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Price Book Value & Tobin's Q: Which One is Better For Measure Corporate Governance?

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Abstract
This article aims to prove which proxy (Price Book Value-PBV- or Tobins Q) are better to measure firm value. Measurement of Corporate Governance (CG) is performed on the sub-sectors of agriculture and mining companies listed on the Indonesia Stock Exchange. This research tested the 41 companies in the sector of Agriculture and Mining sub-sector with purposive sampling technique (the analysis period 2010-2014) using OLS. The results showed no influence on the CG PBV although controlled by the firm's financial variable characteristic. Meanwhile, the Audit Committee has a positive influence on Tobins Q and firm's size has the opposite effect on the Tobins Q. In general, this research recommends the use of Tobins Q as a proxy measurement of firm value.
Keywords : Firm Value, Price Book Value, Tobins Q, Corporate Governance, and Firm's Financial Charactristic.

Introduction

This article focuses on the comparison measurement firm value by using proxy price-book value and Tobin's Q to determine the impact of corporate governance. During this time, many articles just focusing on one proxy firm value, and has not reached the stage to do a comparison. Basically Corporate Governance relates to the way parties concerned for the welfare of the company (stakeholders) try to ensure that the manager and management to take appropriate measures or adopt appropriate mechanisms to protect the interests of stakeholders. Such actions require the separation of ownership from management, and an important factor for modern companies. Corporate governance practices with global standards has become an important part of the company's success. The practice of good corporate governance is a prerequisite required each company to manage effectively and efficiently in the market globalization. Good corporate governance will help address the agency problem, which can affect the value of the company in two different ways. First, corporate governance can increase stock prices higher as investors anticipate the transfer of cash flow less and of its profit will be transferred back to them as interest or dividends (Jensen and Meckling, 1976; La Porta et al., 2002) , Secondly, good corporate governance can reduce the expected return on equity as far as reducing the scrutiny of shareholders and examination fees that raises the cost of capital decreases (Shleifer and Vishny, 1997). However, it is clearly stated that better governance is actually associated with a higher valuation of the company as the costs associated with the implementation of strong governance mechanisms (Gillan et al, 2003 ;. Chhaochharia and Grinstein, 2007; Bruno and Claessens, 2010). This study aims to prove which is better for the proxy firm value listed in the Indonesia Stock Exchange through the company's corporate governance, focusing on specific indicators. As this study in particular is to demonstrate empirically the effect of corporate governance and firm value of the company, by making a comparison between the price-book value and Tobin's Q. The issues in this study is whether the indicators of governance and firm value companies of the companies listed in Bursa Effects Indonesia (IDX) is influenced by factors such as institutional ownership (KpIns), Komisratis Independent (KomInd), the Audit Committee (KomAud), Firm Size (S), and Profitability (Pf).

Literatures Review

Corporate Governance is a set of relationships between the company's management, board of directors, shareholders, and other stakeholders. Corporate governance also provides the structure determination of the company's goals and how to achieve those objectives and monitoring performance has been determined. Corporate Governance must either provide the right incentives to the board of directors and management to pursue the goals and interests of the company and shareholders who accompanied facilitate effective monitoring, thereby encouraging firms to use resources more efficiently (OECD Principles of Corporate Governance, 1999). Research Chiang (2005), which explores the relationship between indicators of corporate governance, including transparency and operating performance measure, and whether or not there could be a predictor indicator of operating performance. The research is fitted with a Standard & Poor's criteria information collected from all public materials to obtain more comprehensive information transparency. The results showed that the transparency of the company has a significant positive relationship with the operating performance and it is one of the most important indicators to evaluate the performance of the company. This study concludes that companies with good corporate governance has a significant positive relationship with the company's

performance.

According to Berle and Means (1932) that the ownership structure gives the dispersion of ownership causing management implications in terms of ownership, such as Jensen and Meckling (1976) emphasized, can contribute to agency problems between managers and shareholders or shareholders and debtors. But from the other side, Shleifer and Vishny (1986) and Morck, Shleifer and Vishny (1988) detects the presence of the phenomenon of concentration of ownership. While La Porta et al. (1999) and Claessens et al. (2000) in the main conception of supervision; they define the ownership of the company as voting rights, dug many shareholders to control the company by way of pyramid structures and cross-company, which can lead to agency problems. McConnell and Sevaes (1990), on the other hand, the study found that there is a positive relationship between firm value and ownership by institutional investors. Hermalin and Weisbach (1991) examined the ratio of independent directors to corporate value, which is represented by Tobins Q, and failed to find a significant relationship between the independent commissioner with the value of the company. Moreover, Mehran (1995) also failed to explore a meaningful relationship between ownership outside shareholders against the firm value, as measured by Tobin's Q, or return on assets.

Lee and Sohn (2005) investigated the relationship between the composition of the board of directors and the extent to which companies disclose information on companies in Korea. They argue that the inclusion of independent directors to the board of directors of the company are useful to improve the monitoring activities of the board of directors, quality of corporate disclosure practices and increase the value of communication. Bhagat and Black (2002) examined using the ratio of independent directors reduced the ratio of internal directors as a proxy, and the results of the study revealed that the independent board and a negative and significant effect on the performance correlated to short-term, but the commissioners make a difference in improving corporate performance. According Siagian and Tresnaningsih (2011) the audit committee are independent of the management of the company will improve the reporting system and the quality of reported earnings, because no involved on potential conflicts of interest that reduces monitoring capacity. Typically, the Independent Committee also experienced professionals in other companies or organizations, large and therefore, care about their reputation (Nguyen and Nielsen, 2010). Veliyath (1999) emphasizes that the board serves as a bridge between the owners and managers; whose task is to protect the interests of shareholders. In particular, take the responsibility to manage and supervise the board of directors should monitor the behavior of managers to the interests of shareholders, making important decisions, hiring and overseeing the company's management team to comply with the law. The financial data for companies included in the sample obtained from the Indonesia Stock Exchange. In this study, using the Tobins' Q as a measure of the value of the company. Following La Porta, et al. (2000) and Doidge, et al. (2004) calculate the Tobins' Q as the sum of total assets less the book value of equity plus the market value of equity divided by total assets. In the multivariate analysis, we used several control variables. We control the size of the company by using the logarithm of total assets (LNTA).

Research Method and Hypothesis

Research model in this study was the influence of corproate governance, Firm's Financial Characteristic on firm value. The company's value in the research is Tobins' Q and Price Book Value. The study sample consisted of 41 companies listed on the Indonesia Stock Exchange (IDX) in the sub-sector of plantation and mining, using fiscal accounting year from 2010 through 2014 (205 company-year observations). The data analysis techniques used in the study is the OLS (Ordinary Least Square) is one method in multiple regression analysis to determine the influence of independent variables on the dependent variable. Ordinary Least Square method will produce a good estimator compared with other methods if all the classical assumptions are met. Conversely, if the classical assumptions are not met will result estimator that is not good.

DEVELOPMENT HYPOTHESIS

1. Institutional ownership

Institutional ownership will create good supervision for the company. Institutional companies will put professionals to supervise the company owned, so hopefully the company will perform well and will ultimately enhance shareholder value.

H1: There is a positive influence of institutional ownership on firm value.

2. Independent commissioner

The relationship between independent commissioner and value of the company, if the outside independent director and have professional skills, they can be more objective to make decisions and monitor managers. Empirical research by Weisbach (1988), Rosenstein and Wyatt (1997) and Huson et al. (2001) corroborate the results of research that a higher ratio of independent directors accounts for the value of the company better.

H2: There is a positive effect of the Independent Commissioner to firm value.

3. The Audit Committee
The audit committee established by the board of directors for the purpose of overseeing the performance of the company's management. Existence of the audit committee is a very important factor for the management company to carry out oversight of the company.
H3: There is a positive effect of the Audit Committee to firm value.

4. Company Size (Size)
Basically, the larger the size of the company will have more and more activities. Large companies also make it easier to obtain funding from the capital markets. Thus, the size of a large company will gain traction for investors to invest in the company's activities.
H4: There is a positive effect of firm size to firm value.

5. Profitability (P).
Companies that have high earnings, will be more attractive to investors. With a high profit, the company has a chance of conducting the expansion or distribute profits in dividends.
H5: There is a positive effect of profitability to firm value.

EMPIRICAL MODEL APPROACH
Corporate Governance as an endogenous variable with proxy institutional ownership, independent commissioner, the size of the audit committee, and the firm's financial characteristic with proxy firm size and profitability. The hypothesis in this study is an endogenous variable firm's corporate governance and financial characteristic, and the exogenous variable is the Price Book Value and Tobins' Q. Therefore, the mathematical equation is structured as follows:
(1) PBV = a + β1 + β2 KpIns KomAud Komind + β3 + β4 β5 + S + P + εi
(2) Tobins' Q = a + β1 + β2 KpIns KomAud Komind + β3 + β4 β5 + S + P + εi
Where:
PBV and Tobins' Q is the Price Book Value, as a proxy for measuring the value of the company. Institutional Ownership KpIns is measured using the percentage of shares owned by institutional agencies. Independent Commissioner Komind is measured by using a ratio or the ratio of independent directors to the overall number of commissioners. KomAud is the size of the audit committee were measured using a scale number of the audit committee.

Result
Descriptive Statistics.
In this study, using a variable Corporate Governance represented by proxy institutional ownership, independent directors, audit committee and the size of the Firm's Financial Characteristic represented by proxy Firm Size and Profitability. Meanwhile, to measure the value of the company is represented by a proxy Price Book Value and Tobins' Q, in order to determine which one is a better measurement. Table 1 shows the descriptive statistics of the calculation using the Price Book Value, namely:

Table 1
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
PBV	205	-9,87	128,00	4,6580	13,42101
Institutional Ownership	205	0,00	100,00	61,5304	24,29628
Independent Commissioner	205	,25	,67	,3831	,08782
The Audit Committee	205	2,00	3,00	2,9512	,21594
Firm Size	205	9,95	13,84	12,4353	,79589
Profitability	205	-,74	41,14	,2975	2,87268
Valid N (listwise)	205				

Based on Table 1 above shows the data that is as much as 205 samples tested, the average value Price Book Value is equal to 4.6580 for the dependent variable with a minimum range of -9.87 and a maximum of 128, while the independent variables have the average value that varies with the highest average value amounted to 61.5304 for institutional ownership and variables firm size has the highest average value both at 12.4353. The average value of the lowest in profitability variable that is equal to 0.2975 and 0.3831 of an independent commissioner.

Table 2
ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	137,451	5	27,490	,149	,980[b]
	Residual	36607,763	199	183,959		
	Total	36745,214	204			

a. Dependent Variable: PBV
b. Predictors: (Constant), Profitability, Independent Commissioner, Firm Size, Institutional ownership, the Audit Committee

From Table 2 above, it is known that the establishment of a model for measuring the effect of the Corporate Governance, Firm Size and Profitability to Price Book Value generate a model that is not viable for testing, because it is based on the results of significance test result calculation 0.980 which can be interpreted statistical model above not qualified testing.

Table 3
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	11,128	21,446		,519	,604
	Institutional Ownership	-,008	,039	-,015	-,211	,833
	Independent Commissioner	-7,698	11,198	-,050	-,687	,493
	Audit Comittee	,610	4,557	,010	,134	,894
	Firm Size	-,387	1,204	-,023	-,321	,749
	Profitability	-,009	,333	-,002	-,027	,978

a. Dependent Variable: PBV

Based on Table 3 above shows the results of statistical tests of the variables Corporate Governance consisting proxy institutional ownership, independent commissioner, audit committee and the Firm's Financial Characteristic consisting of proxy Firm size and Profitability to Price Book Value, none of the independent variables showed significant effect to the dependent variable, such as Price Book Value. Thus, it can be concluded that the test model of Corporate Governance and Firm's Financial Characteristic to Price Book Value can not be use to the model

Table 4
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Institutional Ownership	205	,00	100,00	61,5304	24,29628
Independent Commissioner	205	,25	,67	,3831	,08782
Audit Committee	205	2,00	3,00	2,9512	,21594
Firm Size	205	9,95	13,84	12,4353	,79589
Profitability	205	-,74	41,14	,2975	2,87268
TobinsQ	205	,40	32,00	2,5049	3,69716
Valid N (listwise)	205				

Based on Table 4 above is known also tested the same data as many as 205 samples, with an average value Tobins' Q is equal to 2.5049 for the dependent variable with a minimum range of 0.40 and a maximum of 32, while the independent variables have on the calculation the same with Table 1.

Table 5
ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	400,861	5	80,172	6,682	,000[b]
	Residual	2387,614	199	11,998		
	Total	2788,475	204			

a. Dependent Variable: Tobins Q
b. Predictors: (Constant), Profitability, Independent Commissioner, Firm Size, Institutional ownership, the Audit Committee

From Table 5 above shows that the establishment of a model for measuring the effect of the Corporate Governance, Firm Size and Profitability to value companies with proxy Tobins' Q indicates appropriate model for testing the significance, because it is based on the results of tests of significance obtained calculation results 0,000 which can be interpreted models statistics on qualified testing.

Table 6
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	3,454	1,324		2,607	,010
	Institutional Ownership	-4,633E-06	,000	-,050	-,764	,446
	Independent Commissioner	-,068	,692	-,007	-,099	,922
	Audit Committee	,652	,281	,157	2,317	,022
	Firm Size	-,387	,074	-,343	-5,228	,000
	Profitability	,018	,020	,059	,901	,369

a. Dependent Variable: Tobins Q

Based on Table 6 above shows the results of the test statistics of independent variables Corporate Governance consisting of institutional ownership, independent directors, audit committee and the Firm's Financial Characteristic comprising Firm size and profitability of the Company Value represented by proxy Tobins Q, there are only two independent variables which showed a significant effect on the dependent variable. Thus, it can be concluded that the statistical model testing Firm's Corporate Governance and Financial Characteristics of the Tobins' Q can use the model. Variables The Audit Committee has a significant influence positively to the Tobins 'Q, but to Firm Size has the opposite effect on the Tobins' Q, which has a negative effect and it can be concluded that the larger the size of the company will give a negative impact amounting to 0.387 against the value of the companies represented by proxy Tobins' Q.

Findings, Limitations and Recommendations

Based on the results of data analysis and statistical testing is done, it can be concluded testing of the value of the company by proxy Price Book Value shows the test results statistical variables Firm's Corporate Governance and Financial Characteristic to Price Book Value showed no significant effect. While statistical testing with the variable value represented company proxy Tobins Q, which showed a significant effect only two variables are represented by the Corporate Governance Committee and the Audit Firm's Financial Characeteristic represented by Firm Size. But measurements Firm Size, show negative influence that the greater the size of the company turned out to demonstrate the value of the company is not increasing. Thus, it can be concluded that the measurement of the value of the company's Corporate Governance and Firm's Financial Characteristic better use Tobins' Q, because it shows the test results better statistics. In this study, the sample used only focused on the

sub-sectors of agriculture and mining which consists of 41 companies, so that the sample in the test have not been representing the Indonesian capital market as a whole. In this study, for Tobins Q only one proxy of corporate governance and the proxy of the financial firm characteristic that is firm size, which has an influence on company value. Expected to come, the variables used in the study can be expanded with other variables, such as Corporate Social Responsibility or Business Risk, which serve as the research variables.

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