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The Effect of Competitive Strategy and Good Corporate Governance on Firm Value with Investment Opportunity set as a Moderating Variable

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Abstract

The purpose of this research is to examine the effect of competitive strategy and good corporate governance on firm value with investment opportunity set as moderating variable. The sample data are 43 companies of property sector, real estate and building construction which are listed in Indonesia Stock Exchange period 2012-2016 period. By using purposive sampling method (judgment sampling), this research yields the conclusion that competitive strategy which is proxied with asset utility efficiency (AUE) and premium price capability (PPC) and good corporate governance variable is projected by percentage of institutional ownership (KEI) Against the value of the company proxies with price to book value (PBV). Other results suggest that empirically investment opportunity sets proxied with market to book value equity (MVE) are able to moderate relationships among variables.

Keywords: *competitive strategy, corporate governance, firm value, investment opportunity set*

1. INTRODUCTION

In today's era of economic globalization, the firm value becomes very important for the continuity of the company's operationalization. The increase in the firm value, seen in the price increase of each share owned, is a picture of the prosperity of the shareholders and will be seen as an achievement in the eyes of potential investors. Higher value of shares owned will be considered as a good opportunity for potential investors to invest.

The comparison of price-to-book value (PBV) ratio for property, real estate and building construction companies listed on the Indonesia Stock Exchange (IDX) between 2012-2016, found that the value of PBV ratio decreased by 0.2% from 2012 with a value of 2.08% to 1.88% in 2013. By 2014, the value of PBV ratio rose to 2.36%. The increase in 2014 turned out to last not very long in the following years. The fact is that the PBV ratio of property, real estate and building construction companies decreased by 2.04% in 2015 and again declined by 1.78% in 2016.

The ratio of PBV is one of the instruments to measure the firm value. The resulting PBV ratio fluctuation indicates and warns some things. Decrease in PBV ratio is certainly directly proportional to the decline in firm value. The decrease in PBV ratio will be interpreted by investors as a decrease in firm value. It can also lead to a loss of investor's trust to invest in the company.

Property, real estate and building construction sectors are one of the industry sectors with characteristics that are difficult to predict and have a high risk profile. It is unpredictable because these industry sectors have large amplitude following the national economic conditions. In one condition, it can experience a boom or tends to be over supplied, while in other conditions, it will experience a drastic decline as well. Property, real estate and building construction sectors are very risky because the financing system or the source of funds is mostly obtained through the banking credit system while the sectors operate by using fixed assets. Many factors can affect the fluctuations of companies in these sectors, such as the competitive strategy run, good corporate governance implementation, and also can be seen from the selection of the right investment opportunity set.

The Linton and Kask (2017) study concluded that the combination of differentiation strategy, innovativeness, and pro-activeness strategies is associated with high performance. For pioneering companies, low cost differentiation and innovation strategies serve as a driver to achieve a temporary monopoly rate effectively (Garcia-Villaverde et al., 2017). Study by Hernandez-Parlines et al. (2016) suggests that the effect of international entrepreneurship orientation on international performance increases with the adoption of competitive strategies, and that innovation is an essential prerequirement for competitive strategies in order to provide a mediating effect.

A study by Dirisu et al. (2013) on regression analysis indicates that product differentiation as a tool of competitive advantage has a positive and significant effect on the performance of manufacturing companies' organizations in Nigeria. Differentiation is involved in creating added value by offering customers superior products and added value (Brenes et al., 2014). Differentiation can meet customer demand in unique ways, such as product design, quality, speed and flexibility. In contrast, cost leadership engages in achieving a low cost structure which in turn enables products to be offered at a lower cost than competitors, for example by achieving economies of scale or improving design for manufacturing (Martinez-Simarro et al., 2015). An implementation of an inappropriate or overly imposed competitive strategy will certainly have an impact on the competitiveness of companies in the market. This is supported by the results of Yasar (2010) study which states that there is no significant relationship between competitive strategyand company performance.

Research by Ducassy and Guyot (2017) shows that the regression result of the effect of ownership concentration on firm value, for bulk samples, the presence of majority shareholders has a positive effect on the value of the company. Application of good corporate governance practices proved to increase the company's stock price (Ararat et al , 2017) .Abdallah and Ismail (2017) argue that a positive relationship between governance quality and firm performance is maintained and stronger at the low concentrated level of ownership. Research Sumarno et al. (2016) also concluded that good corporate governance has a significant influence on firm value. The Gherghina study (2015) found that there was a statistically significant relationship between the global rankings of governance and firm value. Other research results mentioned that the variable of good corporate governance has no effect on firm value. This opinion is supported by Akbar et al (2016) and Ratnadewi and Ulupui (2016).

The research by Adiputra (2016), resulted in the conclusion that investment opportunity set (IOS) variables have a significant influence on firm value. In contrast to the above studies, Giriati's (2016) study stated that investment opportunity has a negative impact on firm value.

The position of this study among the previous studies is the placement of investment opportunity set variables (IOS) between the variables of competitive strategy and corporate governance against corporate value. From this research, it is expected to know the result of moderation of investment opportunity set (IOS) variables between the relationships among variables studied. This research is also expected to generate new understanding that can be used to refine the previous research or as development material for further research. The formulation of the problem to be studied in this research are first, does competitive strategycost efficiency affect the firm value?. Second, does competitive strategydifferentiation affect the firm value? Third, does corporate governance affect the firm value? Fourth, is the investment opportunity set able to moderate the effect of competitive cost efficiency on the firm value? Fifth,is investment opportunity set able to moderate the effect of competitive relations strategy differentiation on the firm value?The last, is investment opportunity set able to moderate the effect of good corporate governance relationship on the firm value?.

2. REVIEW LITERATURE AND HYPOTHESES

The agency theory (agency theory) explains that in a company, there are two parties interacting with each other. Interaction of the company owner who is also called the principal with the management company that acts as an agent resulted in vulnerability to agency conflicts caused by each parties having an interest in achieving their own prosperity (Jensen and Meckling, 1976). To minimize such conflicts, owners and agents engage in employment contracts to regulate the proportion of their rights and obligations in order to achieve the expected utility. In an effort to achieve maximum corporate value, agents will certainly plan and implement the most appropriate strategy that will be executed. Two main strategies that can be applied are the strategy of cost advantage and differentiation strategy. Maximum application of these two strategies and followed by good corporate governance in managing utilities owned by the principal will create competitive advantage over its competitors. Future investment options taken by the management of the company will certainly also affect the investors in investing in the company. The right investment choice is certainly considered to generate a great return for shareholders.

2.1 Competitive Strategy and Firm Value.

Porter (1980) introduces the generic strategy model of cost leadership strategy, differentiation strategy, and focus strategy in order to achieve the competitive advantage of the company. Competitive strategy cost leadership or cost efficiency run by a company can be cost management. Costs incurred by the company should be the costs that are critical and on target. With the proper cost management, it will have an impact on the reduced expenditure of the company which will certainly increase the profitability of the company. Competitive strategy differentiation is one of the strategies run by the company in the form of different product development with uniqueness as well as its own advantages compared to its competitors. With different products and certainly superior, the company can set prices higher than its competitors so as to cover the additional costs incurred. From the description above, the first and second hypothesis determined in this study are H1: competitive strategy cost efficiency significantly affects the firm value, H2: competitive strategy differentiation significantly affects firm value.

2.2 Good Corporate Governance and Firm Value.

Corporate governance is a set of rules governing relationships between shareholders, corporate managers, creditors, governments, employees and other internal and external interest holders relating to their rights and obligations, or in other words, a system that regulates and controls the direction of strategy and performance of a company. The implementation of corporate governance can be seen in the percentage of institutional ownership in the company. A high degree of institutional ownership will promote greater oversight by institutional investors in order to reduce opportunistic behavior of managers and result in improved management professionalism. In addition, high institutional ownership will also increase the drive for management to continue improving the firm value. From the above description, the third hypothesis set in this study is H3: corporate governance significantly affects the firm value.

2.3 Moderation of Investment Opportunity Set (IOS) on the Influence of Competitive Strategy relationship to Corporate Value.

Investment opportunity set (IOS) becomes very important as a component of firm value because IOS can affect the perspective of the stakeholders of the company. Investment IOS provides a broader picture for stakeholders about the value of companies in the market based on future corporate expenses. Higher IOS owned by a company is an indication that the company continues to grow (Chung and Charoenwong, 2013).

Appropriate implementation of competitive strategy of course has a share in the improvement of corporate performance as reflected in the higher value of the company in the eyes of potential investors. Competitive strategy cost leadership or cost efficiency run by the company can be the management of the costs. Costs incurred by the company should be the costs that are critical and on target. With proper cost management, it will have an impact on the decrease of corporate expenses that will certainly increase the profitability of the company. Competitive strategydifferentiation is one of the strategies run by the company in the form of different product development with uniqueness as well as its own advantages compared to its competitors. With different products and certainly superior, the company can set prices higher than its competitors so as to cover the additional costs incurred. From the above description, it is concluded that the fourth and fifth hypotheses in this study are: H4: investment opportunity set is able to moderate the relation of competitive strategy cost efficiency to firm value, H5: investment opportunity set is able to moderate the relation of competitive strategy differentiation to firmvalue.

2.4 Moderation of Investment Opportunity Set (IOS) on the effect of Corporate Governance relationship on Corporate Value.

Investment opportunity set (IOS) provides a broader picture for stakeholders about firm value in the market based on future corporate expenses. Higher investment opportunity set (IOS) owned by a company is an indication that the company continues to grow (Chung and Charoenwong, 2013). In relation to economics, company with growing business prospects will be able to convince investors that the company is deemed capable of improving the shareholders' wealth. Investors' confidence will be followed by an increase in stock demand that will impact on the increase in corporate value. The implementation of corporate governance can be seen in the percentage of institutional ownership in the company. A high degree of institutional ownership will promote greater oversight by institutional investors in order to reduce opportunistic behavior of managers and result in improved management professionalism. In addition, high institutional ownership will also increase the drive for management to continue to improve the value of the company. From the above description, the sixth hypothesis concluded in this study is: H6: investment opportunity set is able to moderate corporate governance relationship to firm value.

3. RESEARCH METHODS

This study belongs to a causative study that shows a causal relationship between two or more variables. This research uses regression analysis method with STATA software tool version 12, so the main purpose of the research is to know the influence between one variable with other variables can be solved. The population of this study covers all property, real estate and building construction companies listed on the Indonesia Stock Exchange (BEI) between 2012 and 2016. The Sampling uses purposive sampling technique which is the technique of sampling data with certain considerations. Some of the criteria in the sampling of this study is that the companies should be listed on the Indonesia Stock Exchange (IDX) property estate and construction sector for the period 2012-2016, issuing complete financial statements with independent audit reports for the period of 2012-2016 and containing information required for research, x showing a positive number ofcompany equity. The measurements for each variable used are as follows:

a. Firm value variable is measured by the ratio of price to book value with the formula PBV = Market price per share / Book value of shares. (Mardiyati et al., 2012).
b. Competitive strategy variable is measured using asset utilization efficiency ratio (AUE) model with formula AUE = total revenue / total asset and ratio premium price capability (PPC) with formula PPC = gross margin / total revenue (Singh and Agarwal, 2002).
c. Good corporate governance variableis proxied by Institutional Ownership as measured by KEI formula = total number of independent commissioners / total board of commissioners (El-Chaarani, 2014).

d. The investment opportunity set (IOS) variable is measured using a single proxy which is the ratio of market to book value equity with the formula MVE / BVE = the number of outstanding shares multiplied by the closing price (total equity) (Astriani, 2014).

4. RESULT AND DISCUSSION

The number of data samples that meets the criteria is 43 companies with the study period 2012-2016. Data processing begins with the selection of model estimation with Chow test, LM test, and Hausman test. Then proceed with classical assumption test that is multicollinearity test, heteroscedasticity test, auto-correlation test, and normalization test. After the data is confirmed to pass the classical assumption test, then a regression testing will be done with STATA software.

4.1 Discussion of First Regression Model Results Analysis

In the first regression model, after the Chow test, Langrange Multiplier (LM) test and Hausman test are conducted, it was concluded that the appropriate estimation model used for this regression model is the Fixed Effect Model approach. A classical assumption test is then performed to ensure the results of the study do not violate the basic assumptions of econometrics and meet the BLUE (Best Linier Unbiased Estimator) regression estimates. The results of classical assumption test stated that the regression of this first model passes multicolinearity test, heteroscedasticity test, and normality test. However, this first model regression did not pass the test autocorrelation. To solve this autocorrelation problem, GLS regression is done.

From the results of Model Significance Test (F-test) in table 1, the dependent variable PBV shows Prob F Statistics of 0.0000 which means the lower significance value of α = 5. The result gives the understanding that there are one or more independent variables that influence the PBV as a dependent variable, so that the independent variable influences the dependent variable together with the acceptable 95% confidence level.

From the results of partial significance test (t-test) of the first hypothesis test (H1), AUE variable has a probability level of 0.0000 or smaller than 0.05 and coefficient value of positive 1.993809 which means that empirically, competitive strategy cost efficiency has a significant positive effect on firm value.

The result of the second hypothesis (H2) shows that PPC variable has probability level of 0.0190 or less than 0,05 and coefficient value is equal to 08073306 which means that empirically, competitive strategy cost differentiation has positive significant effect on firm value.

Competitive strategy cost leadership or cost efficiency run by a company can be cost management. Costs incurred by the company should be the costs that are critical and on target. With the proper cost management, it will have an impact on the reduced expenditure of the company which will certainly increase the profitability of the company. Competitive strategy differentiation is one of the strategies run by the company in the form of different product development with uniqueness as well as its own advantages compared to its competitors. With different products and certainly superior, the company can set prices higher than its competitors so as to cover the additional costs that incurred.

The results of the first hypothesis (H1) and the second hypothesis (H2) support previous research conducted by Linton and Kask (2017) which concluded that a combination of differentiation, innovativeness, and pro-activeness strategies are associated with high performance. For pioneering companies, low cost differentiation and innovation strategies serve as a driver to achieve a temporary monopoly rate effectively (Garcia-Villaverde et al., 2017). Study by Hernandez-Parlines et al. (2016) suggests that the effect of international entrepreneurship orientation on international performance increases with the adoption of competitive strategies, and that innovation is an essential prerequisite for competitive strategies in order to provide a mediating effect. The results of this study concluded that competitive strategy has a significant positive relationship to company performance.

Table 1
Analysis of First Regression Model Results

$PBV_{it} = \alpha_0 + \alpha_1 AUE_{it} + \alpha_2 PPC_{it} + \alpha_3 KEI_{it} + \varepsilon_{it}$					
H1 : ***Competitive strategy cost efficiency*****has a significant on firm value** **H2 :** ***Competitive strategy differenciacy*** **has a significant on firm value** **H3 :** ***Good corporate governance*****has a significant on firm value**					
Variable	Predicted Sign	Coef.	Std. Err.	t-Statistik	Prob.
Cons	+/-	-1.199864	0.2858325	-4.2	0.0000***
Aue	+	1.993809	0.3005239	6.63	0.0000***
Ppc	+	0.8073306	0.346188	2.33	0.0210**
Kei	+	0.6476635	0.2459934	2.63	0.0090***
N		215		R-squared	0.2072
Prob (F-*statistic*)		0.0000			

information :
***Significantin thelevelof 1%, ** Significant in the level of 5%,* Significant in the level of 10%
The value of the Company is proxied by the value of price to book value (PBV) measured by the Log (market price per share / share book value),
Competitive strategy is proxied with AUE's asset utilization efficiency (AUE) and premium price capability (PPC) measured by the ratio of total revenues for total assets and PPC by calculating gross profit divided by total revenue
Good corporate governance is proxied with Institutional Ownership (KEI) as measured by the ratio of the number of shares owned by the constitution divided by the number of shares outstanding

The result of the third hypothesis test shows that good corporate governance variable measured by KEI indicator has a probability level of 0.0080 or less than 0.05 and a positive coefficient value of 0.6476635 which means that empirically, good corporate governance has a significant positive effect on firm value.

A high degree of institutional ownership will promote greater oversight by institutional investors in order to reduce opportunistic behavior of managers and result in improved management professionalism. In addition, high institutional ownership will also increase the drive for management to continue to improve the value of the company. The results of this study support previous research by Ducassy and Guyot (2017), Ararat et al. (2017), Abdallah and Ismail (2017), Sumarno et al. (2016) which concluded that good corporate governance practices have a significant effect on firm value. The results of this study also support Gherghina's Research (2015) which found that there was a statistically significant relationship between the global rankings of governance and company value.

From the results of the coefficient of determination testing, the first regression model is known R-squared value of 0.2072 shows that variation of price to book value can be explained by independent variables in this study which are asset utilization efficiency, price premium capability and institutional ownership of 20.72 %. On the other hand, 79.28% variation of price to book value is explained by other variables outside this research model.

4.2 Discussion of Second Model Regression Result Analysis

In the second regression model, after the Chow test, Langrange Multiplier (LM) test and Hausman test, it was concluded that the appropriate estimation model used for this regression model is the Fixed Effect Model approach. Furthermore, the classical assumption test is performed to ensure the results of the study do not violate the basic assumptions of econometrics and meet the BLUE (Best Linier Unbiased Estimator) The resultsof classical assumption test stated that this second model regression passed multicolinearity test, autocorrelation test, and normality test. However, this second regression model did not pass the heteroscedasticity test. To overcome the problem of heteroscedasticity in this research, robust test and GLS regression are conducted.

From the test results of F-test model significance as in table 2, it shows Prob F Statistics of 0.0000 which means the value of significance is lower than α = 5. The result gives the understanding that there are one or more independent variables that influence price to book value as the dependent variable, so that the independent variable influences the dependent variable together with the 95% confidence level.

Partial significance test (t-test) of result from hypothesis four (H4) test shows probability level of 0.0000 or less than 0,05 and coefficient value equal to 03371159 meaning that empirically, investment opportunity set is able to moderate relation of competitive strategy cost efficiency to the firm value.

The result of the fifth hypothesis testing (H5) shows a probability level of 0.0000 or less than 0.05 and a coefficient value of positive 0.2959731 which means that empirically, investment opportunity set (IOS) is able to moderate the relationship of competitive strategy differentiation with firm value.

The result of the sixth hypothesis test (H6) shows the probability level of 0.0000 or less than 0.05 and the coefficient value is positive 0.1818682 which means that empirically, investment opportunity set is able to moderate the good corporate governance relationship with the firm value.

The application of competitive strategy either cost efficiency or differentiation strategy will certainly have an impact on the company's competitive advantage. Competitive strategy cost leadership or cost efficiency run by a company can be cost management. Costs incurred by the company should be the costs that are critical and on target. With the proper cost management, it will have an impact on the reduced expenditure of the company which will certainly increase the profitability of the company. Competitive strategy differentiation is one of the strategies run by the company in the form of different product development with uniqueness as well as its own advantages compared to its competitors. With different products and certainly superior, the company can set prices higher than its competitors so as to cover the additional costs that incurred. High prices will not make consumers because the goods produced have their own uniqueness so it will be difficult to determine the substitution goods on the market. The implementation of good corporate governance will also be one of the drivers of increasing the firm value. A high degree of institutional ownership will promote greater oversight by institutional investors in order to reduce opportunistic behavior of managers and result in improved management professionalism. In addition, high institutional ownership will also increase the drive for management to continue to improve the firm value.

The implementation of competitive strategy and good corporate governance that is done accurately and correctly will certainly have an impact on the improvement of company's performance which is reflected in the increase of company's value in the eyes of investors. When it is associated with an investment opportunity set, the right investment choice will surely add value to the company in the eyes of potential investors. The right investment choice will certainly provide a great return for its shareholders.

Table 2
Analysis of the second model Regression result

$PBV_{it} = \beta_0 + \beta_1 AUE_{it}{}^{*}MVE_{it} + \beta_2 PPC_{it}{}^{*}MVE_{it} + \beta_3 KEI_{it}{}^{*}MVE_{it} + \varepsilon_{it}$					
H4 : *investment opportunity set* (IOS) is able to moderate the relation of*competitive strategy cost efficiency* on firm value					
H5 : *investment opportunity set* (IOS) is able to moderate the relation of *competitive strategy differenciacy* on firm value					
H6 :*investment opportunity set* (IOS) is able to moderate the relation of *good corporate governance*on firm value					
Variable	Predicted Sign	Coef.	Std. Err.	t-Statistic	Prob.
Cons	+/-	0.8868344	0.0266745	33.25	0.0000***
Auemve	+	0.3371159	0.0189627	17.78	0.0000***
Ppcmve	+	0.2959731	0.0255464	11.59	0.0000***
Keimve	+	0.1818682	0.0254794	7.14	0.0000***
N		215		R-squared	0.9114
Prob (F-*statistic*)		0.0000			
***Significant in the level of 1%, ** Significant in the level of 5%, * Significant in the level of 10%					
Keterangan : auemve is interaction between PBV and MVE ppcmve is interaction between PPC and MVE Keimve is interaction between KEI and MVE					

5. CONCLUSIONS AND SUGGESTIONS

Based on this research, the author gives final conclusions after going through the formulation of problems, research objectives, and hypotheses that have been made based on the literature and through analysis and discussion in the previous chapters as follows:

a. Empirically, competitive strategy cost efficiency has a significant positive effect on company value which means that the first hypothesis (H1) of this research is accepted
b. Empirically, competitive strategy cost differentiation has a significant positive effect on company
a. value which means that the second hypothesis (H2) of this research is accepted.
c. Empirically, Good corporate governance has a significant positive effect on firm valuewhichmeans that the third hypothesis (H3) of this research is accepted.
d. Investment opportunity set (IOS) is able to moderate the relation between competitive strategy cost efficiency andfirm value which means that the fourth hypothesis (H4) of this research is accepted.
e. Investment opportunity set (IOS) is able to moderate the relation between competitive strategy differentiation and firm value which means that the fifth hypothesis (H5) of this research is accepted.
f. Investment opportunity set (IOS) is able to moderate good corporate governance relationship tofirm value meaning that the sixth hypothesis (H6) of this research is accepted.

Based on the research results, conclusions and limitations that exist, there are several suggestions that can be applied to various parties, which among others are:

a. For the management, this study proves that the improvement of competitiveness either through cost efficiency or even differentiation can increase the value of the company in the eyes of consumers. Proper decision making in the right way will benefit the company. Increased competitive strategy of the company certainly does not have to sacrifice the quality of products or services provided to consumers so that the value of the company will remain a positive value.
b. For investors, this study shows that the level of investment in the company can show good firm value. The value of the outstanding shares and the number of good transactions certainly indicates good

corporate condition as well so that investors can see from the results of this research in making the right decision whether to invest in a company.

c. For further research, the authors expect that further research can be added periodically or other industry fields so that the results of research can reinforce the results of this study further. In addition, it can be added for the bookkeeping variables of each variable.

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