



# The Effect of Good Corporate Governance and Company Growth on Company Value

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## ABSTRACT

This study aims to determine the effect of good corporate governance and company growth on company value in manufacturing companies listed on the Indonesia Stock Exchange in 2014-2018. The population of this study was in manufacturing companies listed on the Indonesia Stock Exchange in 2014-2018. The sample was determined based on the purposive sampling method, so that a sample of 44 manufacturing companies was obtained. The type of data used in this study is in the form of secondary data obtained through idx website. The analysis method used is panel data regression analysis. The results showed that managerial ownership, and company growth had a significant effect on company value. Managerial ownership is proven to be able to increase company value because it is consistent with the interests of shareholders. While independent commissioners did not have a significant effect on company value. Independent commissioner does not put strong control on decision making which causes no significant impact on company value.

**Keywords:** Company Growth, Company Value, Good Corporate Governance, Independent Commissioner, Managerial Ownership

## INTRODUCTION

The establishment of a company must have a clear goal. The company's goals include getting maximum profits, wanting to prosper the company owner and optimizing the company's value which can be seen from its share price. Maintaining corporate continuity is an important element that must be maintained by the company, especially with regard to the welfare of shareholders who are depicted with the value of the company. The stock price is one of the assessments of the company's value. If the stock price increases, the value of the company will also increase, thus having an impact on increasing shareholder value as evidenced by the high return for shareholders. It is this circumstance that reflects the prosperity of the shareholders of the company. The value of the company is the price that must be paid by the prospective buyer if the company is sold. The following presents 5 manufacturing company values over the past five years proxied with Price to Book Value (PBV). PBV or book value is a comparison of the book value per share with the market price per share.

**Tabel 1. Company value in Manufacturing Sector Companies listed on the IDX as measured by Price to Book Value (PBV)**

Company Name	Year					Ave (%)
	2014	2015	2016	2017	2018	
AKPI	0,55	0,54	0,56	0,43	0,42	0,5
AUTO	2,08	0,76	0,96	0,92	0,65	1,074
BUDI	0,48	0,26	0,34	0,35	0,36	0,358
INDS	0,58	0,12	0,26	0,39	0,67	0,404
INCI	0,32	0,36	0,25	0,28	0,39	0,32

Source: data processed, 2021





Based on table 1, it shows that the value of companies proxied with PBVs in manufacturing companies listed on the Indonesia Stock Exchange in 2014-2018 experienced fluctuations. Fluctuations in the value of a company with an upward or downward range that is too far away can cause problems, such as the company will lose its attractiveness in the capital market. This is because it will make investors less confident in the company's performance so they will choose to avoid investing in the company. The high value of the company will make investors interested in investing in the company.

The value of this company is an important thing for a manager as well as for an investor. If a manager is able to increase the value of the company then the manager has shown good performance for the company. In addition, indirectly these managers have been able to increase prosperity for shareholders which is the goal of the company (Pratama, Idawati, & Sumartini, 2018). Ownership of the company can affect the achievement of company goals and means also influence financial decisions consisting of funding decisions.

*Good Corporate Governance* is corporate governance that explains the relationship between various participants in the company that determines the direction and performance of the company. *Good Corporate Governance* is carried out as an effort to ensure that company managers always take appropriate and selfless actions (Listiyowati & Indarti, 2018). There are other problems that affect the value of managerial ownership companies (Sari & Karlinda, 2021), managerial ownership is defined as a percentage related to shares and options owned by managers and directors of a company. Increased managerial ownership helps connect the interests of management and shareholders, and leads to better decision-making in order to generate higher company value. Share ownership by the management will cause an oversight of the policies taken by the company's management.

The next factor affecting the value of the company is the growth of the company. The indicator of the growth of the company used in this study is the growth of assets. Asset growth is defined as a change (decrease or increase) in the total assets owned by the company. Asset growth is calculated as the percentage change of assets at a given moment against the previous year.

The higher the size of the company will be closely related to the funding decisions that will be implemented by the company in order to optimize the company's value. Riyanto (2011) argues that large companies with a large distribution of company shares will also have a small impact on the loss of control from the dominant party to the company, so large companies tend to be bolder to issue new shares to meet the needs of the company than small companies (Suwardika & Mustanda, 2017).

The value of the company is an important thing because the high value of the company will be followed by the high prosperity of shareholders. The high value of the company is the desire of the company owners, because with a high value, it shows that the prosperity of shareholders is also high. The value of the company will be reflected through its outstanding share price. The market price of the company's shares formed between buyers and sellers when a transaction occurs is called the company's market value, because the stock market price is considered a reflection of the real value of the company's assets (Sari & Karlinda, 2021).

## LITERATURE STUDY

### Company Value

According to Harmono (2016), company value is an objective value by the public and an orientation to the sustainability of the company. The value of the company can be measured through the value of the share price in the market based on the formation of the company's share price in the market which is a reflection of the assessment by the public of the company's performance in real terms (Fajrin, Diana, & Mawardi, 2017; Rafid, Pohan, & Noor, 2017).

### Managerial Ownership

Managerial ownership is the management who actively participates in the decision-making of the company (manager, director or commissioner) and is also given the opportunity to co-own shares of the company (shareholders). Managerial ownership is often associated as an effort to increase the value of the company because the manager other than as a management as well as the



owner of the company will feel the direct consequences of the decisions he makes so that the managerial will not carry out actions that only benefit the manager. The expectation of the function of the top manager who is also the owner or what is called managerial ownership is that the top manager in carrying out his activities can be more consistent with the interests of shareholders so that the value of the company increases (Suastini, Purbawangsa, & Rahyuda, 2016).

### Independent Commissioner

An independent commissioner is a member of the commissioner who has no relationship with other members of the commissioners, members of the director's board, and controlling shareholders. Independent commissioners amount proportional to the number of shares owned by non-controlling shareholders. The provision is that the number of independent commissioners must be at least 30% of all members of the commissioners. An independent commissioner may concurrently serve as chairman of the audit committee. The smaller the number of independent commissioners will have an impact on the company's increasing performance. Because this does not cause overlapping information and policies that will later be submitted to the directors in the company (Listiyowati & Indarti, 2018).

### Company Growth

Company growth is *an* increase or decrease in the total assets owned by the company. The growth of the company is calculated as the percentage change in assets in a given year against the previous year (Suprانتiningrum, 2013).

## METHOD

This research is a hypothesis testing study that aims to test the hypothesis proposed, namely whether there is an influence between good corporate governance and company growth on the value of companies in manufacturing companies on the Indonesia Stock Exchange (IDX). Furthermore, population is a generalization area consisting of objects or subjects that have certain qualities and characteristics that are applied by research to study and then draw conclusions (Siyoto & Sodik, 2015).

In this study, the population is manufacturing companies listed on the Indonesia Stock Exchange for the Period (IDX) which published annual reports during 2014-2018 totaling 169 companies. Siyoto & Sodik (2015) also revealed that the sample is a part of the number and characteristics possessed by that population or a small part of the population members taken according to certain procedures so that it can represent its population. The samples that will be used in this study are some of the manufacturing companies listed on the IDX. The sampling technique in this study is purposive sampling, which is a random sampling from several groups or levels using criteria.

**Table 2. Research Sample Selection**

No.	Sampling criteria	Number of companies
1	Manufacturing companies listed on the IDX during the year 2014-2018 in a row.	169
2	Incomplete manufacturing companies publish their financial statements on the IDX during the year 2014-2018.	(58)
3	Manufacturing companies listed on the IDX that did not suffer losses during 2014-2018.	(64)
4	Manufacturing companies delisted during 2014-2018	(3)
Sample count		44

Source: Processed data, 2021.

The following analysis tools and analysis methods used in this study:

Panel Data Regression Estimation Model Selection

### Chow Test

The chow test is used to determine the panel data analysis model to be used. The chow test is used to select the fixed effect model or the common effect model that should be used.



Ho: Common Effect Model

Ha: Fixed Effect Model

If the test results of this specification show a chi-square probability of  $> 0.05$  then the model chosen is the Common Effect Model. On the other hand, if the probability of chi-square  $< 0.05$  then the model that should be used is the Fixed Effect Model.

### Hausman Test

The hausman test is used to determine the model that should be used, namely the fixed effect model (FEM) or random effect model (REM). The hypothesis in the hausman test is as follows :

H<sub>0</sub>: Random Effect Model

H<sub>a</sub>: Fixed Effect Model

If H<sub>0</sub> is rejected then the conclusion should be to use FEM, since REM is likely correlated with one or more free variables. On the other hand, if H<sub>a</sub> is rejected then the model that should be used is REM.

### Lagrange Multiplier Test (LM test)

This LM test is used to ascertain which model to use, the basis for this test is if the results of the chow test and the hausman test are inconsistent.

H<sub>0</sub> : Common Effect Model

H<sub>a</sub> : Random Effect Model

If H<sub>0</sub> is rejected then the conclusion should use REM, since CEM is likely correlated with one or more free variables. On the other hand, if H<sub>a</sub> is rejected, the model that should be used is CEM.

### Panel Data Regression Analysis

There are three approaches that can be used to estimate the panel data regression model, namely Pooled least square (Common Effect), Fixed Effect and Random Effect. To determine which method is the most appropriate in estimating the panel data regression model, it is necessary to test the model specifications (Basuki & Prawoto, 2016).

### Common Effect Model Approach

The approach with the common effect model is the simplest approach because it only combines time series data and the cross section (Basuki & Prawoto, 2016). In this model, both time and individual dimensions can be considered, so it is assumed that the behavior of company data is the same in various periods of time. This method uses the Ordinal Least Square (OLS) approach or the least squares technique to estimate the panel data model.

### Fixed Effect Model Approach

According to Basuki & Prawoto (2016), This model assumes that differences between individuals can be accommodated from their intercept differences. To estimate the Fixed effect model data using variable dummy techniques to capture the intersectional relationship between companies, interception differences can occur due to cultural, managerial, and incentive differences.

### Random Effect Model Approach

According to Basuki & Prawoto (2016), This random effect model approach is to overcome the weaknesses of the fixed effect model. This model is also known as the generalized least square (GLS) model. The random effect model uses residuals that are suspected to have relationships between time and between objects. To analyze panel data using this model there is a condition that must be met, namely cross data objects greater than the number of coefficients.

The regression model in this study is multiple regression which measures between two or more variables and the analyst tool used is Eviews 9. The general form of multiple regression can be formulated as follows:

Panel Data Regression Analysis

The first panel data model regression analysis is to not include the following control variables:

$$Y_{it} = \alpha + \beta_1 KM_{it} + \beta_2 KOI_{it} + \beta_3 PP_{it} + e$$

Information:

Y = Company Value (Y) = Constants

KM = Managerial Ownership (X1) = Regression Coefficient

KOI = Independent Commissioner (X2) = Error

PP = Company Growth (X3)



## RESULTS AND DISCUSSION

### Panel Data Regression Model Selection

#### Chow Test

**Table 3. Chow Test**

Effects Test	Statistic	d.f.	Prob.
Cross-section F	25,67	(43,172)	0,00
Cross-section Chi-square	440,84	43	0,00

Source: Processed data, 2021

Based on table 3 above, it can be seen that the probability value of the Chi-Square cross-section is  $0.00 < 0.05$  then can be concluded that  $H_a$  accepted, so model fixed effect better used than common effect model.

#### Hausman Test

**Table 4. Hausman Test**

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	23,30	4	0,00

Source: Processed data, 2021

Based on the results of the hausman test in table 4, it can be seen that the probability value of Chi-square is  $0.00 < 0.05$ , it can be concluded that  $H_0$  is rejected and  $H_a$  is accepted, and the regression model used or selected should be a fixed effect model.

### Panel Data Regression Analysis

**Table 5. Fixed Effect Model Estimation**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
X1 KM	-0,01	0,00	-3,49	0,00
X2 KOI	0,01	0,00	1,50	0,14
X3 PP	0,01	0,00	5,78	0,00
C	26,73	3,28	8,16	0,00

Source: Processed data, 2021

Based on selected estimation model, obtained the equation of the panel data regression model as follows:

$$PBV_{it} = 26.73 - 0.01 KM_{it} + 0.01 KOI_{it} + 0.01 PP_{it} + e$$

1. The value of the  $\alpha$  constant of 26.73 means that if the variables KM, KOI, PP and SIZE in the observation to i and the period to t are ignored or zero value, the PBV increases by 26.73 percent.
2. The value of the coefficient  $b_1$  of -0.01 means that if km at observation to i and period to t increases by one (1) unit, then PBV decreases by 0.01 assuming the variables KOI, PP and SIZE are ignored.
3. The value of the coefficient  $b_2$  of 0.01 means that if the KOI value at the observation to i and the period to t increases by one (1) unit, then the PBV increases by 0.01 assuming the variables KM, PP and SIZE are ignored.
4. The value of coefficient  $b_3$  of 0.01 means that if the PP value at the observation to i and the period to t increases by one (1) unit, then pbv increases by 0.01 assuming the variables KM, KOI and SIZE are ignored.

### Coefficient of Determination Testing ( $R^2$ )

**Table 6. Coefficient of Determination Test ( $R^2$ )**

R-squared	0,92
Adjusted R-squared	0,90

Source: Processed data, 2021



Based on table 6, it shows that the value of the coefficient of determination produced in the R-squared test is 0.92. The results showed that the variables of managerial ownership, independent commissioners and company growth were able to contribute to influencing the value of the company with firm size as a control variable of 92% while the remaining 8% was influenced by other variables that were not included in the research model such as liquidity.

Simultaneous Hypothesis Testing (F Test)

**Table 7. F-Statistical Test**

F-statistic	44,21
Prob(F-statistic)	0,00

Source: Processed data, 2021

Based on table 7, it shows an F-statistical value of 44.21 and a probability of 0.00 with an error rate used of 0.05. The results obtained show that the probability value generated is  $0.00 < 0.05$ , so the decision is that the variables of managerial ownership, independent commissioners and company growth to the value of the company with the size of the company in the manufacturing company listed on the Indonesia Stock Exchange in 2014-2018. So  $H_0$  was rejected and  $H_a$  was accepted.

Partial Hypothesis Testing (t Test)

Based on table 4. 6 shows the influence of variables of managerial ownership, independent commissioners and sales growth on company value with firm size as a control variable in manufacturing companies listed on the Indonesia Stock Exchange can be tested as follows.

#### **Managerial Ownership on company values**

The results of the analysis show that managerial ownership (KM) has a regression coefficient value of -0.01 and a tstatistic of -3.49 with a probability value of 0.00 less than 0.05 or ( $0.00 < 0.05$ ). So it can be concluded that the variable of managerial ownership (KM) has a significant effect on the company value (PBV) in manufacturing companies listed on the Indonesia Stock Exchange. So  $H_0$  was rejected and  $H_a$  was accepted.

#### **Independent Commissioner on company value**

The results of the analysis showed that the independent commissioner (KOI) had a regression coefficient value of 0.01 and a tstatistic of 1.50 with a probability value of 0.14 greater than 0.05 or ( $0.14 > 0.05$ ). So it can be concluded that the independent commissioner variable (KOI) does not have a significant effect on the company value (PBV) of manufacturing companies listed on the Indonesia Stock Exchange. So  $H_0$  was accepted and  $H_a$  was rejected.

#### **The Company's growth on company value**

The results of the analysis showed that the company's growth (PP) had a regression coefficient value of 0.01 and a tstatistic of 5.78 with a probability value of 0.00 greater than 0.05 or ( $0.00 < 0.05$ ). So it can be concluded that the variable of company growth (PP) has a significant effect on the value of the company (PBV) in manufacturing companies listed on the Indonesia Stock Exchange. So  $H_0$  was rejected and  $H_a$  was accepted.

#### **Firm Size as a variable of control over company value**

The results of the analysis show that firm size (SIZE) has a regression coefficient value of -2.36 and a tstatistic of -6.95 with a probability value of 0.00 smaller than 0.05 or ( $0.00 < 0.05$ ). So it can be concluded that the firm size (SIZE) variable as a control variable has a significant effect on the company value (PBV) in manufacturing companies listed on the Indonesia Stock Exchange. So  $H_0$  was rejected and  $H_a$  was accepted.



## CONCLUSION

Based on the results of the analysis and discussion of the effect of managerial ownership, independent commissioners and company growth on company value with firm size as a control variable in manufacturing companies listed on the Indonesia Stock Exchange for the 2014-2018 period, the following conclusions can be drawn: Managerial ownership partially has a significant effect on the value of companies in companies listed on the Indonesia Stock Exchange for the 2014-2018 period. The Independent Commissioner partially has no significant effect on the company's value in the portfolio listed on the Indonesia Stock Exchange for the 2014-2018 period. The Company's partial growth has a significant effect on the company's value in the infrastructure companies listed on the Indonesia Stock Exchange for the 2014-2018 period. Managerial ownership, independent commissioners, joint growth of the company against the value of the company.

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