kusumaningtyas (2015) and Kadek Apriada and Made Sadha Suardhika (2016) institutional ownership has a positive effect on company value. Suryanto and R. Meisa Dai (2016) state that Good corporate governance as measured by institutional ownership has a significant effect on firm value. In this case, institutional ownership has an important meaning in monitoring management, because the existence of ownership by the institution will encourage an increase in more optimal supervision of management performance, so that management is more careful in making decisions for the company. The higher the level of that, the stronger the control of the company, the stronger control will support the condition of the company as a shareholder to be active in making decisions at the general meeting of shareholders, including voting rights. With the increase in institutional ownership can attract investors to invest in the company because they will feel that their funds can continue to grow. This is because investors assume high institutional ownership, so supervision of company performance is also high so that the company is able to generate high profits and can provide benefits to investors (Hussain et al., 2019).

H3: Good corporate governance as measured by institutional ownership affects the company value

III. METHOD

Analysis of the data used in this study includes multiple regression analysis with panel data, F test and t test. The program used to analyze the data in this study is Eviews 9. Observations were made on plantation subsector

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companies listed on the Stock Exchange for the period 2012-2016. This study uses a purposive sampling method. Purposive sampling is a technique of determining samples with certain considerations (Sugiyono, 2013: 126). Someone or something is taken because the researcher considers that someone or something has information or characteristics that are in accordance with the needs of his research. Determination of criteria for this sample is needed to avoid the occurrence of errors in research which will then affect the value of the analysis.

The sampling criteria are as follows:

Table 1: *Sampling Criteria*

No	Information	amount
	Plantation subsector companies listed on the IDX	16
	Violation of Criteria	
1.	Plantation subsector companies that were not consecutively listed on the IDX during the 2012-2016 period.	(5)
2.	Plantation subsector companies that do not have complete data.	(2)
	The number of samples used in the research object	9
	The amount of data processed in the 2012-2016 research period (5 years)	45

III.I. Variable Operationalization

The method of analysis of this study uses panel data regression. Panel data is simply defined as a data set (dataset) where the behavior of cross-sectional units (eg individuals, companies, countries) is observed over time. Gujarati in Ghozali (2013) states that panel data techniques are by combining cross section and time series data types. In this study using 3 (three) methods for processing in panel data, namely: Common Effect Model (CEM) and Lagrange Multiplier (LM) Test, Fixed Effect Model (FEM), and Random Effect Model (REM). Correlation coefficient analysis aims to measure the strength and direction of the relationship between independent variables and dependent variable, then multiple correlation analysis is performed. Analysis of the coefficient of determination (R^2) was conducted to measure how far the ability of the model in explaining the independent variables (Ghozali, 2013).

Partial hypothesis testing (t test) is carried out to show the influence of individual independent variable on dependent variable constantly. By using a significance level of (α) 5% (0.05). Criteria for acceptance or rejection will be based on the value of the probability of significance. If t count > t table or probability is smaller than the significance level (sig < 0,05) then the independent variable affects the dependent variable and if t count <from t table or probability is greater than significance level (sig > 0,05) then the independent variable does not affect the dependent variable (Ghozali, 2013).

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Table 2:*Variable Operations*

Variable	Dimension	Concept	Indicator	Formula	Scale
Independent					
Capital Structure	Capital Structure (X_1)	Capital structure is a balance between foreign capital or debt with own capital. Changes in capital structure can cause changes in company value (Sutrisno, 2012: 255)	*Debt to equity rasio*	$\frac{Total\ hutang}{Total\ ekuitas}\ x\ 100\%$	Ratio
Good corporate governance	Independent Commissioner (X_2)	The independent commissioner aims to balance the decision of the board of commissioners. The proportion of independent commissioners must be such that it allows effective, appropriate and fast decision making and acts in an independent manner (Sarafina and Muhammad Ssifi, 2017)	Percentage of independent commissioners	$\frac{DK\ luar}{UDK}\ X\ 100\%$ Information: External DK = number of independent commissioners (number of commissioners from outside the company) UDK = commissioner size	Ratio
	Institutional Ownership (X_3)	Institutional ownership is share ownership by the government, financial institutions with legal entities and other institutions (Shien et al, in Bonny Suryopratomo, 2013)	Percentage of institutional ownership	$\frac{SI}{SB}\ x\ 100\%$ Information: SI = number of shares held institutionally SB = the number of outstanding share capital of the company	Ratio
Dependent					
The value of the company	*Tobin's Q* (Y)	Tobin's Q explains that the value of a company is the	*Tobin's Q Ratio*	$Tobin's\ Q = \frac{(ME + DEBT)}{TA}$ Information:	Ratio

IV. RESULTS

IV.I. Regression Test

Regression analysis is used to determine the relationship that exists between variables so that the relationship obtained can be estimated by one variable, if the price of other variables is known. The equation of the regression model used in study is the equation of multiple regression models. Following are the results of multiple regression model equations:

Table 3:*Multiple Linear Regression*

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.079563	0.324976	-3.321976	0.0019
DER	0.088511	0.022193	3.988231	0.0003
Independent Commissioner	0.320621	0.396653	0.808317	0.4236
Institutional Ownership	1.014760	0.325334	3.119135	0.0033

Based on the regression coefficient values shown in table 3 above, the regression equation formed is as follows:

$$Y = -1{,}079563 + 0{,}088511X_1 + 0{,}320621X_2 + 1{,}014760X_3$$

Ketetangan:

Y :The value of the company /*Tobin's Q*

X1 :Capital Structure / *Debt to Equity Ratio*

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X2 : *Good Corporate Governance / Independent Commissioner*
X3 : *Good Corporate Governance / Institutional Ownership*

From the results of the panel regression equation each variable can be interpreted as follows:

1. Constant value of -1.079563, meaning that if the debt to equity ratio, independent commissioner and institutional ownership equals 0 (zero), then the value of the company is -1.079563.
2. Capital structure as measured by the debt to equity ratio has a positive panel regression coefficient of 0.088511. That is, that each change in the capital structure variable by 1 unit will increase the value of the company by 0.088511.
3. Good corporate governance as measured by independent commissioners has a positive panel regression coefficient of 0.320621. That is, that each change in the variable of independent commissioners by 1 unit will increase the value of the company by 0.320621.
4. Good corporate governance as measured by institutional ownership has a positive panel regression coefficient of 1.014760. That is, that each change in institutional ownership variable by 1 unit will increase the value of the company by 1.014760.

IV.II. Determination Coefficient Test

The coefficient of determination is used to measure how far the model's ability to explain variations in the independent variable. The coefficient of determination is also often called R-square. The results of that can be seen from the following table:

Table 4:*Determination Coefficient Test Results*

R-squared	0.315119	Mean dependent var	-0.026399
Adjusted R-squared	0.265005	S.D. dependent var	0.189759
S.E. of regression	0.162684	Sum squared resid	1.085109
F-statistic	6.288130	Durbin-Watson stat	1.165115
Prob(F-statistic)	0.001306		

Based on table 4 above, the value of R^2 is 0,315119 or 31,51%. It means the company value is influenced by capital structure as measured by debt to equity ratio (DER) and good corporate governance measured by independent commissioners and institutional ownership of 31,51%, while the rest (100% - 31,51%) is 68,49% is influenced by other factors outside variables examined in this study.

IV.III. Test F

This test is conducted to see whether all the independent variables included have a relationship to the dependent variable (GHozali, 2012). The results of the F test in this study are as follows:

Table 5:*Hypothesis Testing (Test F)*

R-squared	0.315119	Mean dependent var	-0.026399
Adjusted R-squared	0.265005	S.D. dependent var	0.189759
S.E. of regression	0.162684	Sum squared resid	1.085109
F-statistic	6.288130	Durbin-Watson stat	1.165115
Prob(F-statistic)	0.001306		

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Based on table 5 above, obtained a significant value regression model of 0,001306, this value is smaller than significance level of 0.05 which is 0.001306 <0.05. Then it can be concluded that capital structure as measured by DER, and GCG measured by independent commissioners and institutional affect the company value.

IV.IV.T TEST

This test basically aims to show how far the influence of one independent variable individually in explaining the dependent variable. This can be seen from the significance value t from the calculation results. If the value of sig.t <level of significance (0.05), then the independent variable individually affects the dependent variable. Conversely, if the value of sig.t> significance level (0.05), then the independent variable individually does not affect the dependent variable. Based on the results of multiple linear testing obtained as follows:

Table 6:*Hypothesis Testing (t test)*

Variable	t-Statistic	Prob.	α
DER	3.988231	0.0003	0.05
KOMISARIS_INDEPENDEN	0.808317	0.4236	0.05
KEPEMILIKAN_INSTITUSIONA	3.119135	0.0033	0.05

V. DISCUSSION

V.I. The Effect of Capital Structure on Company Value

The test results show that the t-statistic for the capital structure variable as measured by the debt equity ratio (DER) is 3.988321 with a significance value based on a probability table of 0.0003 which is smaller than the significant level of 5% or 0.05. Based on the results of these tests, it can be concluded that the capital structure as measured by the DER has a positive effect on company value.

The result of this study contradict the results of research conducted by Rovita Dewi, et al (2014) and Bayu Eko Hariyawan (2017) who stated that the capital structure does not affect the value of the company. However, this results are supported by the results of research by Anup Chowdhury and Suman Paul Chowdhury (2010), Fifin Syahadatina (2015), Priya K. Nimalathasan and Piratheepan T. (2015), and Rahman Rusdi Hamidy, et al. (2015) which states that capital structure has a positive effect on company value. According to Sutrisno (2012: 255) capital structure is a balance between foreign capital or debt with own capital. Capital structure that shows the comparison between external capital and internal capital is an important aspect for the company. MM theory which states that if there is an increase in the value of the company due to the addition of debt as long as the structure is below its optimal point, they conclude that the value of the company with debt is higher than the value of the debt-free company. This is explained by the Trade-off theory where the benefit of increasing debt is still greater than the sacrifice incurred. The increase in company value due to the amount of debt (below its optimal point) is caused by the management of the company that uses the debt for business expansion from the company. So that it directly increases the company value.

V.II. The Effect of GCG Measured by Independent Commissioners on Company Values

The test results show that the t-statistic for the good corporate governance variable measured by an independent commissioner is 0.808317 with a significance value based on a probability table of 0.4236 which is greater than the significant level of 5% or 0.05. Based on the results of these tests, it can be concluded that GCG measured by insependent commissioners does not affect the company value.

This results contradict the results of a study conducted by Laurensia Chintia Dewi (2014), Laurensia Chintia Dewi (2016), and Salsabila Sarafina and Muhammad Saifi (2017) which stated that good corporate governance measured by independent commissioners had a significant effect on company value. But the result is supported by the result of Titah Kinanti Kusumaningtyas (2015) which states that good corporate governance as measured by independent commissioners does not effect the company value. This means that the existence of independent commissioners in the company is considered not effective enough to monitor or monitor company managers and market participants do not fully trust the performance of independent commissioners in the company. In this case, although the

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proportion of independent commissioner's averages above minimum amount of the total board of commissioners owned by the company, the influence of the mechanism of GCG still can not increase the value of the company.

V.III. The Effect of GCG Measured by Institutional Ownership of Company Value

The test results show that the t-statistic for good GCG as measured by institutional ownership is 3.119135 with a significance value based on the probability table of 0.0.0033 which is smaller than the significant level of 5% or 0.05. Based on the reults, it can be concluded that GCG as measured by institutional ownership has a positive effect on company value.

This result contradicts the results of research by Elva Nuraina (2012) which states that GCG as measured by institutional ownership does not affectthe company value. However, this result is supported by Kinanti Kusumaningtyas (2015), Abdul Rasyid (2015), Kadek Apriada and Made Sadha Suardhika (2016), and Suryanto and R. Meisa Dai (2016) which state that institutional ownership has a significant positive effect on firm value. In this case, institutional ownership has an important meaning in monitoring management, because the existence of ownership by the institution will encourage an increase in more optimal supervision of management performance, so that management is more careful in making decisions for the company. The higher the level of institutional ownership, the stronger the control of the company, the stronger control will support the condition of the company as a shareholder to be active in making decisions at the general meeting of shareholders, including voting rights. With the increase of institutional ownership, it can attract investors to invest in the company because they feel that the funds invest can continue to grow. This is because investors assume high institutional ownership, so supervision of company performance is also high so that the company is able to generate high profits and can provide benefits to investors. In other words, the oversight will guarantee an increase in shareholder prosperity because of the more efficient utilization of the company's assets by management. Thus the proportion of institutional ownership acts a prevention of waste carried out by management. This will have an impact on increasing the value of the company.

VI. CONCLUSIONS

Based on the results of research that has been carried out as well as in the discussion, do the researcher can draw conclusion and give the following suggestions:

1. Capital structure as measured by Debt to Equity Ratio (DER) has a positive effect on company value. This means that the capital structure by increasing the proportion of corporate debt will have an impact on increasing the value of the company.
2. Good corporate governance (GCG) as measured by independent commissioners does not affect company value. This means that the existence of independent commissioners in the company is considered not effective enough to monitor or monitor company managers and market participants do not fully trust the performance of independent commissioners in the company.
3. Good Corporate Governance (GCG) as measured by institutional ownership has a positive effect on company value. This means that institutional ownership encourages more optimal supervision and stronger control over management performance in the company.

VI.I. Suggestions

Based on the results of this research that has been done, the researcher intends to put forward some related suggestions as follows:

1. For Companies

Companies should increase the value of the company every year with a higher management of the company on the capital structure as measured by DER and GCG as measured by institutional ownership, both of which have a positive influence on company value. In this case the company must be wiser in making decisions regarding capital structure, namely the portion of debt usage and own capital to fund the company's operations. The better value of the company can be reflected in the greater value of the debt to equity ratio, meaning that the portion of debt usage is greater than the portion of equity that can be used for company expansion activities to increase the profits of shareholders and companies. In other words, companies need to increase the value of debt to equity ratio to gain trust from investors. The company should also have more share ownership by the institution than the individual. The amount of share ownership by the institution encourages optimal supervision and monitors the decision-making made by management in terms of the efficiency of utilization of company assets as a waste prevention measure carried out by management. In other words, companies need to increase the value of institutional ownership in order to have greater influence. Both of these efforts will provide beneficial results for shareholders and increase the value of the company itself later.

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2. For Investors

Investors should pay attention to the capital structure as measured by DER before deciding to invest their capital in a company. Because in this study the value of the DER can show the amount of return that will be received by investors on the investment. Equally important before investors decide to invest is paying attention to the number of shares held by the institution or institutional ownership of the company. Because in this study institutional ownership can show the strength of control over management fraud that also has an impact on the amount of return that will be received by investors.

3.For further researchers

In this study has limitations, so for further research in particular, in order to get more research results, it is recommended to expand the research. The expansion of the research in question is:

a. The researcher can then add or replace other independent variables besides debt to equity ratio, independent commissioners and institutional ownership, namely other dimensions of capital structure such as Debt to Asset Ratio, Long-term Debt to equity ratio, or Long-term Debt to Asse Ratio, and good dimensions other corporate governance such as managerial ownership, board of commissioners, bord of directors, or audit committee that can affect the dependent variable, which is the value of the the company more.
b. The next researcher can extend the research period so that research results can be obtained that provide a more complete picture.
c. The next researcher can add or replace the population and the sample studied is not only limited to the plantation subsector, but is expanded to the agricultural sector or all companies listed on the IDX.
d. Research is not limited to factors in the financial statements, but also macroeconomic factors such as inflation, economic growth, interest rates, and others that have not been considered in this study.

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