



Corporate Governance and Debt Equity Ratio: Its Effect on Share Price

Triyono Adi Tristanto¹(✉), Nugraha¹, Ikaputera¹, Maya Sari¹, Imas Purnamasari¹,
and Kartika Septiani²

¹ Universitas Pendidikan Indonesia, 40154 Bandung, Indonesia
t.aditristanto@upi.edu

² Institut Bisnis and Informatika, Kosgoro 1957, South Jakarta, Indonesia

Abstract. This paper investigates the impact of Corporate Governance and Debt Equity Ratio on the Share Price in Manufacturing Companies of the Consumer Goods Industry, Firms listed in Indonesia's Stock Exchanges are taken as samples. The time period is 2017–2019, using SPSS tools. Corporate Governance has been measured using Institutional Ownership, Proportion of Independent Commissioners, and Audit Committee. Our findings confirm a significant impact on the proportion of Independent Commissioners and Audit Committees on Share Price. Institutional Ownership has no impact on the share price. Our findings also imply that the Debt Equity Ratio significantly impacts the share price.

Keywords: Institutional Ownership · Proportion of Independent Commissioners · Audit Committee · Debt Equity Ratio (DER) · Share Price

1 Introduction

The share price is a significant factor and must be considered by investors because the share price shows the issuer's performance. Every investor or potential investor has specific goals to achieve through investment decisions.

Public companies must issue annual financial reports to investors on the stock exchange at least once a year. For investors, the annual financial report is a source of various information, especially the balance sheet and the company's income statement. Therefore, the publication of the company's financial statements (issuers) is eagerly awaited by investors in the capital market [1]. In preparing financial statements, companies must apply Good Corporate Governance principles. GCG mechanisms are divided into two groups, namely internal and external mechanisms. The internal mechanism consists of the board of commissioners, board of directors, managerial Ownership, and audit committee. The external mechanism consists of market control and institutional Ownership as controller.

Institutional Ownership is vital in the management monitoring function to encourage more optimal supervision. With an Independent Board of Commissioners, they can carry out better management supervision to reduce fraud in presenting financial reports. Moreover, the Audit Committee has an essential role in maintaining credibility

in preparing financial reports to create an adequate corporate supervision system and the implementation of Good Corporate Governance.

In general, the investment motive is to gain profit, security, and growth of invested funds. For this reason, in investing in shares, investors must analyze the factors that can affect the company's condition (issuer). The company implements a debt policy (leverage) so that the profits obtained are more significant than the cost of assets and sources of funds to increase profits for its shareholders.

Debt Equity Ratio (DER) is a ratio used to measure how much total own capital is financed with total debt [2].

Several studies in this line of research have been conducted previously. However, the study regarding the explanation of corporate Governance and debt to equity ratio focus on share prices is still limited, especially in Indonesia. Most of the study in Indonesia regarding corporate Governance or debt to equity ratio focuses on corporate value. Therefore, this study aims to fill the gap and examine the institutional Ownership, independent commissioners, and audit committee as a proxy of corporate Governance, and debt to equity ratio focus on share prices in manufacturing companies of the consumer goods industry sector listed on the Indonesia Stock Exchange.

1.1 Literature Review

Agency theory is the relationship between the agent (management of a business) and the principal (business owner) [3]. However, shareholders as principals assume that shareholders are only interested in increasing financial results or their investment in the company. Meanwhile, agents are assumed to receive satisfaction in the form of financial compensation with the conditions that apply in the relationship [4].

According to [5]. Good Corporate Governance is a system designed to direct a company's management professionally based on the principles of transparency, accountability, responsibility, independence, fairness, and equality. Corporate Governance is needed in a company to control the behavior of company managers so that they act not only to benefit themselves but to equalize the interests between company owners and managers so that there will be no conflict within the company.

Share Price is the price set by a company or issuer for share ownership in a company. According to [6], market participants and the capital market's demand and supply determine share prices that occur on the stock market at a particular time.

Institutional Ownership and Share Price

Institutional Ownership is the total proportion of company shares owned by institutions, business entities, or organizations. Institutional Ownership acts as the party that monitors the company in general and the manager as the company's manager in particular. It also can pressure firms to set share prices by institutional monitoring [7]. The proportion of institutional Ownership also can increase share prices [8]. Based on this, the hypothesis is proposed as follows:

H1. Institutional Ownership has a positive influence on share price.

Proportion of Independent Commissioners and Share Price

According to [9] Article 1 Paragraph 3, the Board of Commissioners is the organ of the Issuer or Public Company in charge of conducting general and/or specific supervision following the articles of association and providing advice to the Board of Directors.

The Independent Commissioners have a supervisory role in ensuring that management decisions align with the owners interests [10]. One of the structures of corporate Governance is how the proportion of Independent Commissioners, so it positively influences share price [11]. Based on this, the hypothesis is proposed as follows:

H2. The Proportion of Independent Commissioners has a positive influence on share price.

Audit Committee and Share Price

The Audit Committee is a committee formed by and responsible to the Board of Commissioners in helping carry out the duties and functions of the Board of Commissioners [12]. The Audit Committee is tasked with assisting the Board of Commissioners to ensure that: financial statements are presented fairly under generally accepted accounting principles, the company's internal control structure is implemented properly, internal and external audits are carried out per applicable audit standards, and follow-up on audit findings. Implemented by management [13]. The Audit Committee is positively related to share price [14, 15]. Based on this, the hypothesis is proposed as follows:

H3. Audit Committee has a positive influence on share price.

Debt Equity Ratio and Share Price

Debt Equity Ratio (DER) is the ratio used to assess debt to equity. This ratio determines the number of funds the borrower provides (creditor and company owner). Debt to Equity Ratio is used to measure the company's ability to cover part or all of its long-term and short-term debts, with funds originating from total capital compared to the amount of debt. Debt Equity Ratio has greater explanatory power for share returns [16] and significantly affects share price [17]. Based on this, the hypothesis is proposed as follows:

H4. Debt Equity Ratio has a positive influence on share price.

2 Methods

This study uses secondary data by taking data according to the variables studied in www.idx.co.id and <https://finance.yahoo.com> from April 2022 to June 2022 (Fig. 1).

This study uses a causal associative research method with a quantitative approach that aims to determine whether there is an influence and how much influence is caused by causal or from the independent and dependent variables. The dependent variable used is Share price, and the independent variable used is Institutional Ownership, Proportion of

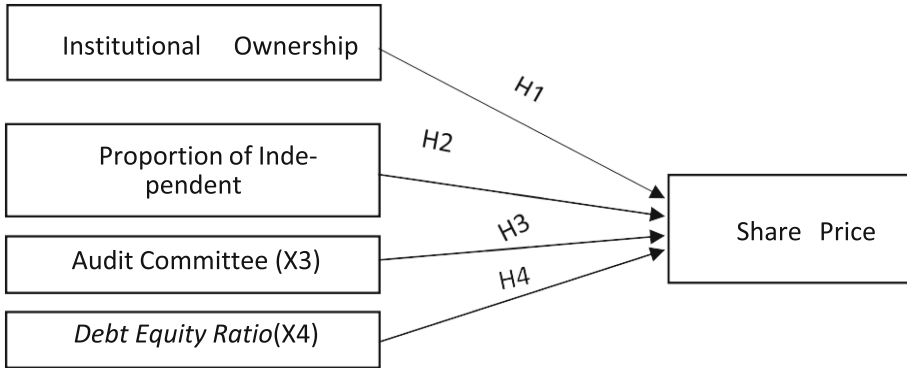


Fig. 1. Research Framework; Source: Author

Independent Commissioners, Audit Committee, and Debt Equity Ratio. These variables were then examined and analyzed to determine the effect between variables.

The population in this study are manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange (IDX) from 2017–2019. Samples were collected using the purposive sampling technique; the sample was selected based on the criteria.

The criteria in this study are: consumer goods industrial sector companies listed on the Indonesia Stock Exchange (IDX) which publish complete financial report data for three consecutive years during the 2017–2019 period, displaying complete data on Good Corporate Governance such as Institutional Ownership, Proportion of Independent Commissioners and the Audit Committee, and earned a profit during the research period, namely 2017–2019.

Data Processing Techniques

In the data processing technique, data was collected, analyzed the data and then processed using a computer with Microsoft Excel and the SPSS 25 program. The stages carried out in this study were:

1. Collecting company annual report data. Collecting data that became the sample in this study, namely manufacturing companies in the consumer goods sector listed on the Indonesian stock exchange in 2017–2019.
2. Calculating Share Ownership owned by Institutional. Institutional Ownership is the total proportion of company shares owned by institutions, business entities, or organizations.

$$KI = \frac{\text{Total Share owned by Institutional}}{\text{Number of Outstanding Shares}} \times 100\%$$

3. Calculating the number of Independent Commissioners Proportion. The proportion of Independent Commissioners is the percentage of the number of Independent Commissioners to the total number of Commissioners in the composition of the company's

board of commissioners.

$$PKI = \frac{\text{Total Independent Board of Commissioners}}{\text{Total Board of Commissioners}} \times 100\%$$

- Counting the number of the Company's Audit Committee. The Audit Committee is a committee formed by and responsible to the Board of Commissioners in assisting in carrying out the duties and functions of the Board of Commissioners.

$$\text{Audit Committee} = \text{Total Audit Committee}$$

- Calculating the Debt Equity Ratio. Debt Equity Ratio is the ratio used to value debt to equity.

$$PKI = \frac{\text{Total Debt}}{\text{Total Equity}} \times 100\%$$

- Determining the Share Price. Share price is the price set by a company or issuer for share ownership in a company.

$$\text{Share Price} = \text{Total Closing Share Price}$$

Data Analysis and Hypothesis Testing

Data analysis used descriptive statistical analysis, classical assumption test, and multiple linear regression analysis by partially testing (t-test) and the coefficient of determination (R²).

3 Results and Discussion

In this study, the object used is a manufacturing company in the consumer goods sector listed on the Indonesian stock exchange from 2017–2019. There are 14 companies as research objects meet the criteria as research samples from 51 manufacturing companies in the consumer goods industry sector listed on the Indonesian stock exchange. List of manufacturing companies in the consumer goods industry sector that meet the following criteria:

The sample has passed classic assumption tests like Normality Test, Multicollinearity Test, Autocorrelation Test, and Heteroscedasticity Test.

3.1 Goodness of Fit Test

To know the accuracy of the function in the regression model, the Goodness of Fit test is carried out, which is measured from the value of the coefficient of determination, the statistical value of F is as follows: [18].

Table 1. List of manufacturing companies

NO	Stock code	Stock Name
1	CLEO	Sariguna Primatirta Tbk
2	DLTA	Delta Djakarta Tbk
3	HOCKEY	Buyung Poetra Sembada Tbk
4	MLBI	Multi Bintang Indonesia Tbk
5	Kino	Kino Indonesia Tbk
6	ICBP	Indofood CBP Sukses Makmur Tbk
7	MRAT	Mustika Ratu Tbk
8	UNVR	Unilever Indonesia Tbk
9	BREAD	Nippon Indosari Corporindo Tbk
10	TCID	Mandom Indonesia Tbk
11	HRTA	Hartadinata Abadi Tbk
12	HMSP	Handjaya Mandala Sampoerna Tbk
13	INDF	Indofood Sukses Makmur Tbk
14	KLBF	Kalbe Farma Tbk

3.2 F Test

Based on the output in Table 1, it is known that the significance of the Sig column is 0.000 less than $= 0.05$ ($0.000 < 0.05$) and the calculated F value is $7.112 > F$ table 2.62. So, it can be concluded that the variables of Institutional Ownership, the Proportion of Independent Commissioners and the Audit Committee and the Debt Equity Ratio (DER) affect the Share Price.

Table 2. F Test Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	47,039	4	11,760	7,112	,000b
	Residual	61.181	37	1,654		
	Total	108,220	41			

a. Dependent Variable: Share price

b. Predictors: (Constant), Debt Equity Ratio, Audit Committee, Institutional Ownership, Proportion of Independent Commissioners

Source: SPSS, data processed 2022

Table 3. Partial Determination Test Results

Share price			Institutional Ownership	Proportion of Independent Commissioners	Audit Committee e	Debt Equity Ratio
Share price	Pearson Correlation	1	,131	,435**	,474**	,375*
	Sig. (2-tailed)		,410	,004	,002	0.014
	N	42	42	42	42	42

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed)

Source: SPSS, data processed 2022

3.3 Partial Coefficient of Determination

Based on Table 2 follows the results of the calculation of the coefficient of partial determination:

- Coefficient of determination of Institutional Ownership = $2 = 0.131 = 0.02$ or 2%. This means that the composition of Institutional Ownership can only explain the Share Price of 2%, and the rest is outside the model. Furthermore, it can be said that the effect is very low.
- Coefficient of determination Proportion of Independent Commissioners: $2 = 0.435 = 0.19$ or 19%. This means that the composition of the proportion of independent commissioners can only explain the share price of 19%, and the rest is outside the model. Furthermore, it can be said that the effect is quite significant.
- The coefficient of determination of the Audit Committee = $2 = 0.474 = 0.22$ or 22%. This means that the composition of the Audit Committee can only explain the share price of 22%, and the rest is outside the model. Furthermore, it can be said that the effect is quite significant.
- Coefficient of determination Debt Equity Ratio = $2 = 0.375 = 0.14$ or 14%. This means that the composition of the Debt Equity Ratio can only explain the share price of 14%, and the rest is outside the model. Furthermore, it can be said that the effect is quite significant (Table 4).

3.4 Simultaneous Coefficient of Determination

Based on Table 3 adjusted R Square has a value of 0.374 or 37.4%. From this value, it can be interpreted that the value of the Share price variable of 37.4% can be explained by the Good Corporate Governance (GCG) variable, which is proxied on Institutional Ownership, Proportion of Independent Commissioners and Audit Committee and Debt Equity Ratio (DER). At the same time, the remaining 62.6% is explained by other factors not included in this model. Furthermore, it can be said that the influence is quite significant (Table 5).

Table 4. Results of the Coefficient of Determination Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,659a	,435	,374	1.28590	1,225

a. Predictors: (Constant), Debt Equity Ratio, Audit Committee, Institutional Ownership, Proportion of Independent Commissioners

b. Dependent Variable: Share price

Source: SPSS, data processed 2022

3.5 Regression Results

The results of hypothesis testing indicate that the proposed hypothesis is mainly accepted below:

- **Institutional Ownership on Share Prices**

Given that the value of Sig. for the effect of X1 on Y is equal to $0.891 > 0.05$ and the value of t count $0.138 < t$ table 2.026, it can be concluded that hypothesis 1 is rejected, which means there is no effect between X1 on Y.

- **Proportion of Independent Commissioners on Share Price**

Given that the value of Sig. for the effect of X2 on Y is equal to $0.024 < 0.05$ and the value of t arithmetic is $2.326 > t$ table 2.026, it can be concluded that hypothesis 2 is accepted, which means there is an influence between X2 on Y.

- **Audit Committee on Share Price**

Given that the value of Sig. for the effect of X3 on Y is equal to $0.005 < 0.05$ and the value of t count $2,974 > t$ table 2.026, it can be concluded that hypothesis 3 is accepted, which means that there is an influence between X3 on Y.

Table 5. Regression Results Coefficients

Unstandardized Coefficients				Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	4,686	2,529		1,853	,072
	Institutional Ownership	,184	1,328	0.018	,138	,891
	Proportion of Independent Commissioners	2,771	1.173	,315	2,362	,024
	Audit Committee	5,853	1,968	,381	2,974	,005
	Debt Equity Ratio	,672	,276	,306	2,435	0.020

a. Dependent Variable: Share price

Source: SPSS, data processed 2022

• Debt Equity Ratio on Share Price

Given that the value of Sig. for the effect of X4 on Y is equal to $0.020 < 0.05$ and the value of t count $2,435 > t$ table 2.028 , it can be concluded that hypothesis 4 is accepted, which means there is an influence between X4 on Y.

3.6 Discussion

The test on the second, third, and fourth hypotheses regarding the influence of Proportion of Independent Commissioners, Audit Committee, and Debt Equity Ratio on Share Price attitude and investment decisions are accepted. This means that the variable of Proportion of Independent Commissioners, Audit Committee, and Debt Equity Ratio can positively influence share price. The results of this study are in accordance with the findings of [11, 14–17] which stated that Debt Equity Ratio has greater explanatory power for share returns as well as it has a significant effect on share price.

4 Conclusion

This study concludes that one of the most critical steps in increasing share prices is the practice of good corporate Governance. The proportion of Independent Commissioners and the Audit Committee has a very dominant role in good corporate governance practices to increase investor confidence. Debt Equity Ratio also has a significant effect on share prices due to management's responsibility to the company's equity. Therefore, this study recommends that the Independent Commissioner and the Audit Committee's composition be increased in percentage because it has a positive relationship with share prices.

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