

CORPORATE GOVERNANCE, OWNERSHIP STRUCTURE, CAPITAL STRUCTURE AND FIRM VALUE: STUDIES ON THE INDONESIA STOCK EXCHANGE ISSUER

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ABSTRACT

This study aims to examine the agency theory and signal theory on the relationship between corporate governance (as measured by the corporate governance perspective index / CGPI) and ownership structure is concentrated on the capital structure (long-term debt to equity ratio / LTDER) and the value of the company (Tobins Q) and sets capital structure as an intervening variable between corporate governance and ownership structure with the value of the company. The method of analysis by using path analysis with linear regression approach to non-financial issuers in the Indonesia Stock Exchange that follows corporate governance assessment conducted by the Indonesian Institute for Corporate Governance from 2007 through 2013. The results showed that the corporate governance and ownership structure of companies concentrated effect on the capital structure and corporate value. The application of the principles of corporate governance are well and or corporate ownership structure is more concentrated in one or several parties, the monitoring of the management can be done effectively, so that the actions and behavior management can be directed to the interests of shareholders and improve to management performance, which in turn will increase the value of the company. Investors consider the signals implementation of corporate governance in consideration of their investments in the capital market. The results also show that capital structure does not affect the value of the company. Change in long-term debt to equity ratio does not give effect to the value of the company. It provides information that the spending decision of companies is not a consideration of investors in the capital market. Thus the signal in the form of an increase in debt is not considered investors in making investment decisions.

Keywords: Corporate governance, ownership, capital structure, the company's value.

1. Introduction

Basically, theories of finance companies have a focused goal of maximizing the wealth of the owners or shareholders are realized by maximizing the value of the company (Gitman and Zutter, 2012). In the capital market value of the company can be interpreted as the views / investor perception of the company represented by the market price of shares the investor is willing to pay. The value of the company and the stock price can also be interpreted as the collective judgment of investors in connection with the company's performance. Thus, the ability and success can manage a company to improve corporate performance into consideration investors in their decision making. Managers are required to always increase the value of the company (Keown et al, 1999) which means increasing shareholder or owner (Gitman and Zutter, 2012). Agency theory states that there is a separation between the owners (shareholders) and management (management) in the company. The separation between the owner and the management companies potential conflict that will ultimately affect to the value of the company. The separation of ownership and create a relationship called by the agency relationship (Gitman and Zutter, 2012; 21). Ross (1973) states that an agency relationship is a relationship between two (or more) parties, one acting as an agent, while the other acts as a principal. Jensen and Meckling (1976) define an agency relationship as a contract between one or more persons (the principal) to another person (the agent) to perform services on their behalf as well as the delegation of authority to make decisions.

Agency theory states that management does not fully work in the interests of shareholders or to increase the value of the company. Managers can act not in the interests of the owners (shareholders), but rather to improve the welfare of their own (Gitman and Zutter, 2012; 22). Management as agent should charge and serves to the interests of shareholders (Keown, et al.1999; 2). Jensen and Meckling (1976) stated that there are two ways to ensure that managers act in the interest of the owners / shareholders, namely through: (1) conduct surveillance (monitoring) by external investors and (2) restricting by the manager (bonding). Increasing the number of long-term debt is one action in bonding by management (Jensen, 1986), while corporate governance is a mechanism outside monitoring by the investors / shareholders. Issues of corporate governance these days are becoming ever more interesting and important in the business world. Many corporate failures caused by weak implementation of the principles of corporate governance. Corporate governance is a monitoring system to ensure that management acts in the interests of shareholders. Monitoring by the main shareholders is when there has been a separation between ownership and management. Separation of ownership and control will lead to a conflict of interest between management and shareholders, the agency theory commonly called the agency problem.

Corporate governance is a monitoring mechanism aimed at increasing the company's enterprise value (Gitman and Zutter, 2012; 21). According to Crowther and Seifi (2011; 12), the application of good corporate governance is one of the main considerations for investors in making their investment decisions. Most investors are willing to pay a higher rate for the company that owns and

implement good corporate governance. Therefore the company cannot ignore the pressure from shareholders, potential investors and other market participants in connection with the implementation of corporate governance. Corporate governance is a set of mechanisms in which outside investors (minority shareholders) to protect themselves against action to takeover by insiders (controlling shareholders and management), therefore the corporate governance serves as a guarantee for minority shareholders that the company / management act for the benefit of all shareholders equitably (La porta et al, 2000). The real condition can ignore the interest of minority shareholders will affect to the value of shares on the capital market. Research conducted by Brown and Caylor (2006), Black, Love, Rachinsky (2006), Balasubramanian, Black and Khanna (2010), Ammann, Oesch, Schmid (2011), Siagian, Siregar and Rahadian (2013) found a positive relationship between corporate governance with the value of the company. In contrast to research conducted by Vintila and Gherghina (2012), found a negative relationship between corporate governance with the value of the company.

Corporate governance is based on the agency theory serves to reduce conflicts of interest between shareholders, management and other stakeholders in the company's (Gitman and Zutter, 2012; 12). Conflict of interest between managers and shareholders occurs when the separation between the owner and management one attempt to reduce the agency problem between management and owners is to increase the number of long-term debt. Jensen and Meckling (1976) stated that the increase in the amount of debt is one way to reduce the agency problem between management and shareholders. Furthermore, Jensen (1986) suggest that an increase in the number of long-term debt as a way of bonding to reduce agency problems between managers and shareholders. Similarly Jiraporn, et al. (2012) states that an increasing debt on long-term can be one way to reduce the agency conflict between shareholders and management. Thus, the increase in the number of long-term debt from the perspective of agency theory is to reduce the agency problem, thereby reducing agency costs, which in turn is to enhance shareholder value. In line with the statement above that the increase in the number of long-term debt will affect the company's capital structure. The capital structure can be measured by long-term debt to equity ratio (LTDER). When the number of long-term debt increases, the LTDER will also increase. On the one hand, the increase in the number of long-term debt can increase profits for the company because of their tax savings on the cost of debts and capital, on the contrary increase the amount of debt will also increase the company's financial risk.

Approaches trade off in the capital structure theory states that an increasing number of long-term debt to a certain extent can increase the value of the company, this is due to the tax savings from interest expense of long-term debt, thereby increasing earnings per share (Brealey, et al., 2008; 15), Modigliani and Miller (1963) states that there is a positive relationship between capital structure with the value of the company's current corporate tax to be considered, so that the higher the value the higher the capital structure of the company. This is because the cost of debt to reduce the tax implication is that the company can make decisions source of the funds through a big debt to obtain high profits for shareholders through tax savings. But whether it will be viewed positively by investors in the stock market?

Salim and Yadav (2012) conducted a study on the relationship between capital structure and firm value. They stated that there is a positive relationship between capital structure and company performance when measured by Tobin's Q. Meanwhile Moradi et al (2012) found that the capital structure is inversely related to Tobin's Q. The agency problem cannot be separated from the problem of ownership structure. The pattern of the ownership structure of a company will affect the high and low potential agency problems (Hasan and Butt, 2009). Companies with concentrated ownership structure shareholder control to operate more effectively, so that the agency problem between managers and shareholders can be reduced. At the company shareholding spread, control of action a manager as opposed to maximizing the value of the company by shareholders will be difficult.

Shleifer and Vishny (1997) suggest that the control of the company will be more easily done if the control is held by fewer and fewer investors. At the company shareholding spread, control of action a manager as opposed to maximizing the value of the company by shareholders will be difficult. The effectiveness of control by shareholders or owners will affect the performance of management so that it will have an impact on the value of the company. Omran, Bolbol, Fatheldin, (2008), which conducts research on the relationship between ownership structures with the values of the companies are found different results with research Baek, Kang, Park (2004). Omran, et al. (2008) in their study found that ownership is concentrated positive effect on Tobin's Q ratio on companies in Saudi. Baek, et al. (2004) examined the relationship of ownership structure with the value of shares in the Korean company, found that companies with stock and control concentrated on families tend to decrease the value of their shares.

2. Theoretical Framework

A. Value Company

Theories of finance companies basically have a focused goal of maximizing the prosperity of the owners or shareholders are realized by maximizing the value of the company (Gitman and Zutter, 2012). The importance of the value of the company has been widely studied because of the value of the company is the main aim of establishment of companies in addition to other purposes. Maximizing the value of the company means to maximize wealth or the welfare of the owners (Keown, et al.1999; 2), (Brigham and Houston, 2006; 33) and (Gitman and Zutter, 2012; 11). The value of the company is an investor perception of the company in the capital market which is expressed in the share price investors are willing to pay. The value of the company is reflected in the share price in the stock market, thereby maximizing shareholder value means maximizing stock prices (Gitman and Zutter, 2012). The actions and decisions taken by managers, management and control of the company, can influence the stock price and the value of the company.

B. Capital Structure

The capital structure is a balance / proportion of the use of long-term debt and equity in the company (Myers, 2001). The decision means determine the source of funding the company's capital structure which has an important role for the survival of the company as well as the value of the company (Abor, 2005). One of the fundamental problems in financial management is to determine the source of funds for companies, whether through debt or through equity. Modigliani and Miller (1958) which states that the company's capital structure will not affect the value of the company for the corporate tax is not calculated. However capital structure established by the company had no impact on the value of the company. But this theory is very difficult in reality because the company cannot avoid tax liabilities.

Modigliani and Miller (1963) renewing the previous theory taking into account the corporate taxes. In theory, it is stated that the increase in debt (increase in capital structure) will be able to increase profits for shareholders. Due to the interest of the debt can reduce the tax on profits for shareholders. In the agency theory, the approach to capital structure is also used to address the agency problem between management and the owners of the company (shareholders). Jensen and Meckling (1976) state funding through debt can reduce the agency problem between management and shareholders. Jensen (1986) states that funding through debt may act as bonding, thereby reducing the opportunistic attitude of the management towards the use of excess cash.

Determination a capital structure for company decision can find a funding sources that have an important role for the survival of companies and is a decisive factor in increasing the value of the company. The decision about the company's capital structure can affect the level of income and shareholder value of the company (Brealey, et al, 2008; 16). But along with the determination of capital structure has been accompanied by financial risk. The use of debt can lead to financial risks of the company, increasing the use of debt then ever increasing financial difficulties. However, the trade-off theory also suggests that increasing the amount of debt to some extent the amount is to increase the tax savings in order to increase profits for shareholders (Myers, 2001). On the other hand, the decision through debt funding sources can also be interpreted as a signal given by the company. Management will give a signal to shareholders by increasing the amount of debt on the published financial statements (Ross, 1977). Companies that perform well will have a high amount of debt in its financial statements, which means that a good company will have a capital structure that is high. While companies whose performance is considered less good will have a capital structure that is low, but by having a capital structure that is high on the level of bankruptcy will also be high. Shareholders will give a positive assessment to the increasing amount of debt compared to the issuance of new shares information.

C. Corporate governance

Crowther and Seifi (2011; 11) stated that corporate governance is regarded as an environment of trust, ethics, moral values and beliefs, for stakeholders, including governments, civil society, professionals, service providers, and other corporate sectors. The issue of corporate governance started to be an important issue and crucial since the world economic crisis. One cause is believed is the absence of good management at the company. Hill (2008; 8) states that investors in the global market must adapt to the new order, which is caused by the economic recession, political instability and financial, communication disorders that are the responsibility of financial management strategy, the cause is poor corporate governance and agency problems,

Corporate governance is based on the theory of agency (agency theory) issues related to the agency relationship, namely the separation of ownership (funders) with the management of the company (management). Basically, the agency relationship is a relationship that exists between the two (or more) parties who act as principal and the other party acted as agent in connection with a contract of authority, responsibility and decision-making (Ross, 1973; Jensen and Meckling, 1976). The decisions taken by management in connection with the operation and the company's strategy should be to the benefit of the principal (shareholders) and is expected to maximize the value of the company (Gitman and Zutter, 2012; 12).

Agency theory suggests that management as not fully trustworthy agent will work for the benefit of the shareholders (Gitman and Zutter, 2012; 22). A personal goal management may be different with the goal of maximizing the wealth of owners (shareholders). So that such things would be a conflict of interest (Brigham and Houston, 2006; 26; Keown, et al, 1999; 18). To minimize the problem of the agency in the company can be done with a mechanism of supervision / monitoring to ensure management acts in the interests of shareholders and increase the value of the company (Jensen and Meckling, 1976). In the absence of effective control, management can perform actions that are detrimental to shareholders (Fama and Jensen, 1983). This means that in order to reduce conflicts of interest should the application of corporate governance. Thus corporate governance as a control system intended to increase the value of the company so that the welfare of the owners will be increased through a reduction in agency conflicts and agency fee. According to the agency theory by Jensen and Meckling (1976) said that the decision to increase the amount of debt can contribute to reduce the agency problem between management and shareholders. Increasing the amount of debt will also reduce opportunistic attitude of management to use the funds that were unemployed (free cash flow), it is part of the bonding (Jensen, 1986), (Ross, et al., 2008; 472). Jiraporn, et al (2012) stated that the debt can be one way to reduce the agency conflict between shareholders and management. Thus the increase in the amount of debt is one way to reduce the agency problem between management and shareholders.

D. Ownership Structure

The ownership structure is a mechanism in corporate governance that affect agency costs at a company (Jensen and Meckling, 1976). The ownership structure can be understood and explained by two theoretical approaches, namely: the theory of agency (agency approach) and the theory of information asymmetry (asymmetric information approach) (Iturriaga and Sanz, 2001). Approach the agency theory states that the ownership structure is an instrument or tool to reduce conflicts of interest between management and other interested parties (Hasan and Butt, 2009). While the approach of the information imbalance theory states that the mechanism of the ownership structure as a way to reduce the imbalance of information between parties / investors inside

and outside investors through disclosure in capital markets (Iturriaga and Sanz, 2001). Broadly speaking, the pattern of ownership structure is divided into two groups: the concentrated ownership and ownership spread. Characteristics of this ownership structure will affect the control of the company, thus affecting the quality of management decisions (Shleifer and Vishny, 1997). In companies with concentrated ownership, shares of the company largely owned by a particular individual or institution that has a very large control of the company so that all the company's actions reflect the will of the owner. In companies whose ownership is spread strength investor involvement in governance so weak that monitoring and control the strategic decisions the company is also very low and difficult to do.

Agency theory states that the approach followed by the ownership structure is one way to reduce the agency problems between insiders (management) and outsiders (shareholders) (Iturriaga and Sanz, 2001). The approach emphasizes the ownership structure to reduce agency problems between managers and shareholders are through concentrated ownership (Hasan, and Butt, 2009). Concentration of ownership in one or several parties allows the owner to control the managers. On the other hand, concentrated ownership can perform actions that benefit themselves, ignoring the interests of other shareholders (minority shareholders) (La Porta et al. 2000); (Hasan, and Butt, 2009). This will affect the price of shares in the capital market so as to affect the value of the company.

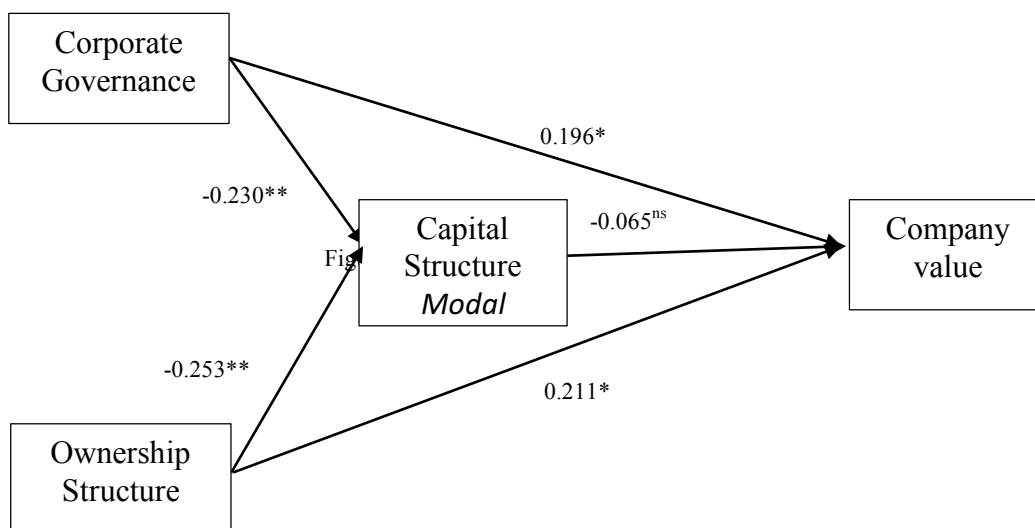
Capital structure decisions are executed by the management is strongly influenced by the characteristics of ownership structure. It is so due to the control rights of shareholders. At companies that concentrated ownership structure, selection of sources of funding will be an impact on their control rights. At companies that concentrated ownership structure would avoid the issuance of new shares (Cespedes, et al., 2010). Issuance of new shares will relinquish their control rights. Issuance of new shares rated only be beneficial for the new shareholder is not for the old shareholders. Existing shareholders are likely to increase the number of long-term debt when the company requires external funding.

4. Methods

Data analysis tool used is path analysis approach to linear regression with 86 samples of assessment applying the principles of corporate governance in the form of corporate governance perspective index (CGPI), which was conducted by the Indonesian Institute for Corporate Governance (IICG) of the year 2007 - 2013. Variables research are include independent variables consisting of corporate governance as measured by corporate governance perspective index (CGPI), the ownership structure is concentrated, capital structure proxy by long-term debt to equity ratio (LTDE), as well as the dependent variable is the value of a company that proxy by Tobin's Q.

5. Results and Discussion

The results of path analysis showed the value of each path in the model between the dependent and independent variables either directly or indirectly through the mediating variables (intervening). The results of path analysis can be seen in Table 1 and Figure 1.



Note:
*: Significant at $\alpha = 10\%$
**: Significant at $\alpha = 5\%$
Ns: not significant

Table.1.

Direct and indirect influence corporate governance and ownership is concentrated on capital structure and corporate value.

Variable	Effect	t-hitung	p-value	Result
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	DE	IE	TE			
CG→NP	0,196			1,813	0,073*	significant
CG →SM	-0,230			-2,231	0,028**	significant
KT→ NP	0,211			1,947	0,054*	significant
KT→SM	-0,253			-2,459	0,016**	significant
SM→NP	-0,065			-0,580	0,563 ^{ns}	Non significant
CG →SM→NP		0,01495	0,21095			Non Mediation
KT→SM→NP		0,01645	0,22745			Non Mediation

Notes: DE = direct effect, IE = indirect effect, TE = total effect

CG: Corporate Governance Perspective measured with Corporate Governance Index (CGPI)

KT: Concentrated Ownership

SM: Capital Structure (Long Term debt to equity ratio / LTDER)

NP: Value Company (Tobin's Q)

*: Significant at $\alpha = 10\%$

** : Significant at $\alpha = 5\%$

ns: not significant

Table 1 and figure 1 shows that there is a negative and significant influence between corporate governance and capital structure of the company. The better implementation of corporate governance allows companies to reduce the company's capital structure. The application of the principle= of good corporate governance which will enhance the performance of company that can generate high profit for the company. High profit potential as a source of internal fund that can be used by the funding requirement of debt can be reduced. These findings indicate that the application of the principles of corporate governance can influence the spending decisions of companies that ultimately affect the company's capital structure.

There is a negative and significant effect between ownership structure and capital structure of the company. The more concentrated the ownership of the company will decrease the company's capital structure. This means that the more concentrated corporate ownership, then spending decisions through long-term debt can be lowered. Concentrated ownership of the company can monitor and control the company effectively and be able to direct management to act optimally resulting in improved performance, which will ultimately increase profits for the company. Gains will increase the company's equity as retained earnings. Advantages in the form of retained earnings are a source of internal funds, so that the use of long-term debt as a source of external funding may be reduced.

There is a positive influence between corporate governance with the value of the company. The application of the principles of good corporate governance will bring a positive perception of investors on the company. Investors believe and are willing to buy shares of companies that will enhance the company's stock price, which in turn will increase the value of the company. Thus the views or investor perception of corporate governance implementation will affect the investor's decision to invest and the willingness of investors to buy shares of the company, so it will affect the price of shares in the capital market. It shows also that the investors in the capital market perspective makes corporate governance index (CGPI) as signals and consideration the company's stock purchase decision.

The results of this study indicate there is a positive influence between concentrated ownership with the value of the company. The more concentrated the ownership of the company will increase the value of the company. Concentrated ownership will be able to monitor and control more effectively. Owners can direct management to always act in the interests of shareholders. Control and monitoring will be able to improve performance management, so as to generate a profit or a higher profit for the company. The profits obtained will be able to increase earnings for shareholders. Additionally, income from some shareholders can increasing that will be responded positively by investors in the capital market. Investors will buy and hold shares of companies so as to increase the price of shares in the capital markets which will ultimately increase the value of the company.

The results showed that capital structure of company is proxy by long-term debt to Equity Ratio (LDTER) does not affect the value of companies in proxy by Tobin's Q. In the capital structure theory stated that the increase in the amount of debt to a

certain extent can increase the value of companies for their tax savings from interest on loans. These savings will be able to increase revenues or profits of companies thereby increasing the income of shareholders and will ultimately increase the value of the company. In this study, the value of the company that proxy by Tobin's Q is the perception of investors towards companies in the capital market represented by the stock price investors are willing to pay. It provides information that investors in the stock market tend to not consider the company's capital structure in the company's stock purchase decision. Because the capital structure does not affect the value of the company, then the variable capital structure does not act as a mediating or intervening in the research model. It gives the sense that to increase the value of the company in terms of agency theory cannot be through long-term debt.

6. Conclusion

The results of this study found that the value of the company was affected by the corporate governance and ownership structure of the company, but is not affected by the company's capital structure. The study also found that the capital structure is influenced by corporate governance and ownership structure. The application of the principles of good corporate governance and ownership structure of the company is concentrated to increase the value of companies as well as decrease the company's capital structure. When the principles of corporate governance are applied properly and or corporate ownership structure is more concentrated in one or several parties, the monitoring of the management can be done effectively, so that the actions and behavior management can be directed to the interests of shareholders, which in turn can increase the value of companies as well as decrease the company's capital structure or decrease the fulfillment of the funds through long-term debt.

7. Advice

This study suggests that companies apply corporate governance well and always assess the application of the principles of corporate governance on an ongoing basis and to publish to investor as well as aspects of assessment in detail.

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