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THE EFFECT OF BOARD OF COMMISIONER ON FIRM VALUE WITH CAPITAL STRUCTURE AS AN INTERVENING VARIABLE

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Abstrak. Pengaruh Dewan Komisaris Terhadap Nilai Perusahaan Dengan Struktur Modal Sebagai Variabel Intervening. Penelitian ini bertujuan untuk menguji pengaruh dewan komisaris (BOC) dan struktur modal terhadap nilai perusahaan. Penelitian ini merupakan penelitian kuantitatif, data diolah dengan menggunakan SMART-PLS. Populasi dalam penelitian ini adalah perusahaan perbankan. Dengan menggunakan teknik purposive sampling diperoleh 37 bank sebagai sampel. jika periode yang digunakan adalah 3 tahun, maka total observasi adalah 111. Hasil penelitian menunjukkan bahwa Dewan Komisaris berpengaruh positif terhadap nilai perusahaan. Selanjutnya, Dewan Komisaris memiliki pengaruh negatif terhadap struktur permodalan. Temuan selanjutnya adalah struktur modal berpengaruh negatif signifikan terhadap nilai perusahaan. Akhirnya, struktur modal memediasi pengaruh Dewan Komisaris terhadap nilai perusahaan.

Kata Kunci : Struktur Modal, Nilai Perusahaan, Dewan Komisaris

Abstract. The Effect Of Board Of Commisioner On Firm Value With Capital Structure As An Intervening Variable. *This study aims to examine the effect of the board of commissioners (BOC) and capital structure on firm value. This research is a quantitative research, the data is processed using SMART-PLS. The population of this research are banking companies. By using purposive sampling technique, 37 banks were obtained as samples. if the period used is 3 years, the total observation is 111. Research findings indicate that BOC has a positive effect on firm value. Furthermore, the BOC has a negative influence on the capital structure. The next finding is that capital structure has a significant negative effect on firm value. Finally, capital structure mediates the effect of BOC on firm value.*

Keywords: Capital Structure, Firm Value, Board Commisioner

INTRODUCTION

Governance has been recognized by many groups such as the business community, regulators, and capital market authorities as a trigger for increasing corporate value. The relationship between corporate governance and firm value is a topic that continues to be of interest to researchers. Goog Corporate Governance (GCG) practices are indicated to cause an increase in company value (Johl, Khan, Subramaniam, & Muttakin, 2016). Companies that have a good governance system can improve their value by reducing conflicts of interest between shareholders and managers and by reducing information asymmetry and increasing managerial efficiency (Audousset-Coulier, Jeny, & Jiang, 2016). Based on agency theory, governance mechanisms should be able to reduce agency costs in the relationship between principals (shareholders) and agents (managers) (Jensen and Meckling, 1976). Good governance mechanisms are highly valued by the stock market. For example, previous research found that governance is the main determinant for company valuation (Lang et al., 2003), equity costs (Bowen et al., 2008), market liquidity (Roulstone, 2003), and credit rating companies (Ashbaugh-Skaife et al., 2006).

Corporate governance represented by BOC influences firm value. The BOC is obliged to oversee the running of the company based on the principles of GCG. In addition, the BOC has an obligation to oversee the performance of the board of directors and oversee the implementation of the policies of the board of directors. Most researchers have documented a significant relationship between BOC and firm value (Arifin, 2017; Hidayat & Utama, 2017 Mukhtaruddin et al., 2019; Malelak et al., 2020; Lukman & Geraldline, 2020). In contrast, several other studies found that the effect of board of commisioner on firm value is not significant (Siahaan, 2014, Gosal et al., 2018; Budiharjo, 2020; Eka, 2020).

The inconsistency of previous research on the effect of independent commisioner on firm value, indicates that there are other variables that affect both of these variables, one of which is capital structure. The use of the capital structure as a mediating variable has been widely carried out by previous researchers (Ngatemin et al., 2018; Detthamrong et al., 2017; Listiyani, 2017; Setiadharma and Machali 2017; Thaib and Dewantoro, 2017; Hermuningsih, 2012; Hautes & Muslichah, 2019). The capital structure of a company is a mixture of debt and equity that a company uses to finance its operations. The problem of capital structure is one of the important things for the company because it will have a direct impact on the company's finances. Mistakes in determining capital structure will increase financial risks such as increased liabilities, unable to pay interest costs and debt installments. When companies issue shares, the company will be faced with the problem of capital expenditure. Meanwhile, when companies borrow, the costs may be less, but there is an increased risk of liabilities and interest payments. Claessens et al. (2002) state that good corporate governance benefits companies because companies have greater access to finance, lower capital costs, better performance, and better treatment of all stakeholders.

This study aims to examine the effect of independent commisioner value with capital structure as a mediating variable. There are three important reasons that motivate researchers to conduct the research. Firstly, there are still inconsistent results between one researcher and other researchers regarding the relationship between independent commisioner and corporate value and capital structure. Secondly, as far as researchers know, there is no research that examines the relationship between corporate governance and capital structure using banks as research objects. Previous studies used all types of companies (Abor, 2007; Hussainey and Aljifri, 2012; Kieschnick and Moussawi, 2018), non-financial companies (Sheikh and Wang, 2012; Chow et al., 2018), information technology companies (Boateng, 2017). Third, in the Indonesian context, much research has been done on governance (Dercon, 2007; Siregar and Utama, 2008; Darmadi, 2013; Siagian et al., 2013; Rusmanto and Waworuntu, 2015; Mulyadi and Anwar, 2015; Markonah et al., 2016; Esti Riwayati et al., 2016; Wahyudin and Solikhah, 2017; Utama et al., 2017), but as far as researchers know there is only few research that examines the relationship between corporate governance and capital structure in Indonesia.

LITERATURE REVIEW

Agency theory

Agency Theory is a concept that explains the contractual relationship between principals and agents. The separation of the ownership function and the management function triggers an agency conflict. Principals are interested in the maximum and most immediate return on their investment, while agents are motivated to increase the incentives or compensation obtained from each capability that has been issued. This causes the company's financial condition reported by the manager does not reflect the actual state of the company, asymmetric information arises. To minimize asymmetric information, company management must be monitored and controlled to ensure that management is carried out in full compliance with various applicable rules and regulations. This effort raises agency costs, which must be spent in such a way that the costs of reducing losses arising from non-compliance are equivalent to increasing enforcement costs.

Signaling theory

Signaling Theory is an action taken by company management that gives instructions to investors about how management views the company's prospects (Eugene F.

Brigham, 2008). In this theory, information is an important element for investors and business people because the information essentially presents information, notes, or pictures both for past, present, and future conditions for the survival of a company. The announcement of accounting information gives a signal that the company has good prospects in the future (good news) so that investors are interested in trading shares. Thus the market will react as reflected in changes in the volume of stock trading. Information published as an announcement will provide a signal for investors in making investment decisions. If the announcement contains a positive signal, then the market is expected to react when the announcement is received by the market (Jogiyanto, 2000: 392). The existence of asymmetric information gives signals to investors or the public through management decisions becomes very important to increase the value of the company, which is reflected in stock prices in the capital market (Atmaja, 2008: 14).

Corporate governance

Corporate governance is a system that regulates and controls companies that create added value for all stakeholders (Monks, 2003). Governance is expected to function as a tool to provide investors with confidence that they will receive a return on the funds they have invested. Governance is related to how investors believe that managers will provide benefits for their investments. Investors believe that managers will not embezzle or invest in projects that are not profitable and relate to how investors control managers (Larcker, Richardson, and Tuna, 2007). In the agency context, governance can reduce monitoring costs due to increased oversight and transparency (or decreased information asymmetry) (Watts and Zimmerman, 1986). The mechanism expected to control monitoring costs is the application of good governance. This mechanism will guarantee that the owner (principal) will receive a level of return that is in accordance with the investment made (Schleifer & Vishny, 1997).

Board Commisioner

The board of commissioners (BOC) is part of the company whose task is to carry out general/specific supervision in accordance with the Articles of Association and provide advice to the Board of Directors. The function of the BOC is to ensure that the company implements Good Corporate Governance (GCG) properly and appropriately in accordance with the Internal Control Component. In addition, the BOC also functions to ensure the continuity of the company's business, by conducting periodic analysis of the company's ability to continue as a going concern, including all important conditions and events, mitigation factors and company plans, as well as being responsible for the company's losses for its negligence.

Capital structure

The success of the selection and use of capital structure is one of the key elements of the company's financial strategy (Velnampy & Niresh, 2012). Capital structure is a balance or comparison between foreign capital and own capital. Foreign capital is defined in this case is good long-term debt and in the short term, while own capital can be divided into retained earnings and can also include company ownership (Bringham & Houston, 2006). Theories related to a capital structure are trade-off theory (balancing theory), and pecking order theory/hypothesis Trade-off theory predicts that in finding the relationship between capital structure and firm value, there is an optimal level of leverage (debt ratio). Therefore the company will always try to adjust the leverage level towards the optimum. Continue from time to time in the direction of a target to be achieved. In pecking order theory, financing decisions follow a hierarchy where the source of funding from within the company (internal financing) takes precedence over funding sources from outside the company (external financing). In the case of companies using external funding, loans (debt) take precedence over funding with additional capital from new shareholders (external equity).

Firm Value

Firm value is the market value of the company's shares that reflect the owner's wealth; the higher the stock price indicates, the higher the owner's wealth. Investors will choose to invest in companies with maximum company value because maximum company value can provide maximum shareholder prosperity. There are several ratios used in measuring corporate value, namely price to book value, which is a comparison between stock prices and book values per share. A high price to book value will make the market believe in the company's prospects. Price to Book Value (PBV) describes how much the market appreciates the book value of a company's stock. The higher this ratio, the market believes the company's prospects. Companies that run well generally have PBVs above 1, which shows a higher market value than the book value. With a high PBV ratio, it shows a high stock price. Another method of measurement is using Tobin's Q ratio. Tobin's Q ratio is the market value of a company by comparing the market value of a company listed on the financial market with the replacement value of the company's assets (Lindenberg & Ross, 1981).

Hypothesis Development

The effect of BOC on firm value

Managers as part of management do not always act in the interests of the owners of the company, but rather act in pursuit of their own interests (Velnampy, 2013). The formation of the board of commissioners is one of the ways undertaken by the owner of the company to ensure that management manages the company well and works in accordance with the proper governance mechanisms. The effectiveness of supervisory functions by the board of commissioners requires high independence. As per agency theory, managers view independent commissioners as being more alert to agency problems as independent commissioners are fully dedicated to overseeing management's performance and behavior as it also supports the need for independent commissioners to strengthen their reputations as expert decision makers. Implementation of good governance can certainly improve company performance and ultimately increase company value. Based on this description, the hypothesis 1 can be formulated as follows.

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H1: Board commissioners has a positive effect on firm value

The effect of BOC on capital structure

Corporate governance plays an important role in determining capital structure. The supervisory function of the board is very important from the perspective of the agency because decision making is at the top management, the board must always oversee the company's overall decisions (Jensen & Meckling, 1986). Corporate governance mechanisms such as board size, audit committee, a board of commissioners composition, CEO duality, external directors, ownership concentration, managerial ownership and institutional ownership influence capital structure decisions (Wen et al., 2002; Hussainey & Aljifri, 2012; Ahmadpour et al., 2012; Sheikh & Wang, 2012; Marand et al., 2014; Jaradat, 2015).

Independent commissioners also have an essential role in determining capital structure decisions. Ayabei (2016) stated that the existence of an independent commissioner would make it easier in controlling managers' behavior through the use of debt. The high number of independent boards of commissioners will monitor management more actively and force management to choose actions that maximize shareholder profits so it can increase the source of corporate funding from outsiders which can increase debt ratio (Budiman & Helena, 2017). Based on this description, hypothesis 2 can be stated as follows.

H2: Corporate governance has a positive effect on capital structure

The effect of capital structure on firm value

The pecking order theory assumes that companies prefer internal financing rather than external financing, such as cash flow from company operations (Myers, 1984; Myers, 2001). If the company requires external financing because cash flow from operations is insufficient for capital investment, then the first choice is financing with the safest (less risky) debt. Myers (1984) states that companies prefer debt financing rather than equity financing because of lower information costs. This will increase the debt to equity ratio. MM theory states that increasing debt can increase company value if it has not reached its optimal point. This is reinforced by the trade-off theory, which explains that the use of debt can reduce the tax burden and company agency costs (Brigham & Houston, 2001). Capital structure has a positive effect on firm value (Chowdhury & Chowdhury 2010, Antwi et al., 2012). Based on the description above, then Hypothesis 3 can be formulated as follows.

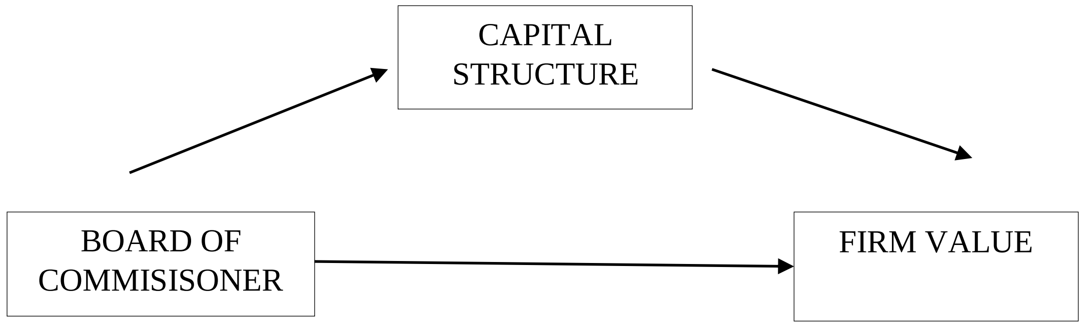
H3: Capital structure has a positive effect on firm value

Capital structure mediates the effect of BOC on firm value

Agency problems create agency costs associated with oversight costs and other costs of shareholders to ensure managers act in the interests of and improve their welfare. Debt can be used as a governance mechanism to reduce the cost of management of free cash flow available to managers for reuse for investors rather than being used for the benefit of managers (Jensen, 1986). Based on the description above, hypothesis 4 can be formulated as follows.

H4: Capital structure mediates the relationship between corporate governance and corporate value

Based on the development of the hypothesis described above, the research model can be described as follows.



RESEARCH METHODOLOGY

Population and Sample

The population in this study are banking companies listed on the Indonesia Stock Exchange (IDX) in the period from January 1 2014 to 2016. The sample of this study uses a purposive sampling technique, using the following criteria:

1. Companies listed on the Indonesia Stock Exchange during the 2014-2016 period.
2. Companies that have issued financial statements for the 2014-2016 period.
3. Companies that were delisted from IDX during the 2014-2016 period.

Based on the above criteria, the number of samples of this study is 37 banks, if the period used is 3 years, the total observation is 111. The data obtained were analyzed using Smart PLS software version 2.0.

Variables and Measurements

Board of Commissioner

Board Commissioner (BOC) is measured using the proportion of independent boards of commissioners. The independent board of commissioners has the primary responsibility for implementing good corporate governance in companies (Ferial, 2016).

$$BOC = \frac{\sum \text{Independent board of commissioners}}{\text{Total Board of commissioners}}$$

Capital Structure

Capital structure (CS) is the composition of the use of the company's funding system, which is calculated as follows:

$$CS = \frac{\text{Total Debt}}{\text{Total Capital}}$$

Firm value

The firm value (FV) is proxied by the price to book value (PBV), which is the result of a comparison between the stock price and the book value of shares, as follows:

$$FV = \frac{\text{Share price}}{\text{Book value of shares}}$$

RESULTS AND DISCUSSIONS
Hypothesis testing

Table 1. Path Coefficients

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (|O/STERR|)	Sig P
BOC→ FV	0.608586	0.612994	0.094757	0.094757	6.422582	0.0000
BOC → CS	-0.38234	-0.38682	0.172701	0.172701	2.213889	0.0336
CS → FV	-0.34894	-0.34496	0.10976	0.10976	3.17908	0.0031
T table = 2.0322						

Table 1 above shows that the effect of BOC on firm value is significant with T-statistics (6.422582)>T-tables (2.0322) and a significant level of 0.0000 <0.05 (α = 5%). The original sample estimate value is 0.608586, which shows that the direction of the relationship between BOC and firm value is positive. Thus, the H1 hypothesis is accepted.

Hypothesis 2 states that BOC has a positive effect on capital structure. From Table 1 can be seen that the effect is significant, T-statistic is 2.213889, which is higher than the value of the T-table 2.0322 (p = 0.0336 <0.05). The original sample estimate value is -0.38234, which shows that the effect of BOC on capital structure is negative. Based on these results, it can be said that hypothesis 2 is rejected.

The path coefficient in the Table above also shows that the influence of capital structure on firm value is significant with a T-statistic value of 3.17908 < of T-table of 2.0322 and a significant level of 0.0031 < 0.05 (α = 5%). The value of the original sample is -0.34894. Thus it can be concluded that the capital structure has a significant negative effect on firm value, so the H3 hypothesis in this study was rejected.

Hypothesis 4 states that capital structure mediates the relationship between BOC and firm value. Table 1 above shows that the two pathways are not immediately significant, namely the path of BOC on capital structure (hypothesis 2) and capital structure on firm value (hypothesis 3). Besides that, the Sobel test showed a sig value of 0.03361841 <0.05. Because both paths are significant, and multiple tests are also significant. It can be concluded that the capital structure mediates the relationship between BOC and corporate value, so the H4 hypothesis in this study is accepted.

Discussion
The effect of BOC on firm value

The results of this study indicate that BOC has a significant positive effect on firm value. This finding is not consistent with research conducted by previous researchers (Hidayat & Utama, 2017; Mukhtaruddin et al., 2019). Governance is one way that can be used to control opportunistic actions by management. One of the governance mechanism that can be used to resolve agency conflicts is an independent commissioner. Independent commissioners can communicate the objectives of shareholders to managers. The BOC serves to guarantee the company's strategy, conduct oversight of managers, and require accountability in the company.

The market will respond positively which has a large independent board of commissioners, because the company is considered to have a greater level of control. Commissioner is one of the company's organs whose job is to carry out general and special supervision. As stated in RI Law No. 40 of 2007 Article 108 paragraph 1 that "the Board of Commissioners supervises the management policies, the course of management in general, both regarding the Company and the business of the Company, and provides advice to the Directors". The greater the number of members of the board of independent commissioners, the greater the contribution will be to the company mainly related to management decision making or the board of directors. The findings of this study indicate that an independent board of commissioners in a company can make a positive contribution to the company. The size of the independent commissioner gives a positive signal, so investors are interested in trading shares, which is reflected through changes in stock prices.

The effect of BOC on capital structure

The findings of this study indicate that BOC has a significant negative effect on capital structure. The negative sign indicates that companies with the more independent BOC use more debt to finance their activities than equity. Consistent with the pecking order theory, which states the company prefers internal funding. If the company requires an external funding source, the company will first choose a safer source, namely debt, then with securities or the possibility of mixed securities such as convertible bonds and equity as a last resort.

The results of this study do not support research conducted by previous researchers (Kyereboah-Coleman & Biekpe, 2006; Abor, 2007; Bokpin & Arko, 2009; Boateng et al., 2017). But it supports research conducted by (Anderson et al., 2004; Hussainey & Aljifri, 2012; Kieschnick & Moussawi, 2018; Chow et al., 2018). Corporate governance mechanisms such as board size, audit committee, a board of commissioners composition, CEO duality, external directors, ownership concentration, managerial ownership and institutional ownership influence capital structure decisions (Wen et al., 2002; Hussainey & Aljifri, 2012; Ahmadpour et al. , 2012; Sheikh & Wang, 2012; Marand et al., 2014; Jaradat, 2015).

The results of this study conclude that BOC

plays an important role in determining capital structure. The supervisory function of the board is very important from the perspective of the agency because decision making is at the top management; the board must always oversee the company's overall decisions. The independent board is tasked with monitoring managers to work more efficiently and effectively so that managers are forced to find ways to get capital structures with lower risk levels to achieve better results. Companies that have a higher non-executive board will ask management to reduce low debt. Feinerman (2007) argues that senior managers are closely monitored when independent commissioner constitute a higher proportion of the board of commissioners, thereby causing managers to adopt lower leverage to avoid the excessive risk associated with debt. Thus, agency theory suggests that the relationship between the high proportion of independent commissioner and the debt ratio will be negative

The effect of capital structure on firm value

This study found that capital structure has a significant negative effect on firm value. Determination in making the company's capital structure policy must involve risk and return (return) because, with the increase in debt, the risk and the expected rate of return will also increase. An optimal capital structure is needed because it can optimize the balance between risk and return. The decision to choose the source of funds is important because it will affect the company's capital structure. The results of this study are consistent with the predictions of pecking order theory and support previous research conducted by Vo & Ellis (2017). Companies with high debt show that companies use loans to fund their operational activities. In addition, the use of high debt will increase the financial risk for the company. Companies that adopt a high debt policy have a responsibility to pay interest and installments to creditors, and this is usually considered unhealthy because it can reduce profits. The higher the debt of the company, the higher the possibility of bankruptcy because there is a possibility that creditors will raise interest rates that cause companies not to be able to pay debts and interest. In other words, a low capital structure will be responded positively by investors, thereby increasing the value of the company. Consistent with signaling theory, which states that when a company uses internal funds to fund its business, it will be seen by investors as a positive signal because the perception of investors when the company uses internal funds means reducing interest expense on loans, and reducing profit expenditure to pay interest expenses.

Capital structure as a mediating variable between BOC and firm value

The findings of this study indicate that capital structure mediates the relationship between BOC and firm value. BOC is a framework for building an environment of accountability, trust, and transparency. BOC is related to agency problems, because of the separation of agents (for example, managers) and shareholders. BOC is an important tool to reduce conflicts between agents and other parties who might have an influence on the company's capital structure. Chang et al. (2014) argue that the level of corporate debt is influenced in part by conflicts of interest between managers and shareholders. Some researchers (for example, Berger et al., 1997; Wen et al., 2002) have examined the relationship between corporate governance and capital structure. They found that companies with weak governance had worse company performance than strong corporate governance (Jiraporn et al., 2012). A strong governance mechanism can reduce agency costs. Managers tend to look for lower financial leverage when they are dealing with good corporate governance that comes from the board of directors (Wen et al., 2002). Corporate governance provides guidelines for resolving disputes between agents, and for that, agents can manage funds to maximize company value.

CONCLUSION AND SUGGESTION

Based on the results of the research and discussion above, this study produced four main findings, namely: (1) corporate governance has a significant positive effect on firm value, (2) corporate governance has a significant negative effect on capital structure; (3) capital structure has a significant negative effect on firm value; (4) capital structure mediates the relationship between corporate governance and corporate value. This study contributes to the accounting literature relating to the effect of governance and capital structure on firm value by providing further evidence of the relationship between the three variables in Indonesia. The findings of this study provide support for the pecking order theory. The results of this study will have several policy implications. For example, if governance and capital structure affect the value of a company's companies, the company must focus more on existing corporate governance and capital structures.

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