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THE INFLUENCE OF BLOCKHOLDER, INDEPENDENT COMMISSIONER, COMPANY SIZE, AND CAPITAL STRUCTURE ON VALUE OF COMPANY IN INDONESIA

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Abstract: *This aim of this research is to investigate the relationship between Blockholder Influence, Independent Commission, Company Size on Capital Structure and Value of Company", in Property and Real Estate Sector in BEI. The data used in this study was secondary data. Data collection method in this study was sampling method with Purposive sampling technique. This study used inferential analysis to test the relation between the five research variables and structural model using WarpPLS. In this study, there was significant direct influence by Blockholder on capital structure. The analysis result showed that Blockholder had negative influence on capital structure. The higher the Blockholder, the lower the capital structure. On the other hand, there was no significant direct influence by independent commissioner on capital structure. The analysis result showed that independent commissioner didn't have negative influence on capital structure. It showed that the level of independent commissioner didn't change the level of capital structure.*

Keywords*: Blockholder Influence, Independent Commission, Company Size, Capital Structure and Value of Company*

1. INTRODUCTION

Propect Property investment in Indonesia is predicted to rapidly increase within the next few years. Indonesian Real Estate Association, or shortened to (REI,) reveals that the growth of property business in Indonesia still can increase by up to 20% - 30%. Today, over 50% of Indonesian population lives in urban areas. Several years ago, United Nations (PBB) state that in 2050, two third of Indonesian population is predicted to live in urban areas (Schaar, Kompas,2015) In line with global trend, Indonesia has experienced rapid urbanization, so Indonesian property sector grew rapidly in 2012 and the first half of 2013. Therefore, the profit growth of Indonesian property developers sharply rises (of 45 property companies listed in Indonesian Stock Exchange in 2012, 26 companies recorded over 50% of net profit growth). This is caused by

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Indonesian property price, which increases along with the increase of residential property price by almost 30% per year between 2011 and 2013).

Due to slowing economic growth, which reached its lowest point in the past six years, the government tries to improve economic growth by implementing its policies. Therefore, Bank Indonesia as the central bank tries to increase economic growth through property and real estate sectors by increasing Loan to value for house mortgage loan and reducing minimum mandatory advanced money on mid July 2015. Then, the government also revised Government Regulation No. 41/1996 on Residence for Foreign Nationals living in Indonesia, which still forbade foreign nationals to own any kind of property in Indonesia. After the revision, foreign nationals may have properties in Indonesia, which is luxury apartments valued at least Rp 5 billion. The government policy will certainly impact the growth of property and real estate sector. At first the growth of property and real estate sector slowed, but due to the government policy in this sector, the growth of property and real estate sector increases again. The prospect of investment in property and real estate sector is still high due to large population and cheaper price of property in Indonesia compared with other ASEAN countries (Schaar, Kompas,2015).

Despite declining growth of property and real estate sector, it still survives. This is because property and real estate companies have been using internal fund for expansion after the monetary crisis in 1998. The survey of Bank Indonesia reveals that the financing source of property comes from internal fund, by composition mostly consists of retained earning, paid-up capital, joint venture and joint operation and the rest is presales and banking loan (Kompas.com, Nov 2015). In terms of financing source, there is something interesting. Fund from joint venture, joint operation, presales and banking loan can be met if the performance of company is good. It's because one will invest in a company if there is good company prospect, performance and governance. Performance is affected by internal and external factors. If the internal and external factors are managed well, performance will improve. This is reflected in increased stock price (value of company).

Increased value of company can happen with three company decisions, i.e. funding decision, investment decision and dividend decision, work well. In line with company's purpose, which is improving the welfare of stockholder, the purpose can be reached if value of company is increased. However, value of company is also influenced by several factors, such as; ownership structure, commissioner structure, company size and capital structure. Blockholder ownership structure is 5% or more individual or group shareholding of total equity (Bethel & Liebeskind, 1993). Blockhorder ownership formation from outside usually increases stock price because it encourages different ownership form, which expects blockholder to monitor its investment and then improve stock performance (Shome & Singh, 1995). Blockholder ownership can reduce agency conflict, so company performance can be improved and increase value of company.

Beside sharholding, corporate governance should be noted because good governance facilitates fulfilling financing needs of company for company operation from debt and influences value of company. Good governance can reduce agency conflict. According to Jensen and Meckling, 1976 separation between ownership and monitoring functions creates agency problem. This agency conflict happens due to various conflicts of interest between management and shareholder and manager and creditor. One thing which reduces the conflict is openness in company governance, so that the impact of reduction of value of company can be reduced. According to Berle & Mean (1932) agency problem occurs from separation of ownership from controller, as company manager feels they're not different from owner. This think the incentive they receive isn't adequate toe maximize value of company. The sources of agency problem is manager who has some stock in company tends to act for their interest, so other major shareholders can play an important role in governance and impact value of company. So, to reduce conflict, independent commissioner is required to monitor manager and protect the interest of minority shareholder and creditor.

Increased and reduced value of company may also be caused by different company size. Company size depends on how big or small a company is, which influences capital structure, especially related with ability to get loan. Large company gets loan more easily because value of asset used as collateral is bigger and level of confidence of bank is also higher. The asset can be tangible fixed asset and other assets. This is consistent with the studies by Moh'd *et al.* (1998) and Sudarma (2004,) which state that variable Firm size has significant influence and positive relation with corporate debt ratio.

Based on the described background, this aim of this research is to investigate the relationship between Blockholder Influence, Independent Commission, Company Size on Capital Structure and Value of Company", in Property and Real Estate Sector in BEI. Originality of this research shows: no previous studies that examined the concepts of Blockholder Influence, Independent Commission, Company Size on Capital Structure and Value of Company, and there are no similar studies that examine the model which was appointed at the same location (in PT Instrucom). It became the location of originality in this study.

2. LITERATURE REVIEW

2.1. Value of Company

Value of company is a goal which must be achieved by company because it's related with its survival in the future. Value of company in company which doesn't go public is value of debt and value of share, while for company which goes public, it's total value of debt plus company's equity, in which value of equity is multiplication of stock price and total share outstanding. So, value of company is company's asset if the company is for sale. According to Jensen (2001) in Stakeholder Theory, maximizing value of company is a trade off of maximum value of company received by stakeholder in long term. Jacob and Pettit (1989) argue value of company is maximized through investment, financing and dividend decisions and how the decisions impact future cash flow, risk and rate of return expected by company. It means value of company is important in improving the welfare of stockholder.

2.2. Capital Structure

Debt policy in company is policy related to company capital structure. Gitman (2003) states that: "Investment decision determines both the mix and type of assets held by the firm. Financing decision determines both the mix and the type of financing used by the firm." Gitman argues investment decision determines asset combination used by company while financing decision is related with mixed financing used by company. Capital structure is financing decision.

Capital Structure Theory was created by Modigliani & Miller (MM) in 1958. It states that value of company isn't influenced by its capital structure. In other words, it doesn't matter how company finance its operation. Conversely, Modigliani and Miller (1963) state that increased debt will increase value of company. It means company with debt has high value of company. Trade off Theory states that increasing debt will be beneficial if it can increase value of company. It means increased debt hasn't reached optimum point if benefit of debt becomes smaller than value of bankruptcy, thus increased debt will reduce value of company. Large usage of debt creates large interest expense for company, lowering value of company. Debt usage can increase value of company as long as benefit of debt usage is bigger than risk borne by company. Studies on funding decision on value of company have been performed by Hasnawati (2005) and Djumahir (2005.) They find that funding decision has positive influence on value of company, while the study by Irawan (1996) states that optimum combination of debt and equity in capital structure can increase value of company.

3. METHODOLOGY

This research data is the result of the development of the dissertation data (Efni, 2012). The study was performed on Companies in Property and Real Estate sector. This study was performed for 6 (six) months. The data used in this study was secondary data. Secondary data according to Sugiono (2012) is data obtained from annual financial statement, Fact Book and ICMD from 2011 to 2016. The population in this study was 54 property and real estate companies. Data collection method in this study was sampling method with Purposive sampling technique. This study used inferential analysis to test the relation between the five research variables and structural model using WarpPLS.

4. RESULT AND DISCUSSION

4.1. Goodness of Fit in WarpPLS

Testing Goodness of Fit uses predictive-relevance value(Q^2). The value R^2 each endogenous variable in this study are as follows: 1) for variable Capital Structure obtained R^2 of 0.136; and 2) to the variable Value Company acquired R^2 of 0.699. *predictive-relevance* value obtained by the formula:

$$Q^2 = 1 - (1 - R_1^2)(1 - R_2^2)(1 - R_3^2) \ldots (1 - R_p^2)$$

$$Q^2 = 1 - (1 - 0.136)(1 - 0.699) = 0.714$$

The calculation result showed predictive value-relevance of 0.714 or 71.4%, so the decent models are said to have predictive value relevant. Relevance predictive value of 71.4% indicates that the diversity of data that can be explained by the model amounted to 71.4%, or in other words, the information contained in the data 71.4% can be explained by the model. While the remaining 28.6% is explained by other variables (which is not contained in the model) and error.

4.2. Hypotheses Test

Hypothesis testing is performed on each track direct effect partially. Detailed results of the analysis, contained in WarpPLS analysis results, can be seen in tablel. The following table presents the results of hypothesis testing direct influence.

Table 1
Testing Hypotheses Model WarpPLS

Relation	*coefficient*	*p-value*	*Description*
Blockholder → Capital Structure	-0.250	< 0.001	Significant
Independent Commissioner → Capital Structure	0.053	0.210	Not significant
Company size → Capital Structure	0.223	< 0.001*	Significant
Blockholder → The value of the company	-0.035	0.298	Not significant
Independent Commissioner → The value of the company	0.022	0.370	Not significant
Company size → The value of the company	-0.771	<0.001*	Significant
Capital Structure → The value of the company	0.194	0.001*	Significant

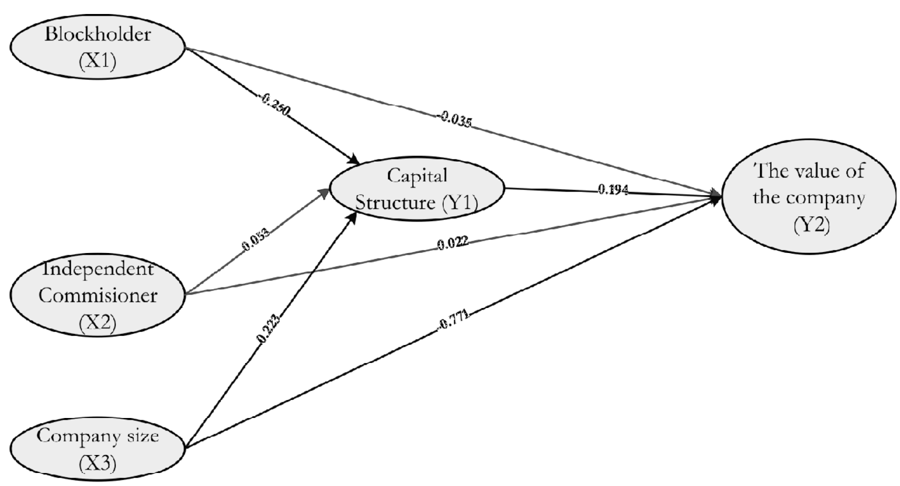

Figure 1: Results of Analysis WarpPLS

Test on the direct effect of Blockholder on capital structure shows inner weight coefficient of -0.250, with p-value of <0.001. Since p-value < 0.05, there was significant direct influence by Blockholder on capital structure. Considering the inner weight coefficient is negative, the relation was negative. It meant the higher the Blockholder, the lower the capital structure. Test on the direct effect of independent commissioner on capital structure shows inner weight coefficient of 0.053, with p-value of 0.210. Since p-value > 0.05, there wasn't any significant direct influence by independent commissioner on capital structure. It meant the level of independent commissioner didn't influence the level of capital structure. Test on the direct effect of company size on capital structure shows inner weight coefficient of 0.223, with p-value of <0.001. Since p-value < 0.05, there was significant direct influence by company size on capital structure. Considering the inner weight coefficient is positive, the relation was positive. It meant the higher the company size, the higher the capital structure. Test on the direct effect of Blockholder on value of company shows inner weight coefficient of -0.035, with p-value of 0.298. Since p-value < 0.05, there wasn't any significant direct influence by Blockholder on value of company. It meant the level of Blockholder didn't change the level of value of company.

Test on the direct effect of independent commissioner on value of company shows inner weight coefficient of 0.022, with p-value of 0.370. Since p-value > 0.05, there wasn't any significant direct influence by independent commissioner on value of company. It meant the level of independent commissioner didn't influence the level of value of company. Test on the direct effect of company size on value of company shows inner weight coefficient of -0.771, with p-value of <0.001. Since p-value < 0.05, there was significant direct influence by company size on value of company. Considering the negative inner weight coefficient, the relation was negative. It meant the bigger the company size, the lower the value of company. Test on the direct effect of capital structure on value of company shows inner weight coefficient of 0.194, with p-value of <0.001. Since p-value < 0.05, there was significant direct influence by capital structure on value of company. Considering the positive inner weight coefficient, the relation was positive. It meant the higher the capital structure, the higher the value of company.

In addition to testing the direct effect, on WarpPLS also known indirect effect (indirect effect). The indirect effect is the result of multiplying two (2) indirect influence. The indirect effect is declared significant if both the direct influence that shape is significant. Here is presented the results of the indirect effect:

The indirect effect of Blockholder on value of company through capital structure shows indirect effect coefficient of -0.049. Because the direct influence by Blockholder on capital structure is -0.140 and capital structure on value of company is 0.194, both significant, there was significant indirect influence by Blockholder on value of company through capital structure. Negative coefficient shows inverse relation. It showed that the higher the Blockholder, the higher the value of company, but the lower the capital structure.

Table 2
Results of Hypothesis Testing in Inner Model: Indirect Influence

Indirect Influence	*Coefficients Direct Impact*		*Coefficient indirect influence*
Blockholder → Capital Structure → The value of the company	Blockholder → The value of the company (-0.250*)	Capital Structure → The value of the company (0.194*)	-0.049*
Independent Commissioner → Capital Structure → The value of the company	Independence Commissioner → Capital Structure (-0.053)	Capital Structure → The value of the company (0.194*)	-0.010
company size → Capital Structure → the value of the company	company size → Struktur Modal (0.223*)	Capital Structure → The value of the company (0.194*)	0.043*

Note: * not significant

The indirect effect of independent commissioner on value of company through capital structure shows indirect effect coefficient of -0.010. Because the direct influence by independent commissioner on capital structure is -0.053 and capital structure on value of company is 0.194, one of the insignificant, there was significant indirect influence by independent commissioner on value of company through capital structure. It showed that the level of independent commissioner didn't influence the level of value of company, although capital structure changes.

The indirect effect of company size on value of company through capital structure shows indirect effect coefficient of 0.043. Because the direct influence by company size on capital structure is 0.223 and capital structure on value of company is 0.194, both significant, there was significant indirect influence by company size on value of company through capital structure. Positive coefficient shows unidirectional relation. It showed that the higher the company size, the higher the value of company, if the capital structure was also higher.

4.3. Discussion

In this study, there was significant direct influence by Blockholder on capital structure. The analysis result showed that Blockholder had negative influence on capital structure. The higher the Blockholder, the lower the capital structure. On the other hand, there was no significant direct influence by independent commissioner on capital structure. The analysis result showed that independent commissioner didn't have negative influence on capital structure. It showed that the level of independent commissioner didn't change the level of capital structure.

There was significant direct influence by company size on capital structure. The analysis result showed that company size had positive influence on capital structure. It meant the bigger the company size, the higher the capital structure. Blockholder didn't have significant direct influence on value of company. The analysis result showed that Blockholder had negative influence on value of company. It meant the higher the Blockholder, the lower the value of company.

Independent commissioner didn't have significant influence on value of company. The analysis result showed that independent commissioner didn't have significant influence on value of company. It meant any change on the level of independent commissioner didn't change the level of value of company. There was significant direct influence by company size on value of company. The analysis result showed that company size had negative influence on value of company. It indicated that the higher the company size, the lower the value of company.

Capital structure significantly influenced value of company. It indicated that the higher the capital structure, the higher the value of company. This finding wasn't supported by the Capital Structure Theory stipulated by Modigliani & Miller (MM) in 1958, which states that value of company wasn't influenced by capital structure. In other words, it didn't matter how company finances its operation. Conversely, Modigliani and Miller (1963) state that adding debt will increase value of company. It means indebted company has high value of company. Based on Trade off Theory, increased debt will be beneficial if it can increase value of company. It means increased debt hasn't reached optimum point if the benefit of debt is smaller than value of bankruptcy, so adding debt will reduce value of company. Since large use of debt causes large interest expense for company, value of company decreases. Use of debt can increase value of company as long as the use of debt is bigger than risk borne by company. Studies on financing decision on value of company have been performed by Hasnawati (2005) and Djumahir (2005,) who found that funding decision has positive influence on value of company. Meanwhile, the study by Irawan (1996) finds that optimal combination of debt and equity in capital structure can increase value of company.

5. CONCLUSIONS AND RECOMMENDATIONS

Based on the results, it can be summed up as follows (1) There is a significant direct effect between blockholder on Capital Structure. Considering the inner weight coefficient is negative, indicating that the relationship is negative. That is, thhigher the blockholder, will result in lower capital structure. (2) There is no significant direct effect between the Independent Commissioner of the Capital Structure. That is, the high and low of Independent Commissioner, will not affect the level of capital structure. (3) There is a significant direct effect between the size of the Company's capital structure. Considering the inner weight coefficient is positive, indicating that the relationship positive. That is, the higher the size of the company, will lead the higher the capital structure. (4) There are significant direct effect between blockholder the value of the Company. high and low blockholder, would not result in changes to the Company's high and low value. (5) There is no significant direct effect between the Independent Commissioner of the Company's value. That is, the high and low of

Independent Commissioner, will not affect the high and low value of the Company. (6) There is a significant direct effect between the size of the Company's Corporate Value. Considering the inner weight coefficient is negative, indicating that the relationship is negative. That is, the higher the size of the company, will lead to the lower value of the Company. (7) There is a significant direct effect between the Capital Structure of the Company's value. Considering the inner weight coefficient is positive, indicating that the relationship positive. That is, the higher the capital structure, will lead to higher the value of the Company. (8) There is a significant indirect influence between blockholder the Corporate Value through a Capital Structure. With a marked negative coefficient indicates an inverse relationship. This shows that the higher blockholder, will have an impact on increasing company value, but if the lower capital structure. (9) No significant indirect influence between the Independent Commissioner of the Company's value through capital structure. This shows that the intensity of the Independent Commissioner, will not impact the level Value of the Company, although capital structure changes. (10) There is a significant indirect influence between the size of the Company's Corporate Value through a Capital Structure. The coefficient is positive shows unidirectional relationship. This shows that the higher the size of the company, will have an impact on the higher value of the Company, if the capital structure also higher.

Reccomendation theory for this research are: This research is an application of the theory related to the theory of capital structure (Funding), the theory of Risk and Return, dividend theory and theories related to the value of company property and real estate sector that are in Indonesian capital market. Based on this research investment decision do not have significant influence negatively to the company's risk, this study supports the validity of the theory of risk and return are expressed Markowitz. In this research also linked the funding decision by the company's risk by using the theory of trade-offs and capital structure theory MM with tax where the study found a significant influence funding decisions towards risk, thus this study developed the theory of trade-offs and capital structure theory with tax developed MM. This study is also the applicability of the theory of dividend proposed Mogdiliani and Miller both relevant and irrelevant and theory Bird in the Hand, apparently based on the results of this study proved that the dividend policy does not affect the value of companies in the property sector and real estate as investors were looking at the distribution of dividends as a signal for investors in investing but investors see prospects and future growth are more important.

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