



Determinant of Firm's Value: Evidence of Manufacturing Sectors Listed In Indonesia Shariah Stock Index

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Abstract: *The purpose of this research is to analyzes the effects of managerial ownership, audit committees, investment opportunities, profitability, and corporate social responsibility (CSR) on the value of manufacturing companies. Analysis of the factors affecting the value of manufacturing companies using the application of panel data regression model with the e-views 9 and Microsoft excel. This research uses data obtained from a manufacturing account of the manufacturing company registered in the Indonesia Sharia Stocks Index (ISSI) period of 2011-2017. Studies show that the most appropriate selection of models for the data panel's regression is a fixed effect model with the result of research that managerial ownership, profitability, and CSR have no significant effect on the value of manufacturing companies, while the variable committee's variables and investment opportunities have significant to the value of the company listed on ISSI period of 2011-2017.*

Keyword: *Managerial ownership, audit committee, investment opportunities, corporate social responsibility (CSR), value companies*

I. INTRODUCTION

Since its introduction to the public, the latest stock index, the Indonesian Sharia Stock Index, or better known as ISSI by the management of the Indonesia Stock Exchange (BEI) in 2011, coincided with the issuance of sharia legal basis by the National Sharia Council of the Indonesian Ulema Council (DSN MUI) No. 80 related to the Application of Sharia Principles in Equity Securities Trading Mechanisms in the Regular Stock Exchange Market [1]. This is the beginning of trading in shares traded on the stock market which is based on sharia principles using the concept of syirkah or musharaka. In order to maintain the continuity of ISSI operations so that they run well and avoid future risks, especially those that are maysir, gharar, usury and which are forbidden by religion, the issuance of the Decree of the Chairman of Bapepam and LK which is now called the Financial Services Authority (OJK) No. Kep-208 / BL / 2012 which is a refinement of the Decree of the Chairman of Bapepam and LK Kep 180 / BL / 2009 dated 30 June 2009 concerning Regulation Number II.K.1 concerning Criteria and Issuance of Sharia Securities. Referring to the regulation, it is explained that not all issuers listed on the IDX are listed on ISSI.

That is because there are several criteria that must be implemented and the selection is carried out twice a year, namely in May and November conducted by the FSA in order to join ISSI. The development of companies registered on ISSI experienced a very significant increase, from the start of the formation of ISSI in 2011 to 2017 the total number of companies listed on ISSI currently reaches 368 companies out of 555 companies listed on the IDX, Around 66% of all listed companies IDX is a company registered on ISSI. Based on data obtained from www.idx.co.id that the capitalization value of companies registered with ISSI in 2011 was 1,682 trillion, this has continued to increase from 2012 to 2014, amounting to 2,452 trillion, 2,558 trillion, and 2,947 trillion, whereas in 2015 due to several factors it declined to 2,576 trillion but in 2016 it increased to 3,175 trillion and in 2017 it increased to 3,704 trillion. When talking about market capitalization, it automatically talks about company value, because market capitalization is a reflection of company value [2]. Therefore, besides getting profit in doing business, the main objective in establishing a company is to increase the company's value optically [3]. The increase in company value is due to the following factors including; Managerial Ownership, Audit Committee, Investment Opportunities, Profitability, and Corporate Social Responsibility (CSR).

II. LITERATURE REVIEW

According to Jensen and Meckling [4] that the mechanism for overcoming agency conflicts includes increasing insider ownership so as to align owner and manager interests. Managerial ownership is the amount that is controlled by management of shares in circulation. Ownership of shares that are many in terms of economic value has an incentive to align the interests of management and principals. Managerial ownership can also be said as a situation in which the manager as well as the company's shareholders as indicated by the percentage of company share ownership by the manager. Thus, the ownership of shares owned by management indicates that what is done by management really has a goal to advance the company and get profits that can ultimately affect the value of the company itself. With managerial ownership, there is no need for agency costs aimed at being trusted to manage the company, so that these costs can be used to expand the company by taking investment opportunities and opportunities that benefit the company. According to Endri et al. [5] investment opportunity is an important factor in the company's financial function. Company value is solely determined by investment opportunities. The statement can be seen as an investment opportunity to achieve the company's goals

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in maximizing shareholder prosperity. Hidayat (2010) states that If there are profitable investment opportunities, then managers try to take these opportunities to maximize shareholder welfare. Because the greater the opportunity for a profitable investment, the greater the investment made. In principle, to be able to take advantage of profitable investment opportunities, it is necessary to allocate company funds to make these investments. And this requires people who understand accounting and understand financial statements that usually occupy the position of the audit committee to analyze and create budget items in order to take the investment opportunity.

Qi and Tian [7] argue that the audit committee must have a lot of experience and have the capacity to make itself fit to be an audit committee. This indicates that the audit committee must master and explore all sectors in the company. The Sarbanes Oxle Act [8] states that the purpose of the audit committee is to assess the audit activities and results of internal auditors and external auditors. This is intended to prevent acts of implementation and reporting that are not appropriate or do not meet the standards. The audit committee can provide advice on improving the company's management control system that is reported to the board of commissioners. According to Kepmen Number 117 of 2002, the purpose of establishing an audit committee is to assist the commissioner or supervisory board in ensuring the effectiveness of the implementation of the duties of external auditors and internal auditors [9]. In line with the directives to carry out the function of the audit committee effectively, the measure of the success of the audit committee related to organizational activities is to meet consumer needs such as service, quality, and cost. Audit is a process to reduce the misalignment of information that exists between managers and shareholders by using outsiders to provide endorsement of the financial statements. With the better inspection and supervision of the audit committee, the better the results obtained by the company in the form of company profitability which gives a big influence on the value of the company. For investors is the profitability of the company, the better the level of profitability will affect the value of the company and eventually investors flock to invest in the company.

According to Bringham et al.[10], profitability is the ultimate goal of all management policies and decisions regarding the source and use of funds in carrying out company operations as stated in the company's financial statements. The purpose of establishing a company is to obtain large profits, so that if analysts and investors are very concerned about the profitability of the company there is a fairness in investing. A consistent level of profitability will be able to survive in business by obtaining an adequate return compared to the risk [11].

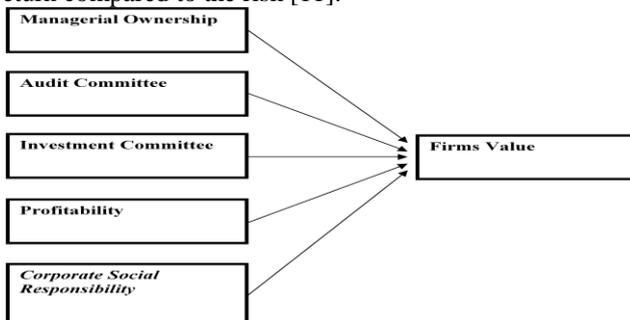


Figure 1. Framework for Thinking

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Based on this framework, a research statement can be formed as follows:

- H₁: Managerial ownership affects the value of manufacturing companies listed on ISSI positively
- H₂: The Audit Committee positively influences the value of manufacturing companies listed on ISSI
- H₃: Investment Opportunities affect the value of manufacturing companies listed on ISSI positively
- H₄: Profitability positively influences the value of manufacturing companies listed on ISSI
- H₅: Corporate Social Responsibility positively affects the value of manufacturing companies listed on ISSI

III. METHODOLOGY

Sources of population data and research samples were obtained from annual reports of manufacturing companies registered with ISSI from 2011-2017 with the following items: Managerial Ownership (KM), Audit Committee (KA), Investment Opportunities (IC), Profitability (PROFIT) , and Corporate Social Responsibility (CSR). Based on these criteria from 158 manufacturing companies registered with ISSI that meet the criteria of the study sample are 32 companies that can be downloaded and taken from the website www.idx.co.id.

In this study will examine the effect of managerial ownership (KM), audit committee (KA), investment opportunities (IC), profitability (Profit), and corporate social responsibility (CSR) which are independent variables on company value (NP) which are dependent variables as measured by Tobin's Q. This study uses panel data regression method because the data used is a merging of data between time series and cross section [5]. Panel data regression method has the advantage of being able to accommodate more data so that it can produce a greater degree of freedom, and can prevent and overcome if problems occur due to omitted variables. The regression equation is formulated as follows:

$$NP_{it} = \alpha + \beta_1 KM_{1it} + \beta_2 KA_{2it} + \beta_3 KI_{3it} + \beta_4 PROFIT_{4it} + \beta_5 CSR_{5it} + \epsilon_{it}$$

- Information:
- NP = Company Value
- KM = Managerial Ownership
- KA = Audit Committee
- KI = Investment Opportunity
- PROFIT = Profitability
- CSR = Corporate Social Responsibility
- α = Constant
- $\beta_1 \dots \beta_6$ = slope
- ϵ = component error

The dependent variable used in this study is the company value measured using Tobin's Q. The formula used in this study is as follows [12]:

$$Q = \frac{(EMV+D)}{(EBV+D)}$$

- Information:
- Q = Firm's
- EMV = Market Value of Equity
- EBV = Book Value of Total Equity
- D = Book Value of Total Debt
- Managerial ownership is a company stock that is owned by management who actively participates in determining company policy and decision making [13].



Sujoko and Soebiantoro [14] indicators used to measure managerial ownership are the percentage of the number of shares owned by management from all of the company's stock capital in circulation:

$$KM = \frac{\text{Shares owned by management}}{\text{Number of shares outstanding}}$$

The audit committee is a group formed by the board of commissioners consisting of several elect to assist the board of commissioners in overseeing the company's operational activities and examining the financial reporting process [15]. This variable is measured by a dummy variable by assessing [16]:

(0) If the Audit Committee has no educational background in finance or accounting

(1) The company's Audit Committee has an educational background in finance or accounting Investment opportunities are an important factor in the company's financial function. Company value is solely determined by investment opportunities in improving the welfare of shareholders. Investment opportunities are assessed using the following formula [17]:

$$MVA = \frac{\text{Total Asset} - \text{Total Equity}}{\text{Number of shares outstanding}} \times \text{Stock Closing Price}$$

Total Asset

According to Brigham [10], profitability is the final target of management policies and decisions relating to the source and use of capital in carrying out company operations that are summarized in the balance sheet and elements of the balance sheet. In this study the calculation of profitability uses the following formula:

$$ROA = \frac{\text{Net Income before Tax}}{\text{Total Asset}}$$

Total Asset Corporate Social Responsibility (CSR) is defined as the moral responsibility of a company to stakeholders, especially communities or communities around the work area and its operations, a company can be said to be socially responsible if it has a vision of operational performance that not only realizes profit, but also take a role in improving the welfare of the community or its social environment [18]. The formula for calculating CSRDI is as follows [19]:

$$CSRDI_j = \frac{\sum X_j}{N_j}$$

Information:

CSRDI_j: Corporate Corporate Responsibility Disclosure Index j

X_j: Number of items disclosed by the company j

N_j: Number of CSR disclosure items

IV. FINDINGS

A. Descriptive Statistic

Table 1 Descriptive Statistics of Research Variables

	NP	KM	KA	KI	PROFIT	CSR
Mean	6.172675	0.0402235	6.1050024	2.1294643	0.1070366	0.8603316

Table 2 Model Testing Conclusions

No	Model	Testing	Result
1	Chow Test	Common Effect vs Fixed Effect	Fixed Effect

Mean	1.3404085	0	1.3404083	2	0.0932554	1
Standard Deviation	21.026491	0.108963	21.021082	0.7902022	0.1402267	0.199498
Minimum	0.3041447	0	0.3265148	0	0.5487794	0
Maximum	253.64104	0.7118755	253.64104	4	0.8832345	1

Referring to table 1 above shows that the highest standard deviation value in the study variable is the company value (NP) that is equal to 21.02649056 while the lowest standard deviation value is experienced by managerial ownership variables (KM) that is equal to 0.108962981. This explains that the standard deviation is a measure to measure the disperse or spread of data and shows fluctuating numbers. The dependent variable firm value (NP) has a mean value of 6.172674976 which indicates that the ratio of manufacturing firm (NP) value is 617% greater than other types of companies. The maximum company value (NP) is 253.6410361 and the minimum value is 0.304144714.

The managerial ownership independent variable (KM) has a mean value of 0.040223525 with a maximum value of 0.71187551 with a variable standard deviation of 0.108962981, thus the shareholding of companies owned by managers is around 4% of the total shares of the company in circulation. The independent variable audit committee (KA) has a mean value of 6.105002411 which indicates that more than 100% of manufacturing companies have an audit committee (KA) that has scientific competence and knowledge in accounting, management, business, and economics. The maximum audit committee (KA) value is 253.6410361 and the minimum value is -0.326514847 with a standard deviation of 21.02108168.

The independent variable investment opportunity (IC) has a mean value of 2.129464286 so that more than 100% of all manufacturing companies take investment opportunities or investment opportunities (IC) to add to the company's portfolio. The maximum investment opportunity value (KI) is 4 with a standard deviation of 0.790202153. The profitability independent variable (PROFIT) has a mean value of 0.107036602. This shows that manufacturing companies can obtain operating profit of 10.70% of operational activities from the use of total assets owned. The maximum profitability (PROFIT) value is 0.883234525 and the minimum value is -0.54877942 with a standard deviation of 0.140226713. The independent variable CSR has a mean value of 0.860331633.

Thus, manufacturing companies have on average carried out a CSR program of 86% set by the government. The maximum value of CSR 1 with a standard deviation of 0.19949795.

After testing the three models, namely Common Effect, Fixed Effect, and Random Effect, the results of the test show that the Fixed Effect in panel data regression is used further in determining the value of manufacturing companies listed on ISSI during the period 2011-2017.

Tabel 3 Estimasi Regresi Data Panel (Fixed Effect) White Cross Section

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.016640	0.057329	-0.290254	0.7719
KM	-0.010734	0.016309	-0.658156	0.5112
KA	1.000876	0.000699	1430.949	0.0000
KI	0.016013	0.005839	2.742527	0.0067
PROFIT	0.383113	0.341749	1.121037	0.2637
CSR	0.004984	0.021390	0.233031	0.8160
R-squared	0.999957	Mean dependent var	13.46442	
Adjusted R-squared	0.999949	S.D. dependent var	38.36576	
S.E. of regression	0.270776	Sum squared resid	13.71082	
F-statistic	120731.1	Durbin-Watson stat	2.353563	
Prob(F-statistic)	0.000000			

Heteroscedasticity test is a model with residual and error variants that are not constant or changeable. In practice, heteroscedasticity is mostly found in cross section data [20]. The results of the panel data regression estimation using the Fixed Effect model with white-heteroskedasticity with the following estimation equations:

$$NP = -0.016640 - 0.010734 KM + 1.000876 KA + 0.016013 KI + 0.383113PROFIT + 0.004984 CSR$$

B. Partial Test (T-Test)

Partial test results using t-test, can be concluded as follows:

1. Managerial Ownership Factor (KM) with a parameter number of -0.010734 with a probability value of 0.5112 greater than alpha (α) 5% which indicates that the null hypothesis is accepted. These results state that the KM factor does not affect the firm value (NP) of manufacturing companies registered with ISSI.
2. The Audit Committee Factor (KA) with a parameter number of 1,000876 with a probability value smaller than alpha (α) 5% which means the null hypothesis is rejected. This finding means that the KA factor has a positive effect on the value of the company (NP) in manufacturing companies registered with ISSI.
3. Investment Opportunity Factor (KI) with a parameter number of 0.016013 with a probability value of 0.0067 smaller alpha (α) 5% so the null hypothesis is rejected. These results indicate that the IC factor has a positive effect on firm value (NP) in manufacturing companies registered with ISSI.
4. Profitability Factor (PROFIT) with a parameter number of 0.383113 with a probability value of 0.2637 greater than alpha (α) 5% so that the null hypothesis is accepted. These findings indicate that the profitability factor (PROFIT) does not affect the value of the company (NP) in manufacturing companies listed on ISSI.
5. Corporate Social Responsibility (CSR) factors with a parameter number of 0.004984 with a probability value of

0.8160 greater than alpha (α) 5% so that the null hypothesis is accepted. The test results state that the CSR factor does not affect the value of the company (NP) in manufacturing companies registered with ISSI.

C. Simultaneous Significance Test (Statistical Test F)

The F-test was carried out to test the model by determining whether all factors used to explain changes in the company's value proved to be influential or not. Statistical test results show that the F-statistic probability value of 0.0000 is smaller than α = 0.05 then Ho is rejected which can be stated that the variables KM, KA, KI, PROFIT, and CSR together can affect changes in company value (NP) with a level confidence of 95%.

D. Goodnes of Fit (R2) Test

To measure how much the contribution of the independent variable can explain changes in the value of the company used goodness of fit testing with a coefficient terminated. The results of statistical calculations show that the coefficient of determination of R² = 0.999957, which shows that the overall explanatory variables namely KM, KA, KI, PROFIT, and CSR factors are able to contribute to explaining fluctuations in the value of manufacturing companies by 99%, while the remaining 1% is explained by factors Other factors are outside this research model.

While the adjusted coefficient of determination value R² = 0.999949, taking into account the degree of freedom, all explanatory variables used in this study are still able to explain the variation that occurs in the value of manufacturing companies by 99%.

E. Discussion

Impact of Managerial Ownership on Company Value

In connection with the research findings show that the KM variable is proven to have no impact on the value of the company (NP) in manufacturing companies registered with ISSI.



The average share ownership owned by managers is a minority ownership so that if there is a loss or bankruptcy, the minority shareholder managers will experience a small loss as well. It is different if the share ownership owned by managers is the majority, of course more careful in taking company policy because if it suffers losses then the majority shareholders feel a great impact as well.

Impact of influence of the Audit Committee on Company Value

Based on empirical findings stating that the KA variable apparently has a positive impact on the value of the company (NP) on manufacturing companies registered with ISSI. Thus, the scientific background of an audit committee is needed to support the performance of a company that gives effect to the information obtained by directors to make better policies for the company.

Impact of Investment Opportunities on Company Value

Empirical evidence of the study shows that the variable IC has a convincing positive impact on the value of the company (NP) on manufacturing companies listed on ISSI. Choosing the right investment opportunity will have the effect of increasing the number of company profits generated from the investment.

Impact of Profitability on Company Value

Empirical findings of the test results provide the fact that the PROFIT variable proved to have no impact on the value of the company (NP) on manufacturing companies registered with ISSI. In theory the profitability obtained by the company can have a strong influence on the value of the company, but in this study it is possible because the data used as sampling has a very small percentage of profits so that it can have a large impact on the influence of the level of significance of the variable.

Impact of Corporate Social Responsibility on Company Value

The empirical test results show that the CSR variable has no influence on the value of the company (NP) in manufacturing companies listed on ISSI. Whereas the purpose of CSR disclosure is as a consideration of investors to make investments, but in reality the investors consider the program to be an obligation that must be carried out in accordance with the laws of the Limited Liability Company Law No. 40 of 2007.

V. CONCLUSIONS

Based on empirical evidence the following research results can be stated: First, Managerial Ownership (KM), Profitability (PROFIT), and Corporate Social Responsibility (CSR) have no influence on the value of manufacturing companies registered at ISSI in the period 2011-2017. Second, the Audit Committee (KA) and Investment Opportunities (IC) can affect the value of manufacturing companies registered with ISSI in the period 2011-2017. Third, the variable Managerial Ownership (KM), Audit Committee (KA), Investment Opportunities (KI), Profitability (PROFIT), and Corporate Social Responsibility (CSR) simultaneously affect the variable value of manufacturing companies registered at ISSI in the period 2011-2017. Fourth, that all independent variables namely KM, KA, KI, PROFIT, and CSR simultaneously contribute to explaining fluctuations in the value of manufacturing companies by 99%, while the remaining 1% is expressed by other factors not included in this research model.

Suggestions for further research are to be able to broaden the scope of the object of research to various types of corporate industries so that the results of the study can

reflect a variety of characteristics that vary from company value. For investment opportunity variables, can use other proxies so that they can produce different empirical results, proxies used include; investment opportunity set (IOS) based on Investment (Investment Based Proxies), and IOS based on Variance (Variance Measurement). For the dependent variable, the company value can use various measurement methods besides Tobin's Q, including Price Earning Ratio (PER) and Price Book Value (PBV) in order to get different results from the measurement of company value.

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