

The Effect of Good Corporate Governance on Market Capitalization in Companies

Jundi Muhammad Basith^{1*}, M. Imam Sundarta¹, Azolla Degita Azis²

^{1,2,3}Universitas Ibn Khaldun Bogor, Indonesia

ABSTRACT

This study aims to determine the effect of good corporate governance on market capitalization either partially or simultaneously, good corporate governance referred to here are audit committees, independent commissioners and institutional ownership. The population in this study uses food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange for the 2018-2022 period. With a total sample of 13 companies. The sampling method in this study is based on the criteria of the population or also called purposive sampling. This research is a quantitative study that uses secondary data in the form of financial statements of manufacturing sub-sector manufacturing companies listed on the Indonesia Stock Exchange for the 2018-2022 period. In this study, we tested the panel data regression model using the chow test and selected the fixed effect model with generalized least squares to test the panel data regression. In this study, analysis was also carried out using descriptive analysis methods, classical assumption tests, T tests and F tests as well as analysis of the coefficient of determination R². The results of research conducted partially show that the audit committee has no effect on market capitalization, then independent commissioners have a significant effect on market capitalization and institutional ownership has a significant effect on market capitalization. The results are carried out simultaneously indicating that the audit committee, independent commissioners and institutional ownership have a joint effect on market capitalization.

Keywords: good corporate governance; audit committees; independent commissioners; institutional ownership; market capitalization

Corresponding author: basithjundi@gmail.com*

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Introduction

The purpose of establishing a company is of course to make a profit and achieve the goals of the company itself. Advanced and developing companies are companies whose dominant source of capital comes from the capital market compared to banking institutions in funding company activities. And in order for the company to get many investors from the capital market, of course, the company must have advantages over other companies, one of which has good financial performance. A good company is a company that is able to control its corporate governance properly, this will affect the company's financial performance and produce a good market capitalization value as well. According to Novi (2021) market capitalization is an indicator for potential investors to measure the risks and benefits that will be obtained.

The company's financial performance needs attention because financial performance is a description of the company's condition for stakeholders. This causes the need for the company's attention to the quality of financial statements because it will affect the company's financial performance and also have an impact on the market capitalization value. So if the company has good financial reports, it is certain that it will produce good output in the end.

Based on the above, market capitalization is also influenced by good corporate governance, if the governance is going well, it is certain that all company instruments are running properly. GCG is one of the factors that affect market capitalization in addition to factors such as company size, leverage ratio, liquidity ratio and activity ratio or it can be concluded that market capitalization is influenced by the company's financial performance, because the factors mentioned are included in the financial statement instruments that describe the company's financial performance.

The audit committee is part of good corporate governance which is one of the factors that affect market capitalization, this is because the audit committee is tasked with supervising the preparation of the company's financial statements which will affect the company's financial performance and market capitalization. The role of the audit committee itself is quite important because there are separate tasks such as coordinating with internal and external auditors. research conducted by Nani (2020) that the audit committee has no significant effect on market capitalization. This is because the large or small number of audit committees does not necessarily result in optimal supervision so as to increase the value of market capitalization.

Independent commissioners are also part of good corporate governance which has an influence on financial performance as described through market capitalization. This is because the independent commissioner himself is in charge of being a supervisor and also mediates between internal managers so that disputes do not occur. Independent commissioners are also commissioners who are independent without being bound or related to any party. research Darwis (2009), Romano et al (2012) state that independent commissioners have no effect on financial performance. This is because the existence of independent commissioners in the company is only a formality to fulfill regulations. So that his existence does not function as it should be the task of independent commissioners.

Institutional ownership is the proportion of ownership of a body or PT in the company. Its task is to carry out supervision from the outside of the company so that its assets in the company are maintained so as to create a sense of security for investors, this will lead to supervision that has an impact on good market capitalization. Amaliyah's research (2017) that institutional ownership has a negative effect on market capitalization. this is due to the lack of maximum supervision by institutional investors so that the company's financial performance is not well monitored which has an impact on the market capitalization value.

One example of the phenomenon of problems that occur related to good corporate governance is the case of Waskita Karya in 2009, one of the BUMN agencies suspected of engineering the results of financial statements found an excess recording of Rp. 400 billion. Scandals like this can occur due to weak good corporate governance, so that fraud like this can occur. As a result, the public's assessment of the company will deteriorate and have an impact on the company's capitalization value.

The thing that distinguishes this research from previous research is the composition between independent variables on the dependent variable. In this study, the audit committee, independent commissioners and institutional ownership were selected as independent variables and market capitalization as the dependent variable.

Research Methods

Object of Research

In this study, the object is a manufacturing company listed on the Indonesia Stock Exchange (IDX) in the consumer goods sector of the food and beverage sub-sector. The sample in this study is a manufacturing company in the consumer goods sector of the food and beverage sub-sector for the period 2018-2022. The type of data used in this study is quantitative secondary data in the form of company financial reports. The data source used is the publication of financial statements from each manufacturing company in the consumer goods sector of the food and beverage sub-sector. The data can be accessed through the official website of the Indonesia Stock Exchange (IDX), namely www.idx.co.id.

Research Population

The population in this study are manufacturing companies in the consumer goods sector of the food and beverage sub-sector listed on the Indonesia Stock Exchange. The sampling method uses purposive sampling method with the following criteria: (1) Manufacturing companies in the consumer goods sector of the food and beverage sub-sector listed on the Indonesia Stock Exchange, (2) Companies that publish their financial statements from the period 2018-2022, (3) Companies that use rupiah currency in their financial statements. Based on the criteria that have been described, the number of samples to be used after selection in this study amounted to 19 out of 32 companies, with a total of 5 years of observation. The data is processed using Eviews 12 and SPSS 25, so a total of 19 companies multiplied by 5 years is 95 units of analysis. After outliers in SPSS, the remaining data is 65 units of analysis.

Research Variables

This research variable is divided into independent and dependent variables. The dependent variable here is market capitalization, and the independent variables are audit committee, independent commissioner and institutional ownership.

Variable Operationalization

1. Audit Committee (X1)

The audit committee is measured using the number of audit committees in the company.

$$\text{Audit Committee} = \sum \text{Number of Audit Committees}$$

2. Independent Commissioner (X2)

Independent commissioners are measured using the number of independent commissioners in the company.

$$\text{Independent Commissioner} = \sum \text{Independent Commissioner}$$

3. Institutional Ownership (X3)

Institutional ownership is measured based on the percentage of investor share ownership compared to the number of shares outstanding.

$$\text{Institutional Ownership} = \frac{\text{Institutional Share Ownership}}{\text{Total Shares Outstanding}} \times 100\%$$

4. Market Capitalization (Y)

Market capitalization is measured by multiplying the market price by the number of shares outstanding.

$$(LN) \text{ Market Cap} = \text{Market Price} \times \text{Number of Shares Outstanding}$$

Results And Discussion

Panel Data Regression Model Testing

This study has used the appropriate model selection test, namely the chow test, so this study uses the Fixed Effect method with Generalized Least Square.

Table 1. Fixed Effect Model Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	26.82810	0.379981	70.60387	0.0000
X1	0.232571	0.146705	1.585303	0.1193
X2	0.205629	0.121575	1.691379	0.0971
X3	0.007778	0.003238	2.401829	0.0201

Effects Specification			
Cross-section fixed (dummy variables)			
Weighted Statistics			
R-squared	0.983765	Mean dependent var	69.75313
Adjusted R-squared	0.978795	S.D. dependent var	90.14018
S.E. of regression	0.450158	Sum squared resid	9.929466
F-statistic	197.9391	Durbin-Watson stat	1.533235
Prob(F-statistic)	0.000000		
Unweighted Statistics			
R-squared	0.941858	Mean dependent var	28.35189
Sum squared resid	10.02235	Durbin-Watson stat	1.127047

Determinant Coefficient (R²)

Based on Table 1, the Adjusted R-squared value is obtained by testing using the random effect model coefficient value with a value of 0.978795 = 97.88%. This shows that the independent variables (Audit Committee, Independent Commissioner and Institutional Ownership) affect the dependent variable (Market Capitalization) and the remaining 2.12% is influenced by other variables not included in this study.

T Test

Based on Table 1, the audit committee results have a t value of 1.585303 and a significance of 0.1193. Furthermore, the t value of independent commissioners is 1.691379 and a significance of 0.0971. And institutional ownership obtained a t value of 2.401829 with a significance of 0.0201. To be able to know the value of the T table, the degree of freedom (df) = n-k is determined, where n = number of samples and k = number of independent variables, the significance level = 0.05/3 = 0.0167. Then α is 0.0167 with df = n-3 = (65-3) = 62 and obtained a value of 2.38801 from the T table.

Conclusion

Based on the results of the data obtained from the research that has been done, the final conclusions that can be drawn are: 1. The audit committee has no effect on market capitalization in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange for the period 2018-2022. 2. Independent commissioners have a significant positive effect on market capitalization in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange for the period 2018-2022. 3. Institutional ownership has a significant positive effect on market capitalization in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange for the period 2018-2022. 4. The audit committee, independent commissioners and institutional ownership simultaneously affect market capitalization in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange for the period 2018-2022.

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