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EFFECT OF BOARD DIVERSITY, AUDIT COMMITTEE, MANAGERIAL OWNERSHIP, OWNERSHIP OF INSTITUTIONAL, PROFITABILITY AND LEVERAGE ON VALUE OF THE FIRM

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ABSTRACT

This study aims to identify and provide empirical evidence regarding: The effect of the proportion of women directors on value of the firm. The effect of the proportion of independent directors on value of the firm. The influence of external audit committee on value of the firm. The effect of managerial ownership on value of the firm. The effect of institutional ownership on value of the firm. The effect of the ratio of profitability on value of the firm. The effect of leverage ratio on value of the firm.

Obtained a sample of 43 companies in the period of 2012-2014. The analysis tool use in this study has classic assumption test and multiple regression test. The results of this study indicate that: The proportion of external audit committee, institutional ownership, profitability and leverage ratios affect value of the firm. The proportion of women directors, the proportion of independent directors, and managerial ownership does not affect value of the firm.

KEYWORDS: Proportion, Institutional Ownership, Leverage, Directors, Managerial Ownership

INTRODUCTION

The capital market is a means to trade in securities for investment for investors. An investor would be more interested in the prospect of a good company. A major company aims to increase the company's value or the value of the firm, through increasing affluence of owners or shareholders. Of course, there are various factors that affect the value of this company, mainly involved in corporate governance perspective.

The study of corporate governance is increasing rapidly along with the opening of large-scale financial scandals (e.g., Enron scandal, Tyco, Worldcom and Global Crossing) involving accountants, one of the important elements of good corporate governance. Good corporate governance guidelines prepared by the National Committee on Corporate Governance (KNKCG) in 2002 with the aim that these guidelines become a reference for the implementation of good corporate governance by businesses in Indonesia. If the practices of good corporate governance in accordance with KNKCG, then it can help managers in their depiction of the level of compliance to good corporate governance (Kusumawati and Riyanto, 2005).

Research conducted by Kusumastuti et al (2007) states that board diversity is measured by the presence of women affects the value of the company. This study used a sample of companies in manufacturing companies listed on the JSE in 2005. This study used a sample of 48 manufacturing companies.

Research conducted by Yuniasih and Wirakusuma (2008) states that the audit committee of external influence on the value of manufacturing companies on the Stock Exchange during 2005-2006. With the presence of an external audit committee is increasing, it allows the monitoring of increasingly stringent, which in turn will increase the value of the company. It is also supported by research conducted by Siallagan and Machfoedz (2006). t also adds independent board as a variable that affects the value of the company (Rashid, 2010). This is also supported by Kiel (2003) and Carter et.al. (2003). The reason they do not use external director is due to external director is a member of the board of directors related to outside parties, while the value of the company will be more influenced by independent commissioners than external director, also based on previous research that supports it.

Based on the above, the researchers are interested in doing research about effect of board diversity, the audit committee, managerial ownership, ownership of institutional, profitability and leverage on value of the firm.

Based on the existing background, it can be determined that the formulation of the research questions as follows:

- How does the proportion of women directors on value of the firm?
- How does the proportion of independent directors on value of the firm?
- How does the proportion of external audit committee on value of the firm?
- How does the managerial ownership on value of the firm?
- How does the institutional ownership on value of the firm?
- How does profitability ratio on value of the company?
- How does leverage ratio on value of the firm?

RESEARCH BENEFIT

The benefits of this research are:

- For Investor;

To analyze the factors that influence the value of the company, that board diversity, external audit committee, managerial ownership, institutional ownership in corporate governance perspective, so it can be used as consideration in investing in Indonesia capital market.

- For Practitioners;

The results of this study are expected to provide information as a basis for a decision to invest.

- For Policy Makers;

For companies the results of this study can be used as a basis for policy making related to the value of the company.

- For academics;

As a reference and input to perform another study with the same topic in the future.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Board Diversity

Corporate governance is a system of governance that is organized by considering all the factors that influence institutional processes, including factors relating to the company's corporate governance regulator said to be good if the company meets its principles, namely fairness, transparency, accountability, and responsibility. Surya and Yustiavan (2006) states that the application of the basic principles of good corporate governance (GCG) can increase the value of the company. The present study look at board diversity not only from the standpoint of the proportion of women directors, as determined by Carter et al. (2003), and the proportion of outside directors are usually used in the study of corporate governance, as well as the addition of an external audit committee, managerial and institutional ownership, profitability and leverage.

Carter et.al. (2003) also stated that the influence of the proportion of independent directors (outside directors) is quite strong and significant impact on performance. Outside directors have managerial oversight behavior that is more stringent than that controlled by the management board (management- controlled board). The ability of the independent directors (outside directors) to influence management decisions is quite strong. This is also supported by Kiel et al (2003 The presence of an external audit committee is essential for the importance and effectiveness of the implementation of Good Corporate Governance. In general, and based on international best practices, External Audit Committee has the duty and responsibility in the fields of financial reporting (financial reporting). Corporate Governance, and supervision of the company (corporate control).

EXTERNAL AUDIT COMMITTEE

In order for the implementation of corporate governance goes well (good corporate governance). The government issued several regulations, among others Bapepam Circular No. SE-03 / PM / 2000 requires that any company go public in Indonesia are required to establish audit committee with at least three people, headed by one commissioner of independent companies and two independent external to the company.

Besides independent, in the SE also requires that the relevant control and have a background in accounting and finance. As for state-owned companies / enterprises, according to the Decree of the Minister of State Owned Enterprises No. 117 / M-MBU / 2002 states that: "The Commissioner / Supervisory Board should form committees that work collectively and helps Commissioners / Board of Trustees in carrying out its duties, namely to help Commissioners / Board of Trustees to ensure the effectiveness of internal control systems, the effectiveness of the implementation of the tasks of the external auditor and the internal auditor Kalbers and Fogarty (1993) mentions three factors that affect the success of the audit committee in carrying out its duties, namely 1) the formal authority and in writing, 2) management cooperation and 3) quality / competence of audit committee members. Additionally, Effendi (2005) also added a communication problem with directors, internal and external auditors and other parties as an important aspect in the success of the work of the audit committee.

With authority, independence, competence and communication through regular meetings with the relevant parties, the expected function and role of the audit committee is able to work effectively so as to identify the possibility of opportunistic profit management practices.

MANAGERIAL OWNERSHIP

Managerial ownership is ownership by directors, management, the commissioner or any person directly involved in company decision-making (Jensen and Meckling, 1976). According to Jensen and Meckling (1976), one of the mechanisms used to resolve conflicts agency is to improve managerial ownership so as to align the interests of owners with the manager. The greater managerial ownership, the agency cost will fall. This is because the larger the managerial ownership, the greater the information held by the management as well as the owner of the company, so that it resulted in the cost of agents used for monitoring costs less.

Institutional Ownership

The literature on institutional ownership states that institutional ownership encourages oversight of management to protect his investment (Frien and Lang, 1988 in Brailsford, Oliver and H. Pua, 2000; 4) due to high economic risk, the investor wants to provide oversight of management, and wants to ensure that the management did not do activities that harm shareholder value. According to 'active monitoring hypothesis' institutional ownership will minimize the management of opportunistic space and also lowers the conflict between management and shareholders.

The existence of an institutional investor is deemed capable of being an effective monitoring tool for the company. Not infrequently, this investor activity can increase the value of the company. The results of the Slovin and Sushka (1993), cited by Fitriah (2003) showed that the company's value can be increased if the institutional able to be an effective monitoring tool. The research of Smith (1996) in Fitriah (2003) showed that the activity of institutional monitoring able to change the structure of the management of the company and is able to increase the prosperity of shareholders.

PROFITABILITY

Profit refers to profit. Profit is a nominal amount that shows the development of business activities of a company. Profit is the increase in capital (net assets) from the side transaction or transactions that rare of an enterprise, and of all transactions or other events that have a business entity during a period, except those arising from the income (revenue) or investment owners (Baridwan, 1992: 55).

LEVERAGE

According Sartono (1996), leverage is the use of assets and resources by companies that have the burden (cost) fixed with a view to increasing the potential profits of shareholders. The Company uses operating and financial leverage with the aim that the benefits outweigh the costs of assets and sources of funds, thereby increasing the profits of shareholders. Instead leverage also increases the variability (risk) advantage, because if the company turns profit lower than its fixed costs, the use of leverage will reduce profits of shareholders.

VALUE OF THE FIRM

Companies value (value of the firm) associated with signaling hyphotesis, where the value of the company can be attributed to the level of stocks held by the old owner (Leland and Pyle, 1977). This means that the owner can show and use it to demonstrate to investors about the quality of the company.

According to Leland and Pyle (1977) level of shareholding retained the old owner can be used as a signal about the value of the company by issuers. This is due to the perception that the company owner will not want to release or mendicersifikasikan portfolio when he believes that the company has good prospects. Then the owner of the company will maintain its ownership level when he believes the company's cash flow in the future better than the present.

Based on the argument above, the hypothesis developed are:

H1: The proportion of women directors has significant positive effect on value of the firm

H2: The proportion of independent directors has significant positive effect on value of the firm

H3: external audit committee has significant positive effect on value of the firm

H4: Managerial ownership has significant positive effect on value of the firm

H5: institutional ownership has significant positive effect on value of the firm

H6: The ratio of profitability as measured by ROE has positive and significant effect on value of the firm

H7: The leverage ratio, as measured by DER has significant and negative effect on value of the firm

RESEARCH METHODOLOGY

Population and Sample

The population is a group of elements that are usually full of people, objects, transactions or events in which we are interested to learn or become the object of research (Kuncoro, 2003: 103). The population in this study is a company registered in the years 2012-2014 on the Stock Exchange.

DATA COLLECTION METHOD

The methods used in data collection was a study technique documentation, that the data collected was done by means of categorization and classification of written materials related to the problem of research is being done, either from the source documents and books, newspapers, magazines, and other sources more. In this study, the data collected was of all things related to the proportion of women directors, the proportion of independent directors, the audit committee of external, managerial ownership, institutional ownership, profitability, leverage, and the size of the company.

TYPES AND SOURCES OF DATA

The data used was secondary data, secondary data is primary data that is processed further and presented either by the primary data collectors or by another party (Umar, 2001: 69).

DATA ANALYSIS

Testing the hypothesis in this study was conducted using linear regression. The first equation is used to test the effect of the proportion of women directors and the proportion of independent directors on value of the firm. Multiple linear regression equation that can be formulated as follows:

$$NP = \alpha + \beta 1PDW + \beta 2PKI + e. \quad (1)$$

Information:

NP = Value of the firm

α = Constant

β1-2 = Coefficient of regression

PDW = The proportion of women directors

CPI = The proportion of independent directors

e = error

The second regression equation was conducted to test the effect of an external audit committee, managerial ownership, institutional ownership, profitability, leverage, and the size of the company to value of the firm. The equation is as follows:

$$NP = \alpha + + \beta3KI + \beta2KM + \beta3KA + + \beta4ROE + \beta5DER + \beta6UK + e \quad (2)$$

Information:

NP = Value of the firm

α = Constant

β1-6 = Coefficient of regression

KA = external audit committee

KM = Managerial ownership

KI = institutional ownership

ROE = Profitability

DER = Leverage

UK = Company size

e = error

The third equation was used to test the effect of the overall proportion of women directors, the proportion of independent directors, the audit committee of external, managerial ownership, institutional ownership, profitability, leverage, and the size of the company to value of the firm. The equation is as follows:

$$NP = \alpha + \beta1PDW + \beta2PKI + \beta3KA + \beta4KM + \beta5KI + \beta6ROE + \beta7DER + \beta8UK + e \quad (3)$$

Information:

NP = Value of the firm

α = Constant

β1-8 = Coefficient of regression

PDW = The proportion of women directors

CPI = The proportion of independent directors

KA = external audit committee

KM = Managerial ownership

KI = institutional ownership

ROE = Profitability

DER = Leverage

UK = Company size

e = error

RESULT AND ANALYSIS

- **Descriptive statistics**

From the preliminary data of 43 observation, it turns out there is data that is not normal, so the data is normally amounts to 38 observation

- **Normality Test;**

Note that the value for Kolmogorof-Smirnov sig. > 0.05 so that the data is normal.

- **Autocorrelation Test;**

It is known that the results of the test for autocorrelation is between 1.5 and 2.5, which means no autocorrelation in this study.

- **Multicollinearity Test;**

The test is used to determine whether the correlation between independent variables occur or not. To determine whether there is multicolinearity it can be seen from VIF (Variance Inflation Factor) and Tolerance. If VIF <10 and Tolerance> 0.1, then certainly not happen multicolinearity.

- **Heteroscedasticity Test;**

It is known that the test results heteroscedasticity for each independent variable has a significant value above 0.05 and thus can be said does not happen heteroscedasticity.

HYPOTHESIS TESTING RESULTS:

Classic assumption test has been done and all assumptions were fulfilled so the regression model was used to test the hypothesis in this research. The results of t-test were as follow :

H1: The proportion of women directors has significant positive effect on value of the firm.

The value of beta coefficient of 0.002 (i.e. a positive influence between PDW and NP) and t value of +0.009 (meaning that there is a positive influence between the PDW and NP), as well as significant value for the variable t PDW is equal to 0.993> 0.05 so first hypothesis in this study was rejected.

H2: The proportion of independent directors has significant positive effect on value of the firm

The beta coefficient of -0.031 (meaning that there is a negative influence PKI with NP) and t value of -0.186 (meaning that there is a negative influence PKI with NP), as well as significant value for the variable t PKI was 0,854> 0.05 so that means the second hypothesis in this study was rejected.

H3: External audit committee has significant positive effect on value of the firm

The beta coefficient of 0.277 (meaning that there is a positive influence between KA with NP) and t value of +2.173 (meaning there is a positive influence between KA with NP), as well as significant value for the variable t KA is equal to 0,038 and significant at level 5 % so that the third hypothesis in this study received.

H4: Managerial ownership has significant positive effect on value of the firm

The beta coefficient of -0.185 (meaning that there is a negative effect between KM with NP) and t value of -1.360 (meaning that there is a negative effect between KM with NP), as well as significant value for the variable t is equal to 0.183 KM> 0.05 so that means the fourth hypothesis in this study was rejected.

H5: Institutional ownership has significant positive effect on value of the firm

The beta coefficient of 0.263 (meaning that there is a positive influence between KI with NP) and t value of +1.986 (meaning there is a positive influence between KI with NP), as well as the significant value of t for the variable KI is equal to 0.056 and significant at level 10 % so that means the fifth hypothesis in this study received.

H6: The ratio of profitability as measured by ROE has positive and significant effect on value of the firm

The beta coefficient of 0.359 (meaning that there is a positive influence between ROE with NP) and t value of +2.697 means that there is a positive influence between ROE with NP), as well as the significant value of t for ROE is equal to 0.011 and significant at the 5% level so that means the sixth hypothesis in this study received

H7: The leverage ratio, as measured by DER has significant and negative effect on value of the firm

The beta coefficient of -0.442 (meaning that there is a negative influence of DER with NP) and t value of -3.445 (meaning that there is a negative influence of DER with NP), as well as significant value for the variable t DER is 0.002 and significant at the level 1%, so that means the seventh hypothesis in this study received.

CONCLUSIONS

From the analysis and discussion in the previous sections, the conclusions of this research are:

- The proportion of external audit committee, institutional ownership, profitability and leverage ratios affect the value of the firms.
- The proportion of women directors, the proportion of independent directors, and managerial ownership does not affect value of the firms.

LIMITATION

This study has limitations associated with years of research which was just three years so the sample is relatively small. Besides proxy profitability ratios and leverage were only to represent the financial ratios.

SUGGESTIONS

Therefore, the recommendation this study include: preferably further research can add more years of research so that the samples are being used more and research results for the proportion of women directors, the proportion of independent directors, and managerial ownership to better reflect the company's value. Further can also add another proxy for financial ratios, the liquidity ratio, activity ratio, are the ratio of the market.

In addition, an investor may pay attention to the proportion of the external audit committee, institutional ownership, profitability, and leverage ratio for proof to affect the value of the company.

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