



RESEARCH ARTICLE

The Investigation of the Impact of Good Corporate Governance on the Value of Manufacturing Companies Listed on the IDX

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Abstract

This study aims to determine the effect of good corporate governance on company value (a study of manufacturing companies listed on the IDX in 2022-2024). The selection of this study used purposive sampling, so that the number of samples used was 41 companies from a population of 144 companies. In this study, the results of the analysis were carried out to draw conclusions about the effect of good corporate governance on company value (a study of manufacturing companies listed on the IDX in 2022-2024). Data processing using Eviews 12. The results of the study show that managerial ownership affects company value in Manufacturing Companies on the IDX in 2022-2024. Institutional ownership affects company value in Manufacturing Companies on the IDX in 2022-2024.

Keywords

Ownership; Managerial; Institutional; Company Value.

1 | INTRODUCTION

The primary objective of a company is to optimize its value through the enhancement of the prosperity of its owners or shareholders. The value of a company is critical because the financial management goal is to maximize the company's value. If a company operates effectively, its value will increase (Azzahrah & Yuliandhari, 2014). The goal of the company is to improve its value, reflected in its stock price. The stock price represents the price that prospective buyers are willing to pay if an investor wants to own a stake in the company. Therefore, the higher the value of a company, the greater the prosperity that will be received by its owners. Several factors influence a company's value, one of which is Good Corporate Governance (GCG).

In recent years, many companies have become increasingly aware of the importance of implementing Good Corporate Governance (GCG) programs as part of their business strategies. This has become a factor that can influence company value. Corporate Governance issues arise due to the separation between ownership and control of a company. The implementation of GCG is essential for all companies. There are several mechanisms of Corporate Governance as monitoring tools to align the conflicting interests between principals and agents (agency conflict). In monitoring and overseeing managerial behavior, shareholders must be willing to incur monitoring costs, known as agency costs. To reduce agency costs, managerial ownership can be increased by offering managers the opportunity to hold shares, thus aligning their interests with those of the shareholders. With shareholders' involvement, managers will act prudently because they share the consequences of the decisions they make. Agency costs can also be reduced through institutional ownership by activating oversight through institutional investors. Institutional ownership encourages greater supervision of managerial performance (Azzahrah & Yuliandhari, 2014).

Institutional ownership has the ability to reduce self-serving incentives of managers through intensified monitoring. Institutional ownership can curb management's tendency to manipulate discretion in financial reporting, thus improving the quality of reported earnings. Institutional ownership can control management through effective monitoring processes, thereby reducing earnings management practices. The percentage of shares held by institutions can influence the financial reporting process, potentially minimizing management's conflicting interests (Felynda & Krisnawati, 2018). Previous studies by Fauzia & Djashan (2019) and Felynda & Krisnawati (2018) concluded that institutional ownership does not influence company value. However, these findings contradict those of Muryati & Suardikha (2014), who concluded that institutional ownership positively impacts company value.

Managerial ownership refers to a situation where managers own shares or are simultaneously shareholders of a company. With managerial ownership, managers are expected to make continuous efforts to enhance returns through their decisions. In contrast, in companies without managerial ownership, non-shareholding managers are likely to prioritize personal interests (Felynda & Krisnawati, 2018). Fauzia & Djashan (2019) and Onasis (2016) found that managerial ownership does not affect company value, whereas Felynda & Krisnawati (2018) reported that managerial ownership has an impact on company value. This study aims to examine the influence of Good Corporate Governance (represented by institutional ownership and managerial ownership) on the value of manufacturing companies listed on the IDX for the period 2022-2024.

Previous studies have shown that GCG has a positive impact on company value. Sawitri and Wahyuni (2021) revealed that GCG, along with intellectual capital, plays a significant role in enhancing company value by creating a more transparent and efficient system. Ardianto (2023) also stated that profitability and GCG are closely related in influencing company value. Companies with strong GCG practices tend to have more stable and profitable financial performance, which positively impacts the company's market value. In the manufacturing sector, the implementation of GCG is crucial in improving company value. Research by Isnawati and Wahdah (2025) demonstrated that manufacturing companies, particularly in the food and beverage subsector listed on the Indonesia Stock Exchange, experience an increase in company value as GCG practices improve. These findings show that GCG practices can build investor trust and directly influence company performance. This study aims to investigate the influence of Good Corporate Governance on the value of manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2022 to 2024. The focus will be on how institutional and managerial ownership impact company value. The results of this study are expected to provide insights into the importance of GCG practices in enhancing company performance and value in Indonesia.

2 | BACKGROUND THEORY

Institutional Ownership and Company Value

Institutional ownership refers to the ownership of shares held by institutions or entities such as insurance companies, banks, investment firms, and other institutional investors. Institutional ownership can enhance a company's value by leveraging information and addressing agency conflicts. As institutional ownership increases, the activities of the company are monitored by these institutional entities (Muryati & Suardikha, 2014). According to Suryanto (2016), companies with

significant institutional ownership indicate the ability to monitor management. The greater the institutional ownership, the more efficiently the company's assets are utilized, and it is expected to act as a safeguard against managerial wastefulness. The higher the institutional ownership, the more it reduces the opportunistic behavior of managers, which in turn decreases agency costs, ultimately enhancing the company's value. Thus, institutional ownership, as an external governance mechanism, is expected to promote greater oversight of the company's management performance. As institutional ownership increases, the influence and pressure exerted by the financial institution to oversee management also grows, providing greater incentive for management to optimize the company's performance and align their interests with those of the shareholders or stakeholders. Cornett et al. (2016) stated that the oversight activities conducted by a company and institutional investors can limit managerial behavior. Research by Muryati & Suardikha (2014) concluded that institutional ownership has a positive effect on company value. H1: Institutional ownership has an impact on company value.

Managerial Ownership and Company Value

Managerial ownership refers to the shares owned by the management, such as directors, commissioners, and employees. Managerial ownership is expected to align the interests between managers and shareholders, which often lead to conflicts, commonly known as the agency problem (Muryati & Suardikha, 2014). The agency problem arises because managers perceive a conflict of interest between themselves and shareholders, leading managers to potentially act in their own self-interest. This aligns with the agency theory described by Jensen & Meckling (1976), which suggests that to reduce fraudulent actions, companies provide opportunities for management to participate in share ownership. The greater the percentage of shares owned by management, the more likely managers are to work diligently to increase stock returns, which ultimately benefits them personally. This can improve the company's value, as a well-performing company generates high returns for its shareholders (Muryati & Suardikha, 2014). Research by Felynda & Krisnawati (2018) found a significant effect of managerial ownership on company value. H2: Managerial ownership has an impact on company value.

3 | METHOD

The research method used is a descriptive-verbatim method with a quantitative approach. This research method aims to identify the significant relationship between the variables being studied, thus providing conclusions that clarify the overview of the object being examined. This study employs a descriptive-associative method. The selection of the sample is done through purposive sampling, resulting in a sample size of 41 companies from a population of 144 companies. The analysis in this study aims to draw conclusions about the impact of good corporate governance on company value (a study of manufacturing companies listed on the IDX from 2022-2024). Data processing is conducted using Eviews 12.

4 | RESULTS AND DISCUSSION

4.1 Results

4.1.1 Classical Assumption Test

In this study, the classical assumption tests to be applied include normality, heteroscedasticity, multicollinearity, and autocorrelation. Before performing these tests, the Chow test is conducted to determine whether the data is appropriate for panel data analysis. This test helps assess the differences between groups in the dataset and ensures the correct model selection for the analysis. Following the Chow test, the normality test is carried out to check if the data is normally distributed, as many statistical methods rely on this assumption. The heteroscedasticity test will determine whether the variance of the error terms remains consistent across observations. If heteroscedasticity is present, it could affect the accuracy of the regression estimates. The multicollinearity test is used to examine the correlations between independent variables, as high correlations can lead to unreliable regression results. Lastly, the autocorrelation test checks for correlation between the residuals of the regression model. Identifying and addressing any issues from these tests ensures the reliability and accuracy of the study's findings.

4.1.2 Hausman and Lagrange Multiplier Test

The Chow test is conducted to compare or select the best model between the Common Effect Model (CEM) and the Fixed Effect Model (FEM). In this case, the panel option is set to Fixed. The criteria for choosing between these models are as follows: If the probability value for the cross-section F is greater than 0.05, the null hypothesis (H0) is accepted, indicating that the Common Effect Model (CEM) is the most appropriate model to use. Conversely, if the probability value

for the cross-section F is less than 0.05, the alternative hypothesis (H_1) is accepted, meaning the Fixed Effect Model (FEM) is the most suitable model. The following presents the results of the Chow test. Based on the test results, the probability value for the cross-section F is 0.0002, which is less than 0.05. This indicates that the Fixed Effect Model (FEM) is the preferred model. Subsequently, a comparison is made between the Fixed Effect Model (FEM) and the Random Effect Model (REM) through the Hausman test. The Hausman test helps determine whether the Fixed Effect or Random Effect model is more appropriate for the data by evaluating the consistency of the model estimates. This test is essential in identifying the most suitable model for further analysis.

4.1.3 Hausman Test

The probability value for the cross-section random in the Hausman test is 0.8364, which is greater than 0.05. This result leads to the rejection of the alternative hypothesis (H_1), meaning the Random Effect Model (REM) is the most suitable model for this analysis. After determining the appropriate model through the Hausman test, the next step involves conducting the Lagrange Multiplier (LM) test. The LM test helps assess whether the random effects model is more suitable than a simple OLS regression model. This ensures that the chosen model accurately reflects the data and reduces potential bias in the results. By performing both the Hausman and LM tests, we strengthen the validity of the model selection, ensuring that it provides reliable and unbiased estimates.

4.1.4 Lagrange Multiplier (LM) Test

Based on the results, the Breusch-Pagan cross-section value is 0.0001, which is less than 0.05. This indicates that the Random Effect Model (REM) is the most appropriate model to use. The Breusch-Pagan test evaluates whether random effects are significant and helps decide whether the random effects model is more suitable than a simple OLS regression model. Given that the probability value is less than 0.05, it supports the use of the REM in the analysis.

According to the prerequisite test table, this study employs Generalized Least Squares (GLS) with the Random Effect Model (REM). In this case, only two classical assumption tests—normality and multicollinearity are applied. The normality test is conducted to ensure that the residuals from the regression model are normally distributed, which is crucial for making reliable statistical inferences. Meanwhile, the multicollinearity test checks for high correlations between the independent variables, as this could lead to unstable and unreliable regression estimates. By focusing on these classical assumptions, the analysis aims to ensure that the results are robust and valid.

4.1.5 Normality Test

The normality test is used to ensure that the data collected comes from a population that follows a normal distribution. The test commonly used to assess normality is the Kolmogorov-Smirnov test. To determine whether the data follows a normal distribution, statistical tests such as the Kolmogorov-Smirnov test are necessary. Although data normalization can change the scale of values, it does not automatically guarantee that the data will follow a normal distribution. The normalization process aims to align the range of variable values to a uniform scale; however, the original data distribution (whether normal or not) must still be checked after normalization.

To confirm whether the normalized data follows a normal distribution, normality tests such as the Kolmogorov-Smirnov test can be applied. This test provides insight into whether the data is normally distributed after the normalization process. If the test results show that the p -value is greater than the significance level (usually 0.05), it can be concluded that the data follows a normal distribution. On the other hand, if the p -value is less than 0.05, the data does not follow a normal distribution, and further transformation (such as log transformation or Box-Cox transformation) may be necessary before proceeding with further analysis. Based on the results, a p -value greater than 0.05 indicates that the data follows a normal distribution.

4.1.6 Multicollinearity Test

The results show that the correlation coefficients between the variables are all below 0.8. This meets the standard criteria for multicollinearity testing, which indicates that no correlation exceeds the 0.8 threshold. Therefore, it can be concluded that multicollinearity is not an issue in the data. Multicollinearity arises when independent variables are highly correlated, which can distort the results and lead to inaccurate estimates in regression analysis. A coefficient above 0.8 suggests a problematic level of correlation. However, since the coefficients in this study are below that threshold, there is no concern regarding multicollinearity, allowing for more reliable conclusions. This ensures that the variables are sufficiently independent, supporting the validity of the model's results.

4.1.7 Coefficient of Determination (R^2) Test

The research results show an R -squared value of 0.0758. This means that only 7.58% of the variation in the company's value policy (the dependent variable) can be explained by the independent variables, institutional ownership and managerial ownership, included in the model. In other words, the influence of these two independent variables on the company's value policy is relatively minor. This suggests that 92.42% of the variation is influenced by other factors not

captured by the variables in the model. The low R-squared value indicates that while institutional and managerial ownership do have some impact on company value, many other factors are likely contributing significantly to the company's value policy. Additional variables or models may need to be considered in future studies to provide a more complete understanding of what drives company value.

4.1.8 Hypothesis Test (t-Test)

In this study, a hypothesis test was conducted to examine the effect of two independent variables, institutional ownership and managerial ownership, on the dividend policy of the analyzed companies. The hypothesis test was carried out using EViews 12 software, and the model selected was the Random Effect Model (REM). Based on the estimation results of the model, the hypothesis test results were analyzed and interpreted as follows.

- 1) H1: The variable X1 has a t-statistic value of 0.7156 with a p-value of 0.0423, which is less than 0.05. This indicates that X1 has a positive and significant effect on Y. Therefore, H1 is accepted.
- 2) H2: The variable X2 has a t-statistic value of 1.7491 with a p-value of 0.0142, which is also less than 0.05. This suggests that X2 has a positive and significant effect on Y. As a result, H2 is accepted.

The results of the hypothesis tests demonstrate that both institutional ownership (X1) and managerial ownership (X2) have a positive and significant impact on the dividend policy of the companies in the study.

4.2 Discussion

Institutional Ownership and Company Value

The results of the study show that institutional ownership influences company value. This indicates that there is an effect of institutional ownership on the value of companies listed on the IDX in 2022-2024, thus confirming H2. Firdausya et al. (2013) stated that institutional investors tend to align with management and overlook the interests of minority shareholders. The assumption that management often takes non-optimal actions or policies, which tend to serve personal interests, leads to a negative market response to alliances between institutional investors and management. This, in turn, affects the decline in company stock prices in the capital market, suggesting that institutional ownership alone may not be an effective mechanism for increasing company value. Onasis (2016) found that, despite high institutional ownership, there was no significant effect on company value. The idea that management often acts in their own interests results in negative market reactions to institutional-investor-management alliances. This suggests that increased institutional ownership is insufficient to reduce agency conflicts arising from principal-agent relationships. The high institutional ownership does not align the interests of management with those of institutional investors, thus hindering the company's goal of achieving higher value. These findings are consistent with previous studies by Fauzia & Djashan (2019), Onasis (2016), and Felynda (2018), which concluded that institutional ownership does not affect company value. However, this research contradicts the study by Muryati & Suardikha (2014), which concluded that institutional ownership has a positive effect on company value.

Previous studies have shown that GCG significantly influences company value. Zahwa, Safelia, and Wijaya (2023) explored how GCG affects company value, emphasizing the role of company size as a moderating variable. Their research suggests that companies with robust GCG practices tend to perform better in terms of value, especially when moderated by factors such as size and operational scale. Additionally, Fauziah Ayu Lestari and Shiwi Angelica Cindiyasari Sihono (2024) found similar results in the mining sector, where strong corporate governance practices positively impacted the value of companies in the oil and gas sub-sector. These studies highlight the importance of GCG in improving market perception and financial performance across various sectors. Moreover, Fiqran Pratama and Alhadi (2025) focused on manufacturing companies listed on the Indonesia Stock Exchange (IDX), showing that financial performance and management strategies, including GCG, play a vital role in enhancing company value. The study underscores the significance of well-executed governance and financial strategies in boosting company performance and, ultimately, its market value. This research aims to investigate the influence of Good Corporate Governance on the value of manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2022 to 2024, particularly focusing on how institutional and managerial ownership contribute to shaping company value. The findings are expected to provide deeper insights into how effective corporate governance can drive corporate growth and market valuation in the Indonesian manufacturing sector.

Managerial Ownership and Company Value

The results show that managerial ownership is a variable that influences company value. This indicates that there is an effect of managerial ownership on the value of manufacturing companies listed on the IDX from 2022-2024, thus confirming H1. This aligns with agency theory, as this study suggests that an increase in managerial ownership can reduce agency conflicts resulting from the principal-agent relationship. A higher level of managerial ownership aligns the interests of management with those of the shareholders, enabling the company to achieve its goal of increasing its value. Managers tend to prioritize their own interests, but when they own a significant stake in the company, they are more likely to align

their goals with those of the company. This study contrasts with the findings of Onasis (2016), who found that managerial ownership reduced company value. This may be because managers in Indonesian manufacturing companies do not hold a significant enough share to influence company performance. If managers do not feel they own a substantial part of the company, their goals may be more focused on their roles as managers rather than shareholders. Furthermore, management performance tends to be lower due to low managerial ownership, which limits their ability to influence company value. These findings are consistent with the research conducted by Felynda & Krisnawati (2018), which concluded that managerial ownership affects company value. However, this study contradicts the research by Fauzia & Djashan (2019), which stated that managerial ownership has no significant impact on company value.

5 | CONCLUSIONS AND FUTURE WORK

The results of this study show that institutional ownership has an impact on the value of companies in the manufacturing sector listed on the IDX from 2022 to 2024. Similarly, managerial ownership also influences company value in these firms during the same period. The R-squared value is 0.0758, indicating that only 7.58% of the variation in the company's value policy (the dependent variable) can be explained by the independent variables, institutional ownership and managerial ownership, included in the model. In other words, the contribution of these two independent variables to explaining company value policy is relatively small. This suggests that 92.42% of the variation is influenced by other factors not captured by the variables used in this study.

For investors, it is recommended to exercise caution when selecting companies for investment by considering the quality of Corporate Governance practices, as the application of Corporate Governance has been proven to help improve company value. The coefficient of determination in this study is only 7.58%, suggesting the need to include additional variables that may affect company value. This means that 7.58% of the variation in company value can be explained by the three independent variables, while the remaining 92.42% is explained by other factors not included in this research model. Future studies could achieve more comprehensive results by incorporating other fundamental factors, such as company activities and market ratios, as predictors in forecasting company value.

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