

Mechanism of Corporate Governance of Manufacturing Companies on Company Value Where Quality of Profit as A Moderating Variable

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ABSTRACT

This study aims to examine the Corporate Governance mechanism, which consists of institutional ownership, managerial ownership, and independent commissioners influencing the value of the company, where earnings quality is a moderating variable. The populations in this study are manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2016-2018. By using the purposive sampling method, collected a sample of 279 observations from 93 manufacturing companies. By using multiple regression analysis as analysis data, the results of the research in the first equation show that simultaneous institutional ownership, managerial ownership, independent commissioners, and earnings quality jointly influence and significantly affect firm value. Partially institutional ownership and managerial ownership have a significant effect on firm value, while independent commissioners have no effect on firm value. In the second equation shows that earnings quality is not a moderating variable between the relationship of institutional ownership, managerial ownership, and independent commissioners to the value of the company.

Keywords: Corporate Governance Mechanisms, Institutional Ownership, Managerial Ownership, Independent Commissioners, Earnings Quality, Firm Value.

INTRODUCTION

Companies are seen as a set of contracts between company managers and shareholders. The appointment of managers by shareholders to manage the company in reality often faces problems because the company's goals collide with the manager's personal goals. With the authority they have, the manager can act only to benefit himself and sacrifice the interests of the shareholders. This might occur because of the difference in information held by both. This difference in information is referred to as asymmetric information.

The presence of good corporate governance in the recovery of the crisis in Indonesia is absolutely necessary, considering that good corporate governance

requires a good management in an organization (Hastuti, 2005). The owner can limit the divergence of his interests by providing a decent level of incentives to managers and must be willing to pay supervision fees or monitor costs to prevent hazards from managers. These costs are agency costs. Corporate governance is a mechanism that can be used to ensure that financial suppliers, such as shareholders and bondholders, from the company obtain returns from activities carried out by managers, or in other words how the company's financial suppliers control the manager.

The main purpose of establishing a company is to increase the value of the company through increasing the prosperity

of the owner or shareholder. For shareholders, profit means an increase in economic value (wealth) that will be received through dividend distribution, and is considered to have information that can analyze and predict shares issued by the issuer. Profit is also used as a tool to measure the performance of company management over a period of time which is generally a concern of certain parties, especially in assessing the performance of management's responsibility in managing the entrusted resources, and can be used to estimate future prospects. With the occurrence of agency conflict which results in the opportunistic nature of management will result in low quality of earnings. The low quality of earnings will be able to make the decision making mistakes of the users such as investors and creditors, so that the value of the company will decrease (Siallagan and Machfoedz, 2006).

According to Chandrarin (in Jang, Sugiarto, and Siagian, 2007: 105) a quality accounting profit is accounting profit that has a slight perceived noise in it, and can reflect the actual financial performance of the company. That is, profit as part of the financial statements must present actual facts about the economic condition of the company, so that the quality can be accounted for and not mislead the users of financial statements. Quality earnings usually occur because in running a company business, management is not the owner of the company. This separation of ownership can lead to conflict in the control and implementation of company management which causes managers to act in accordance with the wishes of the owners.

Based on agency theory, these problems can be overcome by good corporate governance. Corporate governance mechanisms have the ability to control that can align differences in interests between principals and agents, so that it can produce a profit report that has a high profit information content (Boediono, 2005: 176). Corporate governance that contains five important elements, namely transparency,

accountability, responsibility, independency, and fairness, is expected to be a way to reduce agency conflict and the value of the company will be well valued by investors. Corporate governance is one of the key elements in increasing economic efficiency, which includes a series of relationships between company management, board of commissioners, shareholders, and other stakeholders who can create added value for all stakeholders. The added value in question is the effective protection of investors in recovering their investments with reasonable and high value. There are several mechanisms that are often used in various studies on good corporate governance including institutional ownership, managerial ownership, the proportion of independent commissioners, and audit committees.

Through the mechanism of institutional ownership, the effectiveness of management of company resources by management can be seen from information generated through market reactions or earnings announcements. Institutional ownership has the ability to control management through an effective monitoring process, thereby reducing management's actions to manage earnings. The percentage of certain shares owned by the institution can affect the process of preparing financial statements that do not cover the possibility of accrualization in accordance with the interests of the management (Boediono, 2005: 175). Earnings management occurs because the management who manages the company is not the owner of the company. The amount of share ownership by managers can influence the practice of earnings management, because the presence of share ownership by managers puts managers as owners of companies who want a large return that is by increasing profits.

The role of the independent board of commissioners is to carry out the oversight function of the company's operations by management. The composition of the independent board of commissioners can

make an effective contribution to the results of the preparation of a quality financial report.

Some research supports, Warfield et al (1995) found that managerial ownership is negatively related to earnings management as a proxy for earnings quality. Chan et al (2001) find evidence that there is a negative relationship between accruals and future stock prices. Morck, Shleifer & Vishny (1988) found evidence that Tobin's Q (firm value) increased and then declined in line with the increase in managerial ownership. Pranata puspa & Machfoedz (2003) found that the influence of good corporate governance mechanisms, namely

managerial ownership and institutional ownership on the decline in earnings management will ultimately improve the quality of reported earnings. However, it is different from the research conducted by Siregar and Bachtiar (2004) and Darmawati (2003). This study aims to analyze whether the corporate governance mechanism, which consists of institutional ownership, managerial ownership, and independent commissioners has an influence on the value of the company. As well as analyzing whether earnings quality is a variable that can moderate the relationship of corporate governance mechanisms to firm value.

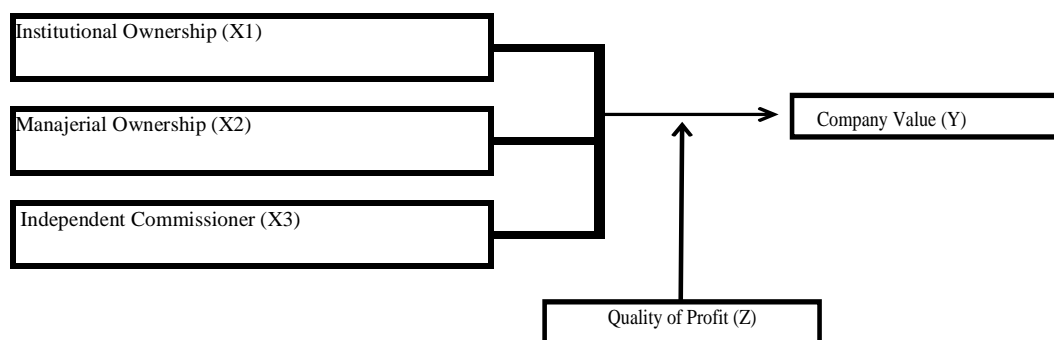


Figure 1. Conceptual Framework

Hypothesis

The hypothesis in this study is as follows:

1. Corporate Governance In this case institutional ownership, managerial ownership, and independent commissioners have an effect on the value of the company simultaneously and partially.
2. Quality of Profit can moderate the relationship of Corporate Governance to the value of the company.

MATERIAL AND METHODS

This research is a kind of comparative causal research which aims to analyze the effect of independent variables on dependent. Causal design is useful for analyzing the effect of independent variables on the dependent variable. Causal design is useful for analyzing the

relationships between one variable and another.

The populations in this study are manufacturing companies listed on the Indonesia Stock Exchange for three consecutive years from 2016 to 2018. A total of 133 populations. Determination of sample size using the sampling method, namely purposive sampling. Purposive sampling is a technique of determining samples with consideration or certain criteria.

The data used in this study is secondary data, namely annual report data from manufacturing companies. The data used is time series, as well as pooling observed data from the Indonesia Stock Exchange through www.idx.co.id.

RESULTS AND DISCUSSION

Classic assumption test

Normality Test MODEL 1 (X1 against Y)

Table 1. One-Sample Kolmogorov-Smirnov Test

		X1
N		279
Normal Parameters ^{a,b}	Mean	-8.39
	Std. Deviation	3.436
Most Extreme Differences	Absolute	.082
	Positive	.082
	Negative	-.057
Kolmogorov-Smirnov Z		1.321
Asymp. Sig. (2-tailed)		.061

The normality test of X1 variable toward Y can be seen the significance value obtained is $0.061 > \alpha = 0.05$, thus it can be concluded that the test results are normally distributed.

Normality Test X2 towards Y

Table 2. One-Sample Kolmogorov-Smirnov Test

		X2
N		279
Normal Parameters ^{a,b}	Mean	-9.98
	Std. Deviation	2.830
Most Extreme Differences	Absolute	.132
	Positive	.132
	Negative	-.087
Kolmogorov-Smirnov Z		1.330
Asymp. Sig. (2-tailed)		.058

Multicollinearity Test

Table 4. Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Tolerance	Statistics VIF
	B	Std. Error	Beta				
1 (Constant)	.778	.120		6.453	.000		
X1	.045	.015	.481	3.088	.003	.421	2.373
X2	.032	.016	.323	2.058	.043	.416	2.405
X3	-.006	.021	-.030	-.293	.771	.979	1.021

Heteroscedasticity Test

Table 5. Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-.005	.055		-.082	.935
X1	-.001	.007	-.025	-.156	.877
X2	.007	.007	.151	.945	.347
X3	.019	.010	.202	1.940	.056

Based on the results obtained in the table it can be seen that the significance level of each variable is X1 0.877, X2 0.347, X3 0.056. The significance of all variables is greater than $\alpha = 5\%$, so it can be concluded that the regression model does not contain any heteroscedasticity.

Autocorrelation Test

Table 6. Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.450 ^a	.203	.216	.2729346	1.940

Predictors: (Constant), X1, X2, X3
Dependent Variable: Y

The normality test of variable X2 towards Y can be seen the significance value obtained at $0.058 > \alpha = 0.05$, thus it can be concluded that the test results are normally distributed.

Normality Test X3 against Y

Table 3. One-Sample Kolmogorov-Smirnov Test

		X3
N		279
Normal Parameters ^{a,b}	Mean	-3.81
	Std. Deviation	1.335
Most Extreme Differences	Absolute	.050
	Positive	.050
	Negative	-.047
Kolmogorov-Smirnov Z		.838
Asymp. Sig. (2-tailed)		.484

The normality test of X3 variable toward Y can be seen the significance value obtained is $0.484 > \alpha = 0.05$, thus it can be concluded that the test results are normally distributed.

The autocorrelation test results show a DW value of 1,940, with du values which can be seen in the dw statistic table of 1,751. Value $4 - du = 2,249$, it can be concluded that $du = 1,751 < DW = 1,940 < 4 - du = 2,249$ which means there is no autocorrelation in the regression equation model.

Coefficient of Determination

From the test of the coefficient of determination in table 6, the R-square value is 0.203. This means that 20.3% of the dependent variable of company value (Y) can be explained by independent variables

namely institutional ownership (X1), managerial ownership (X2) and independent commissioners (X3) while the remaining 79.7% is explained by other variables not included in this research model.

Based on the results of statistical calculations, obtained $t = 0.203$, the magnitude of the error (e) = $\sqrt{0.892}$

Hypothesis testing

Test Results of the First Hypothesis (H1) Simultaneously (Test Statistic F)

Table 7. ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.719	3	.240	3.248	.026 ^a
	Residual	6.490	88	.074		
	Total	7.209	91			

Predictors: (Constant), X1, X2, X3
Dependent Variable: Y

Anova test or F test produces a value of 3.248 greater than value = 2.37, with a probability value of 0.026 $< \alpha = 5\%$. Then H_0 and accept H_a can be rejected, so that the regression model can be used to predict Y or it can be said that variables X1, X2, and X3 simultaneously affect Y.

Partial Hypothesis Testing Results (t Test)

Table 8. Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.778	.120		6.453	.000
X1	.045	.015	.481	3.088	.003
X2	.032	.016	.323	2.058	.043
X3	-.006	.021	-.030	-.293	.771

a. Dependent Variable: Y

Based on the calculation results as in the table, the following equation is obtained: $0.045 X1 + 0.032 X2 + 0.006 X3$

The following is an explanation of the equation model above:

Constants (have a regression coefficient of 0.778, meaning if the institutional

ownership variable (X1), managerial ownership (X2), and independent commissioner (X3) are considered zero, then there is an increase in company value (Y) of 0.778 or 78% in registered manufacturing companies on the IDX during 2016-2018.

a. Variable of Institutional Ownership (X1) Institutional ownership variables have a regression coefficient of 0.045, meaning that every increase in institutional ownership variables is 1%, then there will be an increase in company value of 4.5% assuming other variables are considered constant. The significance of institutional ownership variables is 0.003 or 3% $< \alpha = 5\%$, so H_0 's decision can be taken so that institutional ownership partially has a significant effect on firm value.

b. Variable Managerial Ownership (X2) Managerial ownership variables have a regression coefficient of 0.032, meaning that every increase in managerial ownership variable is 1%, then there will be an increase in company value of 3.2% assuming other variables are considered constant. The significance of managerial ownership variable is 0.043 or 4.3% $< \alpha = 5\%$, so H_0 's decision can be taken so that managerial ownership partially has a significant effect on firm value.

c. Independent Commissioner Variable (X3)

Variable independent commissioners have a regression coefficient of -0.006, meaning that each increase in the independent commissioner variable is 1%, then there will be a decrease in the value of the company by 0.6% assuming other variables are considered constant. The significance of the independent commissioner variable is 0.771 or 77.1% $> \alpha = 5\%$, so the decision can be accepted by H_0 so that the independent commissioners partially do not influence the value of the company.

Testing of the Second Hypothesis (H2) with Residual Test Model 2 Normality Test

Table 9. One-Sample Kolmogorov-Smirnov Test

	X1	X2	X3	Z
N	279	279	279	279
Normal Parameters ^{ab} Mean	8.408933	9.976253	3.810613	.045770
Std. Deviation	3.3996380	2.8296612	1.3353585	.1021725
Most Extreme Absolute	.081	.132	.050	.077
Differences Positive	.056	.087	.047	.077
Negative	-.081	-.132	-.050	-.072
Kolmogorov-Smirnov Z	1.305	1.330	.838	1.288
Asymp. Sig. (2-tailed)	.066	.058	.484	.072

a. The distribution test is Normal.

b. Calculated from data.

The normality test of X1 variables can be seen the significance value obtained at $0.066 > 0.05$, variable X2 = $0.058 > 0.05$, variable X3 = $0.484 > 0.05$, and Z = $0.072 > 0.05$. Thus it can be concluded that data is normally distributed.

Multicollinearity Test Model 2

Table 10.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	.142	.050		2.859	.005		
X1	-.001	.006	-.013	-.087	.931	.408	2.450
X2	.004	.006	.084	.547	.585	.402	2.485
X3	-.032	.009	-.364	-3.679	.000	.978	1.023

The table shows that the independent variable is Institutional Ownership (X1) Tolerance value = 0.408 VIF = 2,450, managerial ownership (X2) Tolerance = 0.402 VIF = 2,485, Independent Commissioner (X3) Tolerance = 0.979 VIF = 1,023 no multicollinearity occurs because Tolerance value 0, 10 and VIF 10. This shows that the indicators of the independent variables in this study are not correlated with each other.

Model 2 Heteroscedasticity Test

Table 11. Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.060	.015		4.154	.000
X1	-.001	.002	-.112	-.710	.480
X2	-.001	.002	-.053	-.333	.740
X3	-.005	.003	-.198	-1.935	.056

a. Dependent Variable: ABSUT

Based on the results obtained in the table it can be seen that the significance level of each variable is X1 0.480, X2 0.740, X3 0.056. The significance of all variables is greater than $\alpha = 5\%$, so it can be concluded that the regression model does not contain any heteroscedasticity.

Model 2 Autocorrelation Test

Table 12. Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.531 ^a	.282	.258	.1126974	2.068

Predictors: (Constant), X1, X2, X3
Dependent Variable: Y

The autocorrelation test results show a DW value of 2.068, with a du value that can be seen in the dw statistic table of

1.751. Value of $4 - du = 2,249$, it can be concluded that $du = 1,751 < DW = 2,068 < 4 - du = 2,249$ which means there is no

autocorrelation in this model 2 regression equation model.

Results of Testing the Second Hypothesis (H2) with Residual Test

Residual Test

Table 13. Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.096	.024		3.969	.000
Y	-.028	.030	-.099	-.946	.346

Dependent Variable: AbsRes

Based on the calculation results as in the table, the following equation is obtained:

$$|e| = 0.096 - 0.028 Y$$

The residual test results in the table above, show the value of the parameter coefficient is -0.028 with a significance level of 0.346 > 0.05. This shows that earnings quality (Z) is not a variable that moderates the relationship of institutional ownership (X1), managerial ownership (X2), and independent commissioners (X3) to firm value, because the parameter coefficient value is negative but not significant.

DISCUSSION

Effect of Institutional Ownership on Company Values

The results of testing institutional ownership variables on company values obtained 3.088 > 1.960 and a significance level of 0.003 < $\alpha = 0.05$, then the decision is to accept H1. The test results show that the hypothesis is accepted, which indicates that institutional ownership has a significant positive effect on firm value.

The results of this study are consistent with the research of Angraheni and Anni (2010), Enggar and Akhmad (2013), Kawatu (2009) which state that institutional ownership has an impact on firm value, Suranta and Machfoedz (2003) which state that firm value (Tobin's Q) influenced by institutional ownership. The high share ownership owned by institutions can have an influence on the process of preparing financial statements, so that it can

provide a positive reaction to prospective investors in assessing the company.

Effect of Managerial Ownership on Company Values

The results of testing managerial ownership variables on firm value obtained 2.058 > 1.960 and a significance level of 0.043 < $\alpha = 0.05$, then the decision is to accept H1. The test results show the hypothesis is accepted, which shows that managerial ownership has a significant positive effect on firm value.

The results of this study are consistent with Angraheni and Anni (2010) research, Morck et al (1988) in Faisal (2005) which states that there is a positive relationship between managerial ownership and firm value, but is not consistent with Enggar and Akhmad (2013) and Kawatu (2009) which states the greater managerial ownership, the company value will be low.

The Effect of Independent Commissioners on Company Values

The test results of the independent commissioner variables on firm value were obtained -0.293 < 1.960 and the significance level at the level of 0.771 > $\alpha = 0.05$, then the decision is H1 is not acceptable. The results of hypothesis testing indicate that independent commissioners have no effect on company value. The results of this study are consistent with the research of Enggar and Akhmad (2013) and Bangun and Vincent (2008) which state that independent board of commissioners has no effect on firm value.

This result proves that the role of the board of commissioners in the sample company has not been maximized in monitoring management performance, so the proportion of independent commissioners has not been able to increase the value of the company. Strong control of the company will remain with the founder and majority shareholder, thus making the supervisory function carried out by independent commissioners.

The Influence of Institutional Ownership, Managerial Ownership, and Independent Commissioners on Corporate Values with Profit Quality as Moderating Variables

The test results produced a parameter coefficient of -0.028 with a significance level of $0.346 > 0.05$, so the decision was H2 could not be accepted. The results of this study indicate that earnings quality is not a variable that can moderate the relationship of institutional ownership, managerial ownership and independent commissioners to the value of the company. The results of testing the hypothesis that the researchers did not find previous researchers for the same test.

CONCLUSIONS

1. Effect of the Corporate Governance Mechanism on company value.
 - a. Whereas institutional ownership, managerial ownership, and independent commissioners simultaneously have a significant effect on Company Value.
 - b. Institutional ownership has a significant positive effect on firm value. This indicates that the higher the level of share ownership by the institution, then as a controlling mechanism in the preparation of earnings reports has an influence on increasing the value of the company.
 - c. Managerial ownership has a significant positive effect on firm value. This indicates that the greater management ownership in the company, the management will tend to try to improve its performance, so that the company's value increases.
 - d. Independent Commissioners do not affect the value of the company. This indicates that the influence of the mechanism of independent commissioners is not effective in providing oversight of management so that a decline in the value of the company occurs.

2. Effect of Corporate Governance Mechanism on company value with earnings quality as a moderating variable. The results of this study prove that earnings quality is not a variable that can moderate the relationship of institutional ownership, managerial ownership, and independent commissioners to the value of the company.

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