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About

INSIGHT Journal is an online, open access, international refereed research journal established by Universiti Teknologi MARA Cawangan Johor, Malaysia. It is indexed in MyJurnal MCC. Furthermore, it is abstracted in Asian Digital Library (ADL).

INSIGHT Journal focuses on social science and humanities research. The main aim of INSIGHT Journal is to provide an intellectual forum for the publication and dissemination of original work that contributes to the understanding of the main and related disciplines of the following areas: Accounting, Business Management, Law, Information Management, Administrative Science and Policy Studies, Language Studies, Islamic Studies and Education.

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FOREWORD BY DEPUTY RECTOR OF RESEARCH, INDUSTRIAL LINKAGES & ALUMNI

Since 2018, the INSIGHT JOURNAL (IJ) from Universiti Teknologi MARA Cawangan Johor has come up with several biennial publications. Volume 1 and 2 debuted in 2018, followed by Volume 3 this year as well as Volume 4 with 19 published papers due to the great response from authors both in and out of UiTM. Through Insight Journal, lecturers have the ability to publish their research articles and opportunity to share their academic findings. Insight Journal is indexed in MyJurnal MCC and abstracted in Asian Digital Library (ADL). Moreover, is is also an international refereed journal with many international reviewers from prestigious universities appointed as its editorial review board members.

This Volume 6 is the second special issue for the 6th International Accounting and Business Conference (IABC) 2019 held at Indonesia Banking School, Jakarta. The conference was jointly organized by the Universiti Teknologi MARA Cawangan Johor and the Indonesia Banking School Jakarta. Hence, this volume focuses mainly on the accounting and business research papers compiled from this conference, which was considered a huge success as over 66 full papers were presented.

Lastly, I would like to thank the Rector of UiTM Johor, Associate Professor Dr. Ahmad Naqiyuddin Bakar for his distinctive support, IJ Managing Editor for this issue Dr. Noriah Ismail, IJ Assistant Managing Editor, Fazdillah Md Kassim well as all the reviewers and editors who have contributed in the publication of this special issue.

Thank you.

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Debt Monitoring Mechanism in SOE's: Evidence from Indonesia

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Abstract

This study aims to examine the role of independent boards (commissioners) characteristics in monitoring the impact of debt on value of state-owned enterprises' (SOE's). This study used 125 observations of SOEs that are listed on Indonesia Stock Exchange during the period of 2010-2017 as a final sample. The variable of independent commissioner's characteristics is analysed by identifying whether they have political connection with political party in Indonesia or not and whether they have adequate professional background. Using panel data analysis, the results show that there is a different effect of independent commissioner's characteristics in monitoring the impact of debt on value of SOE's. If independent commissioners do not have political connection, but have adequate professional background, they could conduct debt monitoring effectively, thereby increasing the value of SOE's. On the contrary, if independent commissioners do not have political connection, but also do not have adequate professional background, they could not conduct debt monitoring effectively, thereby decreasing the value of SOEs. The results suggest that the goverment should consider the professional background of independent commissioners who have political connection with the rulling party.

Keywords: Capital structure, independent commissioner, state-owned enterprises' (SOEs), debt monitoring and firm's value.

1. Introduction

The deputy of business restructuring and development of Indonesia Ministry of SOE's has stated that SOE's debt has been increasing since 2017 of 13.43% to IDR 4,830 Trillion and this position of debt may reduce the value of SOE's. Then, there is one issue- that the ministry of SOE's has appointed ordinary members of political parties to become independent commissioners, such as member of PDIP like Dwi Rembulan and Pataniari Siahaan, each as an independent commissioner at PT. Bank Mandiri (Persero) Tbk and PT BNI (Persero).

The characteristics of independent commissioners who have political connections have the potential to have a conflict of interest in the form of prioritising their own goals or political parties. As a result, they did not supervise the use of state-owned debt, giving negative signals to investors, thereby reducing the value of Susilo (2013).

Based on the description above, it can be concluded, first, there has been no research in Indonesia that has examined the influence of political connections on the value of the company for the past 10 years. Second, there is no research that has conducted research in the context of SOEs. Therefore, this study intends to examine the three limitations by means of examining the effect of capital structure on firm value on state-owned enterprises, and testing the effect of capital structure on firm value with the characteristics of independent commissioners who have political connections as moderating variables.

2. Theoretical basis

2.1 Literature Review

2.1.1 Pecking Order Theory

This theory is a development of capital structure theory expressed by Franco Modigliani and Merton Miller (MM) in 1958 which was repeated by Modigliani and Miller in 1963. The theory states that capital structure can affect the value of the company due to the effect of taxes arising from use of debt which will increase interest costs. The addition of these costs will reduce the tax paid and will lead to tax saving that can increase the value of the company.

In 1984, Myers developed a capital structure theory called Pecking Order which was lifted from Donaldson's statement in 1961. This pecking order theory states that funding decisions that will form a capital structure, are based on a sequence of logical preferences for investors on the company's prospects and consistency on purpose.

2.1.2 Expectancy Theory

The Theory of Hope was first revealed by Victor H. Vrom in 1964 in a book entitled "Work and Motivation". According to this theory, motivation is the result of a result of what the employee wants to achieve and according to the employee that the actions he performs will lead to the desired results. In the sense that if the employee wants a way and reaches it openly, then the person concerned seeks to get it. Simply put, the expectation theory explains if an employee wants something and the expectation of getting something is big enough, then the person concerned will be motivated to get what he wants. Conversely, if the expectation of getting what he wants is thin, his motivation to try will be low (Priansa, 2014).

2.2 Hypothesis

According to pecking order theory, profitable companies use less debt and this will affect the value of the company because it will provide a signaling (signaling theory) to investors to invest their shares in the company. The results of this study are supported by previous research examined by Pantow, Murni, and Treng (2015) which states that the capital structure has a positive influence on firm value.

Based on the above, the hypothesis proposed is:

H1: Capital structure affects the value of the company.

Expectation theory explains that if an individual wants something and hopes to get something is big enough, then the person concerned will be motivated to get what he wants (Priansa, 2014). In the characteristics of this independent commissioner, decisions taken by a commissioner must not have a conflict of interest. However, the placement of independent commissioners in 2014-2019 is doubtful competence and there is doubtful conflict of interest because it comes from political parties and the Ministry of SOEs allows ordinary members of political parties to become commissioners.Based on the above, the hypothesis proposed is:

H2: Characteristics of independent commissioners influence the value of the company.

Expectancy theory states that someone will hope to realize his desires when the road to that goal is open. The hope of someone like an independent commissioner depends on the goal of maximising the company to maintain a professional reputation or just for its own sake because the placement of independent commissioners in 2014-2019 is doubtful in its competence and doubtful conflict of interest because it comes from political

In a previous study conducted by Javeed et. al. (2017) shows that independent commissioners can moderate significantly positively between the effect of capital structure on the value of companies in the non-financial sector. Based on the above, the hypothesis proposed is:

H3: Characteristics of independent commissioners can moderate the influence of capital structure on firm value.

3. Research methodology

3.1 Research Object

Data in this study uses secondary data obtained from *www.idx.co.id*. The data obtained are as many as 19 companies listing on the Indonesia Stock Exchange according to SOEs websites in 8 periods so that they have 152 total observations. However, there is 1 company that does not IPO on the Indonesia Stock Exchange from 2010 which will reduce the number of observations and make its observations to 144 observations. Furthermore, there are state-owned companies that publish their financial statements in USD but only in the period 2012-2017 so that the company that publishes financial statements in rupiah in the period 2010-2011 continues to be taken and adds the total observations to 126 observations. Then, there is one company whose data information related to the variables in this study is incomplete, thus reducing the number of samples and making the sample to 125 observations.

In addition to fulfilling the above criteria, this study will analyse data based on samples which will be categorised into 3 parts, namely:

a) Full Sample

b) Sufficient Background BC

c) Non-sufficient Background BC

3.2 Data Analysis Methods

3.2.1 Company Value Variables

Company value as an independent variable is measured by using Price to Boook Value (PBV), which is the ratio of stock prices to the book value of the company. PBV shows how much the value of the share price is compared to the book value of the company per share (Wongso, 2013). The stock price used is the stock price at the closing (closing price) at the end of each month averaged per year. If the PBV ratio is higher, investors will be increasingly interested.

The formula is :

$$PBV = \frac{Stock\ Price/\ Share}{Book\ Value/Share} \text{........................(1)}$$

Source : Wongso (2013)

3.2.2 Independent Variable

The measurement of capital structure for this research is using leverage proxy, to see how far the financing of assets financed by debt. The measurement used is using the Deb Equity Ratio (DER). DER is a comparison of the amount of long-term debt with company equity (Rompas, 2013).

The formula for DER is as follows :

$$DER = \frac{Total\ Debt}{Total\ Equity} \text{.........................(2)}$$

Source : Rompas (2013)

3.2.3 Moderation Variables

3.3.3 Moderation Variables

The moderating variable in this study is the Characteristics of Independent Commissioners. POJK Number 33 / POJK.04 / 2014 explains that, Independent commissioners are commissioners who come from outside the company and do not have internal relations either directly or indirectly. In this study, the characteristics of independent commissioners were measured using a dummy variable. If one of the independent commissioners came from a political party, the value will be 0, and if the independent commissioner was not from a single political party, the value will be 1.

3.3.4 Control Variables

3.3.4.1 Company Size

Company size is the level of identification that determines the size or size of a company. The size of the company is measured using the logarithm of the total assets of a SOEs company in the current year (LNSIZEi, t). The measurement of the company uses total assets as a proxy by considering the company's total assets are relatively more stable compared to the market capitalisation value and the amount of sales (Widyaningsih, 2017).

3.3.4.2 Growth of Profitability

The profit growth of a company is the increase or decrease in profits of a company from the previous year (Andriyani 2015). the calculation of profit growth is calculated by subtracting the current period profit from the previous period profit then divided by the previous period profit. Then, the formula used is:

$$GP = \frac{Net\ Profit_{(t)} - Net\ Profit_{\ (t-1)}}{Net\ Profit_{\ (t-1)}} \text{..............(3)}$$

(Source : Andriyani, 2015)

3.3.4.3 Dummy Year

The measurement used is to give the number "0" for the second period, namely the year 2015-2019 and give the number "1" for the first period namely 2010-2014.

3.3.4.4 Dummy Industry

The measurement used is to give the number "1" to the non-financial industry and give the number "0" to the financial industry.

4. Analysis and discussion

In addition to testing hypotheses, this study tested the classical assumptions first.Then the results is no heterocedastisty, no multikolinieritas, no autokorelasi, and the data has normally distributed. The result of other tests in this study can be summarised into a table that contains an explanation of the results of the hypothesis test as follows:

Table 1: Hypothesis Testing Results for Multiple Regression Models

Variable	Full Sample			Sufficient Background BC			Non-ufficient Background BC		
	Coefficient	t-Stat	Prob.	Coefficient	t-Stat	Prob.	Coefficient	t-Stat.	Prob.
C	1,215	0,9279	0,3554	10,712	2,053	0,0449	-3,863	-0,849	0,3992
LEV	0,013	0,3606	0,719	0,0529	0,347	0,7302	-0,017	-0,216	0,829
KI	-0,035	-2427	0,8086	0,0856	0,1074	0,9149	0,606	2,245	0,0287
SIZE	-0,0602	-1,172	0,2473	-0,407	-1,962	0,0550	0,1567	0,94	0,3504
GP	-0,169	-0,1712	0,8644	0,6013	1,202	0,2347	-0,2558	-1,466	0,1481
Dt	0,2175	1,45	0,1496	1,489	2,134	0,037	-0,305	-0,985	0,3287
Di	0,5859	2,1	0,0379	0,463	0,424	0,673	2,1902	2,498	0,0154

Source : Data Proceeds

Table 2: Hypothesis Testing Results for the Moderation Regression Model

Variable	Full Sample			Sufficient Background BC			Non-Sufficient Background BC		
	Coefficient	t-Stat.	Prob.	Coefficient	t-Stat.	Prob.	Coefficient	t-Stat.	Prob.
C	1,335	1,0082	0,3155	13,297	2,544	0,0139	-4,948	-1,012	0,2755
LEV	-0,005	-0,1096	0,9129	-0,231	-1,12	0,2681	0,0772	-0,829	0,4105
KI	-0,1387	-0,6392	0,5240	-1,728	-1,44	0,1567	1,1326	2,902	0,0053
LEV_KI	0,0328	0,643	0,5214	0,4416	1,968	0,0543	-0,206	-1,8346	0,0719
SIZE	-0,064	-1,235	0,219	-0,472	-2,316	0,0244	0,1991	1,209	0,2315
GP	-0,021	-0,2124	0,8321	0,4801	0,982	0,3305	-0,244	-1,427	0,1592
Dt	0,26	1,58	0,1156	2,226	2,8789	0,0057	-0,464	-1,473	0,1462
Di	0,602	2,15	0,0338	0,54	0,51	0,6122	2,09	2,43	0,0183

Source : Data Proceeds

In the hypothesis 1 based on table 1 and 2, the results of the t test (partial) for three criteria samples show us that H_0 is accepted and Ha is rejected. It means that capital structure can't affect the value of SOEs and does not change even though it is supplemented by the independent commissioner moderation. But, for the hypothesis 2, we found that the probability value for the independent commissioner variable is 0.0287 which is below the 5% significance level (0.0287 <0.05) which means that H_0 is rejected and Ha is accepted. It means that independent of commissioner can affect the value of SOEs for the company that place Independent of Commissioner are not in accordance with the Background of

Education and Experience. Then, the Effect will be stonger if we add the moderating variable. We can see that the probability is 0.0053.

For the hypothesis 3 based on table 1 and 2, the results of the t test (partial) for three criteria samples show us that H_0 is accepted and Ha is rejected. It means that independent of commisioner as moderating variables can’t moderate the effect of capital structure on the value of SOEs.

5. Conclusions and Suggestions

Variable capital structure with proxy leverage does not affect the value of companies in the three categories of samples. This is because the possibility of state-owned companies investors not worrying about the debt owned by state-owned companies because most of the shares are owned by the government with large revenues such as taxes and must have a going concern nature.Then, variables of independent commissioners who have political connections have an influence on the value of the company in a sample of SOEs companies that do not place independent commissioners in accordance with their educational background and experience. This shows that the importance of the independence possessed by the supervision of state-owned companies so that there is no conflict of interest because the independent commissioners are from political parties but do not have the appropriate educational background and experience. Independent commissioner variables have an effect on company value and are positive. These results indicate that independent commissioners who do not have political connections can increase the value of the company even though they are not placed in accordance with their educational and experience background. We also found that the moderating variable of the independent commissioner cannot moderate the effect of capital structure variables on firm value because of the nature of the SOEs company itself which allows that the capital structure will not affect investors. For the next research, we suggest that it is better to add variables that can affect company value such as dividend policy, ownership structure, and others. Then, future studies can use other measurements to measure company value such as Tobins' Q.

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