The Effect of Good Corporate Governance Mechanism (Managerial Ownership) on Corporate Value with Environmental Performace as An Intervening Variable

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Abstrak

Penelitian ini untuk mengetahui pengaruh tata kelola perusahaan terhadap nilai perusahaan dengan kinerja lingkungan sebagai vaiabel intervening. Populasi penelitian ini adalah perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia pada tahun 2012 – 2014. Pemilihan sampel ini menggunakan metode purposive sampling. Berdasarkan metode ini, diperoleh sampel perusahaan sebanyak 132 perusahaan. Alat analisis untuk menguji hipotesis adalah path analysis dengan software AMOS versi 21. Metode analisis data menggunakan analisis deskriptif dan analisis jalur. Hasil Penelitian ini menunjukkan bahwa kepemilikan manajerial berpengaruh positif terhadap komisaris independen, komisaris independen berpengaruh positif terhadap nilai perusahaan. Sedangkan kepemilikan manajerial tidak berpengaruh pada kinerja lingkungan, namun komisaris independen berpengaruh positif pada kinerja lingkungan. Hasil penelitian ini juga menunjukkan bahwa kinerja lingkungan tidak berpengaruh terhadap nilai perusahaan.

Abstract

This research aimed to examine the influence of corporate governance to firm value with environmental performance as intervening variable. The population of this research is manufacturing companies listed on the Indonesia Stock Exchange in 2011 – 2014. The sample of this research are 132 companies was taken by using purposive sampling method. This research used path analysis software with AMOS version 21 as the instrument to test the hypotheses. In analysing the data, this research used descriptive analysis and path analysis. The results of this study revealed that managerial ownership, have a positive effect on independent commissioner, independent commissioner with a positive direction also give an effect on firm's value. Beside, managerial ownership does not have impact to the independent commissioner, and give positive impact to the environmental disclosure. This study also showed that environmental disclosure also give the positive effect on firm's value.

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INTRODUCTION

To improve performance, companies need investors to get funds to keep them operating. In essence, the main purpose of the investor is to increase the wealth by getting maximum return. Corporate value is the achievement of a company that can be described as public trust to the company as an appreciation of the activities process for several years that is since the company was established until now. Increased corporate value is an achievement, in accordance with the wishes of the owners. Due to the increasing value of the company, the welfare of the owners will also increase. Corporate value is very important as by high corporate value will be followed by high shareholder wealth (Bringham, 1996). The higher the stock price, the higher the value of the company. Corporate value has several methods of calculation, one of the sizes or proxies used is price book value (PBV) or comparing the market price per share with book value per share. The determination of price book value as a proxy is to follow the research about the value of the company conducted by some of the previous researchers such as Suyanti et al. (2010), Moniaga (2013), and Perdana and Raharja (2014).

For decades, Indonesia has passed the economic crisis hit twice in 1997 and 2008 (Liputan6, 16th October 2014). This is the driving force of the Indonesian government to rise from the economic crisis. A regulation on the implementation of good corporate governance is issued by the government, and serves as a guideline for Indonesian companies in carrying out their functions so that it is hoped that with more focused and good corporate management will improve the level of Indonesian economy. The failure of large companies, financial scandals, and economic crises in some countries have focused attention on the importance of good corporate governance (FCGI, 2008). The presence of good corporate governance in the recovery of the crisis in Indonesia is absolutely necessary, as good corporate governance requires a good management in an organization (Hastuti, 2005). Table 1 shows the average values of different PVB in some examples of companies. The values of PVB in 2011-2014 gives an explanation that there is a rise and fall in every company and almost happen in all companies. The value of a company measured by PVB is certainly expected to give an increase in each year, but the phenomenon that occurs does not match the expectation.

Table 1. Average PVB of Manufacturing Companies in 2011 – 2014

No.	Name of the Company	Year				Average
		2011	2012	2013	2014	
1.	Surya Toto Indonesia Tbk	3.257	0.367	3.683	1.038	2.086
2.	Pelat Timah Nusantara Tbk	1.483	1.346	0.786	11.319	3.733
3.	Charoen Pokphand Indonesia Tbk	1.134	7.332	5.562	3.111	4.285
4.	Japfa Comfeed Indonesia Tbk	2.107	0.471	0.496	2.458	1.383
5.	Fajar Surya Wisesa Tbk	6.016	3.491	3.221	2.485	3.803
6.	Indomobil Sukses International Tbk	2.513	1.284	2.0345	2.066	1.974

Source: Secondary data processed, 2016

From table 1 shows that from 2011-2014 some companies in Indonesia experienced quite high fluctuations. Companies that have corporate value with a range too far can have a bad impact on the economic conditions of the company. The value can give a bad view to investors so that investors are less trust in the corporate performance and cause investors choose not to invest in the company. Good corporate governance is a corporate governance that explains the relationship between various parties within the company that determines the direction and performance of the company

(Setyawan and Putri, 2013). The existence of a good corporate direction and performance will show the success of a company that will increase the value of the company.

However, in line with the effort to maximize the value of the company, many of them miss the essential essence of a corporate environment. There are many ways to be done so that company get the maximum value, including ignoring messages from the environment, thus leaving many environmental problems. Environmental issues are increasingly becoming a concern by governments, investors, and consumers. Environmental damage such as land damage, ecosystem damage, and air pollution are clearly detrimental to many parties. In Indonesia itself lately there are many industrial conflicts due to excessive natural exploitation without balanced with environmental improvements. Government through the Ministry of Environment has made an assessment program of responsibility efforts in controlling pollution or environmental damage that is by using PROPER. At the end of the year 2015, the Environment Agency of Banten Province assessed that there are 78 Chemical Factories that have very bad waste management that produces waste containing hazardous and toxic materials, which threaten the health of the people if not prevented against the industrial estate. Case of environmental pollution also occurs in Garut, the smell of waste and wastewater from the skin industry forced residents to evacuate because the waste from the industry pollutes the Cilawen River, Garut. In addition, there are many other cases such as mud floods in Sidoarjo, East Java because of PT Lapindo Brantas in 2007 which to date still not handled optimally.

This study uses manufacturing companies listed in IDX in 2011-2014 and follows the PROPER (Corporate Performance Rating in Environmental Management) program, where PROPER is a measurement for environmental performance. And the reason to use the population of manufacturing companies as manufacturing companies are more related to the environment for manufacturing companies contribute waste and environmental pollution more than other types of companies. Production processes done by manufacturing companies also require them to have workers and this is closely related to safety. Agency Theory is a concept that explains the relationship between principals and agents. Where, principal is as the authority, and the agent as the executor of some services for the interests of principals. Agency theory explains the agency relationship and the problems caused (Jensen, 1976). Problems in agencies arise when asymmetrical information occurs where this condition is an imbalance of information because agents are in positions that have more information about the company than principals. This can make the agents more focused on self-awareness than the welfare of principals' interest. Furthermore, this problem will result in more agency costs, but this problem can be solved by implementing good corporate governance (Htay, et al, 2012).

Legitimacy Theory is a concept whereby Company has a close relationship with the community. The basic concept of legitimacy is that one group has power and authority over others (O'Donovan, 2000). This theory states that company is a part of the community so it would be wise to run company in accordance with existing social norms so that the company will be more legitimate. The theory of legitimacy becomes the foundation for company to pay more attention to society and able to align its corporate values with social norms prevailing in the society. Stakeholders within a company consist of shareholders, creditors, consumers, suppliers, employees, and other communities such as society is a part of social environment. The underlying point of stakeholder theory is a system that has a view on an organization and its environment by recognizing mutual nature and interplay between the two which are complex and dynamic. Therefore, an organization has accountability to its stakeholders. The nature of accountability is determined by the relationship between stakeholders and organization. With this then the stakeholders who will make consideration for the management of the company in managing its

financial statements. The main function in stakeholder theory is as a material of consideration in increasing value creation and minimizing undesirable things that cause corporate losses.

Signalling Theory tells about how a company should signal to users of financial statements (Jama'an, 2008). This signal is information about what has been done by the management to realize the desire of the owner. Signal may be promotions or other information which states that the company is better than other companies. Managers provide information through financial statements that they implement a conservative accounting policy that results in higher qualified earnings for this principle prevents companies from overstating profits and helps users of overstate financial statements. Managerial ownership and the Percentage of the Board of Independent Commissioner are equally a driving force of good corporate governance mechanism. Managerial ownership is the amount of corporate ownership owned by board of directors or board of commissioners. Thus, the greater managerial ownership of the company will increase the percentage of the corporate board of independent commissioners.

H1: Managerial ownership has a positive effect on the Percentage of the Board of Independent Commissioners

Managerial ownership is related to the amount of shares owned by each party that influenced the corporate decision. The greater the institutional ownership, then the greater the motivation to oversee the performance of the Company. Due to the amount of investment will put a hope that the Company will grow to the maximum. This will make the performance of management is expected to optimize the performance so that the achievement of the company will increase in a period. Then the pressure in the disclosure of environmental performance will be great and the supervision of environmental performance will be greater

H2: Managerial Ownership has a positive effect on Environmental Performance.

In theory of agency explains that principal party will assign agents to give obligation in maximizing the value of principals (shareholders). In this case, it gives a statement that corporate governance is designed to provide the fulfilment of needs in the interest of shares. The Board of Commissioners is in charge of implementing supervision on management to prevent the occurrence of irregularities.

H3: The Proportion of the Board of Commissioners has a positive effect on Environmental Performance

Fama and Jansen (1983) argue that non-executive directors (independent commissioners) can act as mediators in disputes happens between internal managers and oversee management policies as well as give advice to the management. Monitoring or supervision will be more stringent if the proportion of the board of commissioners is high.

H4: The Proportion of the Board of Independent Commissioners has a positive effect on Corporate Value

Theory of Legitimacy gives an explanation that in recognition of the existence of the community is highly needed in the sustainability of a company. The way done by the organization in order to be accepted by society can be in the form of aligning economic activities with environmental and social goals. When a company can contribute well to society, the company gives good news so that the value of the company rises. Thus, a conclusion can be drawn that when companies want the value of companies to increase, companies must be able to manage the environment and society well.

H5: Environmental performance has a positive effect on corporate value

METHODS

This research was a quantitative research which used secondary data derived from the annual financial statements of manufacturing companies listed on the Indonesia Stock Exchange and following the Program of Corporate Performance Ranking in Environmental Management (PROPER) in 2011-2014. This research used manufacturing companies with the reason that manufacturing industry was easily affected by the global economic turmoil and had a high sensitivity to corporate internal and external events.

Table 2. Criteria of the Sample Selection

No.	Criteria	Year				Total Sample
		2011	2012	2013	2014	
1.	Manufacturing companies listed on IDX period 2011-2014	148	147	152	141	588
2.	Companies that did not get PROPER ranking in a row period 2011-2014	(104)	(103)	(108)	(97)	(412)
3.	Companies that did not present financial statement in a row period 2011-2013	(11)	(11)	(11)	(11)	(44)
	Total companies sample	33	33	33	33	132

Source: Indonesia Stock Exchange 265011-2014 and PROPER Ranking 2011-2014

Variables used in this study consisting of independent variable, intervening variable and dependent variables. The independent variable in this study was proxied with managerial ownership. Managerial ownership was measured by the percentage of total shares owned by management to total shares in the company. Intervening variable in this research was the Proportion of Board of Independent Commissioner and environmental performance. The proportion of board of independent commissioners was measured by comparing the total number of board of independent commissioners and the total members of the board of commissioners, while the environmental performance was proxied by PROPER which was measured using ordinal scale. Gold colour was given rank 5, green 4, blue 3, red 2, and black 1. Dependent variable in this research was corporate value which was proxied by PVB. PVB was measured by market price per share divided by book value per share. Method of data analysis used in this research was quantitative data analysis method that processed by AMOS 21 computer program. Method of data analysis which conducted in this research included descriptive statistics and testing hypothesis. Hypothesis testing of this research used path analysis.

RESULTS AND DISCUSSIONS

Descriptive statistical analysis was able to give illustration or description of data seen from mean, standard deviation, variant, maximum, minimum, sum, range, kurtosis, and skewness values (Ghozali, 2009). The result of statistical descriptive processing of each variable in this study was as follows:

Table 3. The Result of Descriptive Statistical Test

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
PDKI	132	.0000	80.0000	38.499167	11.5645313
PROPER	132	1	5	3.05	.657
KM	132	.001	75.740	6.44189	15.805230
PVB	132	-.2691	48.5712	3.061407	7.5015144
Valid N (listwise)	132				

Source: Data processed, 2016

Hypothesis testing in this research was done by path analysis technique. The following table was the output generated using the AMOS 21 program

Table 4. The Analysis Result of Regression Weight

Regression Weights: (Group number 1 - Default model)

			Estimate	S.E.	C.R.	P	Label
PDKI	<---	KM	-.133	.063	-2.117	.034	par_4
PROPER	<---	PDKI	.018	.005	3.723	***	par_3
PROPER	<---	KM	-.001	.004	-.403	.687	par_5
PVB	<---	PROPER	1.364	.889	1.534	.125	par_1
PVB	<---	PDKI	.314	.051	6.205	***	par_2

Table 5. Standardized Regression Weights: (Group number 1 - Default model)

			Estimate
PDKI	<---	KM	-.182
PROPER	<---	PDKI	.313
PROPER	<---	KM	-.034
PVB	<---	PROPER	.120
PVB	<---	PDKI	.484

Source: Secondary data processed 2016

Table 5 was the result of goodness of fit index calculation which showed whether the model used has been in accordance with the cut-off value so it could state whether the model would be rejected or accepted.

Table 6. The Result of Goodness of Fit Index Calculation

No	Goodness of Fit Index	Cut-off Value	Result	Conclusion
1	X^2-Chi Square	Small	3.841	fit
2	Significance Probability	≥ 0.05	0.427	fit
3	RMSEA	≤ 0.08	0.000	fit
4	GFI	≥ 0.90	0.998	fit
5	AGFI	≥ 0.90	0.976	fit
6	CMIN/DF	≤ 2.00	0.631	fit
7	TLI	≥ 0.95	1.039	fit
8	CFI	≥ 0.95	1.000	fit

Source: Secondary data processed in 2016

The result of goodness of fit index calculation could be explained as follows:

X^2- chi square was 3.841 so that the overall research model was considered fit or satisfactory. The probability level was $0.427 \geq 0.05$ so that the overall research model was stated fit which meant that significantly the theoretical model with the research data had good conformity. The value of RMSEA (Root Mean Square Error of Approximation) was 0.000 so it could be seen that the model fit. The value of GFI (Goodness of Fit Index) was $0.998 \geq 0.90$ so that the overall research model was stated fit. This meant that 99.8% of the existence of the model could be explained by the research variables analyzed. The value of GFI showed that the research variables had a relatively large contribution to the existence of the model. The value of AGFI (Adjusted Goodness of Fit Index) was $0.976 \geq 0.90$ so it could be concluded that the model fit. The value of CMIN / DF was $0.613 \leq 2.00$. From this result, it could be concluded that the model was very fit. The value of TLI (Tucker Lewis Index) was $1.039 \geq 0.95$ so it could be concluded that the research model used fit. The value of CFI (Comparative Fit Index) was $1.000 \geq 0.95$ so it could be concluded that the research model used fit.

The first hypothesis of this study was the existence of a significant positive effect of Managerial Ownership on the Percentage of the Board of Independent Commissioners. Based on the result of data processing could be seen that the CR value of the relationship between Managerial Ownership to the Percentage of the Board of Independent Commissioners was -2.117 and the value of P was 0.034 which was a requirement of p-value <0.01 less than 0.05 which was the maximum limit of p-value. The second hypothesis of this study was the absence of a significant positive effect of Managerial Ownership on Environmental Performance. This was due to from the data processing it could be seen that the CR value of the relationship of Managerial Ownership to Environmental Performance was -0.403 below 1.96 and p value of 0.687 did not meet the requirements of CR with p-value of 0.511> 0.05 which was the maximum limit of p-value. The third hypothesis of this study was the presence of significant positive effect of the Proportion of the Board of Independent Commissioners on Environmental Performance. Based on the result of data processing, it could be seen that the CR value of the relationship between the Proportion of the Board of Independent Commissioners to Environmental Performance was 3.724 and the value of p below 0.05 which was the requirement of p-value <0.01 less than 0.05 which was the maximum limit of p-value. The fourth hypothesis of this research was the absence of significant positive effect of the Proportion of the Board of Independent Commissioners on Corporate value. Based on the result of data processing, it

could be seen that the CR value of the relationship of the Proportion of Board of Independent Commissioners to the Corporate value was 6.205 above 1.96 and the value below 0.05 so that it met CR requirement with p-value of 0.511> 0.05 which was the maximum limit of p-value. The last hypothesis of this research was the absence of significant positive effect of Environmental Performance on Corporate Value. Based on the result of data processing, it could be seen that the value of CR from the relationship of Environmental Performance to Corporate Value was 1.534 below 1.96 and p-value of 0.125 did not meet the requirements of CR with p-value 0.511> 0.05 which was the maximum limit of p-value.

CONCLUSIONS

This study seeks to examine good corporate governance that is managerial ownership to corporate value with environmental performance and the proportion of independent commissioners as intervening variables on companies listed in Indonesia Stock Exchange and registered in PROPER. Based on the results of data analysis used in the description analysis can be concluded that the criteria of each research variable is quite good. The Effect of Managerial Ownership on the Proportion of the Board of Independent Commissioners has a significant positive effect. The effect of Managerial Ownership on the Environmental Performance of a company has no significant positive effect. The Effect of the Proportion of the Board of Independent Commissioners on Environmental Performance has a significant positive effect. The Effect of the Proportion of the Board of Independent Commissioners on Corporate Values has a significant positive effect. The Effect of Environmental Performance on Corporate Value does not have a significant positive effect. Non-significance of this variable effect may occur caused by the proxy of corporate value. There are several proxies in calculating corporate value, the researchers use PVB proxy where in addition to PVB there are other proxies such as Tobin's Q.

On the basis of the conclusions that have been mentioned above, can be given suggestions and is expected to be useful for the progress of the company. The proposed suggestion is to improve good corporate governance. Although Environmental Performance does not provide a significant increase in corporate value improvement, it would be wise that companies should also be better able to improve environmental performance. Because if the environmental performance is better, then the community around the company involved in the company's activities will be more able to appreciate the existence of the company. For future research can use Tobins Q method besides using PVB proxy.

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