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Board, Institusional Ownership and Firm Value

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Abstract *This study aims to explore the impact of board and institutional ownership on firm value, focusing on the property and real estate sector during 2020-2022. The independent variables of this study are board, independent board, and institutional ownership. Firm value is proxied by price book value. Sampling was carried out using the purposive sampling method and produced 177 sample data. Data analysis was carried out using PLS-SEM (Partial Least Squares-Structural Equation Modeling) with the help of WarpPLS 7.0 software. The results of the study indicate the influence of independent board and institutional ownership on firm value. However, the number of boards does not affect firm value. The implication of this study is the importance of supervision from independent and external parties to monitor firm value.*

Keywords: *Board, Independent Board, Institutional Ownership, and Firm Performance.*

1. INTRODUCTION

Conditions in its capital market can be used to gauge economic conditions. Macroeconomic conditions and the state of a nation's capital market are related, although the latter is typically more responsive to impending crises. This tendency arises from the fact that participants in the capital market are typically forward-looking, that is, they make projections about how the company's finances will perform in the future. Uncertainty and declining demand for goods and services then affect the profits of most companies listed on the Indonesia Stock Exchange, as a result of which a decline in stock prices becomes inevitable. The steep decline occurred in almost all indices, both domestically and abroad. For example, foreign stock indices that were also affected by the Covid-19 pandemic were the Dow Jones Industrial Average which experienced a decline of around 38 percent, the Financial Times Stock Exchange (FTSE) 100 with a decline of around 33.8 percent, the Nikkei 225 around 30 percent, the Hang Seng around 27.6 percent, and the Shanghai Stock Exchange with a relatively defensive decline with a decline of around 15.3 percent.

In fact, the value of the company is reflected in its stock price. The sustainability of the company can be supported by increasing the value of the company. (Melani & Wahidahwati, 2017) stated that investors can find out the value of a company by looking at the movement of its stock price. (Melani & Wahidahwati, 2017) explained that the high and low value of a company can provide confidence to the market both for the present and the future, because this will affect its investment decisions.

The worth of a firm is influenced by numerous things. These elements may originate from within the company or from outside the company. This study discusses the internal and

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external factors of the company that influence the value of the company. The use of sound corporate governance is one of the contributing elements. Putting sound corporate governance into practice will minimize the occurrence of conflicts of interest between company management and shareholders (Melani & Wahidahwati, 2017). The application of sound corporate governance can also lower agency cost. Therefore, the implementation of supervision must be carried out properly. One form of good supervision from the board of commissioners.

The commissioners' board is responsible for overseeing and counseling directors so that the company can run well. The better the supervision carried out by the board of commissioners, the better the company can run so that the company's value will increase. This is in accordance with Usry et al. (2022), Chin et al. (2019) which states that the board of commissioners has a positive effect on the company's value. However, the study by Audrey et al. (2024), Malini et al. (2021) states otherwise.

In addition to the board of commissioners, an independent board of commissioners can also influence the company's value, because an independent board of commissioners can significantly influence the company's decision-making, even though the independent board of commissioners should be impartial. This means that the more independent boards of commissioners there are, the more the company's value will increase. This explanation is supported by studies by Handayani et al. (2022), Hidayat et al. (2021), Rahmawati (2021), Dewi & Gustyana (2020), and Chin et al. (2019). On the other hand, Audrey et al. (2024), Gusriandari et al. (2022), Amaliyah & Herwiyanti (2019), and Amrizal & Rohmah (2017) stated different things.

In addition to the board of commissioners and independent board of commissioners, external supervision also influences the value of the company, namely institutional ownership. The higher the institutional ownership, the better the supervision for the company and will affect the value of the company. This explanation is in accordance with Melati & Sapari (2023), Mulya & Kurnia (2023), Hidayat et al. (2021), Malini et al. (2021), and Dewi & Gustyana (2020). However, Sahara et al. (2022), Sanusi et al. (2022), and Utami & Muslih (2018) stated otherwise.

The varying research gaps indicate that this study still needs to be reviewed to provide empirical evidence that the importance of implementing good corporate governance is especially seen from the perspective of supervision of company value. So the research question is how do the supervision of the board of commissioners, independent board of commissioners and institutional ownership affect the company's value?

2. THEORITICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Agency Theory

The main theory used as the basis for this study is agency theory, Jensen et al. (1976) explains the existence of a contract between the principal and the agent in this theory. Both have different interests, thus causing friction of interest. This will have an impact on increasing agency costs. To reduce the high agency costs, a mechanism needs to be formed. This mechanism is called good corporate governance. The aim is to increase supervision in company management so as to reduce agency costs. In addition, good corporate governance also states how managers provide benefits to owners from the capital that has been invested (Handayani et al., 2022). Good corporate governance is also related to investor trust in managers to create profits for investors and the belief that managers will not embezzle capital invested by investors (Shleifer & Vishny, 1997).

Hypothesis Development

As a corporate body, the board of commissioners is in charge of overseeing and counseling the board of directors and making sure that the business practices sound corporate governance. This means that the better the supervision carried out by the board of commissioners, the better the company can run so that the company's value will increase. This is in accordance with agency theory, which states that there are differences in interests so that mechanisms must be formed to reduce agency costs (Jensen & Meckling, 1976). This explanation is supported by the studies of Usry et al. (2022) and Chin et al. (2019) which state that the board of commissioners has an effect on company value. So the hypothesis is:

H1: The value of the firm is impacted by the board of commissioners.

Independent board of commissioners are members of the board of commissioners who are neutral and impartial, because they have the responsibility to monitor company activities, ensure compliance with laws, and corporate principles. In addition, independent commissioners represent minority shareholders. From the perspective of agency theory, shareholders hand over their authority to the independent board of commissioners to oversee company activities so that they can avoid misappropriation by management that could harm shareholders. This means that the increasing number of independent board of commissioners will increase supervision. So that it has an impact on the value of the company will increase. This is in line with agency theory, which states that there are differences in interests so that mechanisms must be formed to reduce agency costs (Jensen & Meckling, 1976). This explanation is supported by the studies of Handayani et al. (2022), Hidayat et al. (2021), Rahmawati (2021), Dewi & Gustyana (2020), and Chin et al. (2019). So the hypothesis is:

H2: The value of the firm is impacted by the independent board of commissioners.

The percentage of shares that a corporation owns is known as institutional ownership. These establishments may be national or international, private or public, or both. This means that institutions that have ownership in a company have the right to carry out supervision. Therefore, stronger monitoring will result from higher institutional ownership, and this will raise the company's worth. This fits the framework of agency theory, which states that there are differences in interests so that mechanisms must be formed to reduce agency costs (Jensen & Meckling, 1976). This explanation is supported by studies by Melati & Sapari (2023), Mulya & Kurnia (2023), Hidayat et al. (2021), Malini et al. (2021), and Dewi & Gustyana (2020). So the hypothesis is:

H3: Institutional ownership affects company value.

3. RESEARCH METHODS

This study includes quantitative research with secondary data as a source of information, namely data from the annual report published by the company that is the research sample. Data was obtained from the Indonesia Stock Exchange, from 2020 - 2022. The object of this study is a property and real estate sector company. The sample was obtained using the purposive sampling method. The criteria set are: the company has published an annual report and audited financial statements in full during that period, has a positive profit record, and presents data according to observation needs.

The data analysis used is the Partial Least Square-Structural Equation Model (PLS-SEM) approach to test the influence between variables with many constructs. In addition, the PLS-SEM approach has no problems for relatively small samples and is a nonparametric approach so there is no problem with non-normal data distribution (Sholihin & Ratmono, 2020). Research with secondary data through the stages of the structural model to test the fit model, coefficient of determination, predictive relevance, and hypothesis. This study uses the help of WarpPLS 7.0 software to analyze the data.

The study used several variables including:

Table 1. Measurement of Variables

Variable	Measurement	Description	Source
Firm Value (FP)	$FP = \frac{Closing\ price}{Book\ value}$	PBV ratio to determine the fair price of a company's	Handayani et al. (2022)

		shares.	
Board of Commissioners (Board)	$Board = \sum Board\ of\ Commissioners$	The number of board of commissioners in a company in one period.	Hidayat et al. (2021)
Independent Board of Commissioners (IndBoard)	$IndBoard = \frac{Total\ Independent\ Board\ of\ Commissioners}{Total\ Board\ of\ Commissioners}$	The ratio to measure the proportion of independent commissioners in a company.	Hidayat et al. (2021)
Institutional Ownership (InsOwn)	$InsOwn = \frac{The\ number\ of\ shares\ owned\ by\ the\ institution}{Number\ of\ shares\ outstanding}$	The ratio to measure the number of shares owned by institutions.	Mulya & Kurnia (2023)

Source: processed data, 2024.

4. RESULT AND DISCUSSION

This study determined the sample through a purposive sampling approach so that 177 observation data were obtained. Based on the results of data processing using WarpPLS, the following results were obtained:

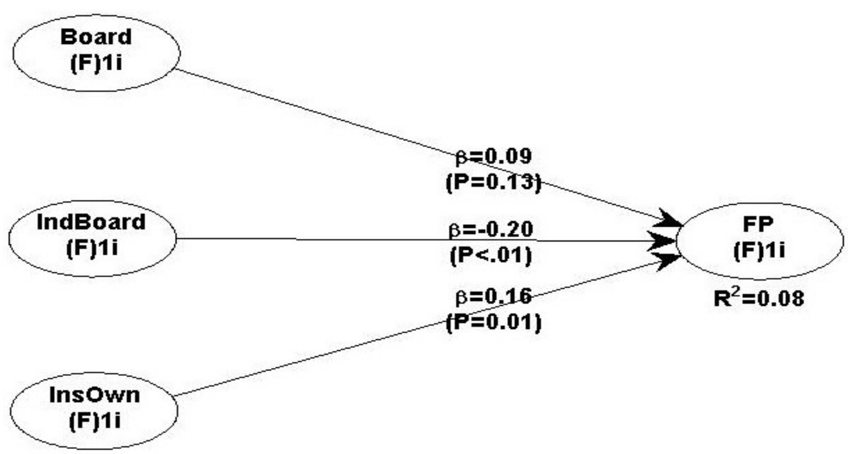

Figure 1. Research Result

Table 2. Fit Model

Fit Model	Fit Criteria	Results
APC	P-value ≤ 0.5	0.148 P=0.011
ARS	P-value ≤ 0.5	0.082 P=0.067
AARS	P-value ≤ 0.5	0.066 P=0.093
AVIF	Ideal ≤ 3.3, ≤ 5 accepted	1.092
AFVIF	Ideal ≤ 3.3, ≤ 5 accepted	2.414
	≥ 0.1 small	
GoF	≥ 0.25 medium	0.287
	≥ 0.36 large	
SPR	Ideal = 1, ≥ 0.7 accepted	1.000
RSCR	Ideal = 1, ≥ 0.9 accepted	1.000
SSR	Accepted ≥ 0.7	1.000
NLBCDR	Accepted ≥ 0.7	0.667

Source: WarpPLS 7.0 Output (Processed Data, 2024)

The model fit analysis using WarpPLS 7.0 produces the requirements that must be met so that the study model can be said to be good. Overall, referring to table 2, if comparing the fit criteria with the results obtained, it can be said that this study model is good because the overall results of the fit model obtained have met the criteria.

Table 3. Hypothesis Result

Hypothesis	Variable	Path Coefficients	P-Value	Conclusion
H1	Board	0.085	0.125	Rejected
H2	IndBoard	-0.195	0.004	Accepted
H3	InsOwn	0.163	0.013	Accepted

Source: WarpPLS 7.0 Output (Processed Data, 2023)

The research hypothesis can be explained through table 3 by looking at the P-Value and Path Coefficients. The p-value (<0.05) indicates how much influence the variable has. The path coefficient value indicates the direction of the variable's influence. Of the three hypotheses, only one hypothesis is rejected and two hypotheses are accepted.

5. DISCUSSION

Board Influences Company Value

The results presented in Figure 1 and Table 3 illustrate that the board has a p-value of 0.125 which exceeds 0.05 and a path coefficient of 0.085 illustrates that the board has no influence on company value. This may occur because the board of commissioners in the good corporate governance mechanism only functions as a requirement to comply with regulations, so that the board of commissioners does not carry out its supervisory function optimally. As a result, the company's value will also not be affected by the supervision carried out by the board of commissioners.

This study is supported by Audrey et al. (2024), Malini et al. (2021) which states that the board of commissioners does not influence company value. However, studies by Usry et al. (2022) and Chin et al. (2019) state otherwise.

Independent Board of Commissioners Affects Company Value

Referring to the results presented in figure 1 and table 3, the Independent board gets a p-value of 0.004 not exceeding 0.05 and the path coefficient figure of -0.195 indicates that the independent board affects the company value. This means that the more independent board of commissioners, the better the supervision will be but it will affect the decline in company value. The effectiveness of the independent board of commissioners has not been realized because they have not supervised the company effectively. The agency theory perspective explains that an independent board of commissioners who are trusted by shareholders will provide supervision that can have a good impact on company value, but this research illustrates that an increase in the independent board of commissioners will decrease company value. This situation may occur because the independent board of commissioners is appointed from outside the company and is less aware of the specific conditions of the company. Another possible reason is because the presence of an independent board of commissioners in the good corporate governance mechanism is solely to comply with regulations, so investors are not interested in the large proportion of independent board of commissioners. Investors who are not interested in the company will leave, which can cause a decline in the value of a company.

This explanation is supported by a study by Handayani et al. (2022), Hidayat et al. (2021), Rahmawati (2021), Dewi & Gustyana (2020), and Chin et al. (2019). However, this study is not in accordance with Audrey et al. (2024), Gusriandari et al. (2022), Amaliyah & Herwiyanti (2019), and Amrizal & Rohmah (2017) who stated otherwise.

Institutional Ownership Affects Company Value

Figure 1 and table 3 show that institutional ownership produces a p-value of 0.013 not exceeding 0.05, while the path coefficient of 0.163 means that institutional ownership has a positive effect on company value. This study illustrates that increasing institutional ownership contributes to increasing company value. Institutional shareholders usually hold large amounts of shares, thus providing a greater proportion of decision-making than individual shareholders. Increasing institutional ownership will strengthen tight control over company management, so that management will be more careful in acting. In accordance with the agency theory perspective, strict supervision will minimize management actions that can harm shareholders and can reduce agency costs. Supervision by institutions can increase company value and improve shareholder welfare.

This study is supported by previous research, namely Melati & Sapari (2023), Mulya & Kurnia (2023), Hidayat et al. (2021), Malini et al. (2021), and Dewi & Gustyana (2020). However, they do not agree with the findings of Sahara et al. (2022), Sanusi et al. (2022), and Utami & Muslih (2018) which showed different results.

6. CONCLUSION

This study concludes the importance of implementing good corporate governance, especially in the supervision of independent commissioners and institutional ownership. The stronger the supervision carried out, the more it has a role in increasing the value of the company. This study has limitations, namely the minimum R square value of only 8%. In order for this study to be more useful for future research, the suggestion given is to modify the research model by adding moderating or mediating variables. In addition, it is also better to use other good corporate governance variables to provide a better influence.

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