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The Influence of Board Diversity and Corporate Governance Implementation on the Corporate Value Case Study: Property and Real Estate Companies Listed on Indonesia Stock Exchange

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Abstract
The research objective was to determine the influence of board diversity composition and implementation of corporate governance toward the corporate value of property and real estate companies on the Indonesia Stock Exchange. The method used was a causal method using multiple linear regression test and classical assumption test. The population and sample were 82 property and real estate companies which were chosen with purposive sampling method. The study found that variables of female directors, outsider directors and company size have no influence on the corporate value, while the variables of age, educational background of the directors and the number of board of directors have a significant positive influence on corporate value.
Keywords: Female Directors, Outsider Directors, Age, Educational Background, Number of Board of Directors, Company Size, Corporate Value.

INTRODUCTION

Corporate value reflects property or assets owned by the company.Goof corporate value will attract outsiders to join the company. The study of factors affecting corporate values companies has been done by Miller and Modigliani (1960) which shows that the corporate value is determined by the earning power from the company's assetes. Positive relationship occurs with higher earning power, thus the asset turnover will be more efficient, increasing the profit margins.Carter et al. (2003) study investigated on the relationship between the distribution of the members of the board (board diversity), corporate value, with corporate governance.Board diversity is seen from the percentage of women, minority races (African Americans, Asians and Hispanics), and the proportion of outsider directors. A survey conducted by Mc Kinsey and Co. (2002) in Pakaryaningsih (2006) shows that corporate governance has been a major concern of investors, particularly in emerging markets. Investors will tend to avoid companies that have poor corporate governance implementation.The implementation of corporate governance can be reflected in the corporate value which is seen on the stock price of the listed company

According to Black et al. (2002), who conducted a research in Korea, an alternative explanation for the relationship between corporate governance practices with the corporate value is the signaling and endogenity.In signaling, corporate governance practices lead to an increase in the corporate value due to the implementation of good corporate governance which will give a positive signal.While endogenity is a company with high market value (for any reason) tends to introduce better corporate governance. Arsjah (2002) in the Utama (2005) examined the relationship between Price to Book Value ratio and corporate governance.The result of the study stated that the influence of corporate governance on corporate performance is not consistent.In addition to the relationship between corporate governance with the corporate value, one of the issues related to corporate governance, is the composition of the board.The components of a company (board of commissioners and directors) are evidences of the implementation of good corporate governance principles at the minimum level (Surya and Yustiavandana 2006).The distribution in the board members is believed to affect the corporate value, both in short and long term (Robinson and Dechant, 1997, as cited by Carter et al. 2003). Board diversity suspected to have a positive influence.Higher diversity of the board members can lead to increased conflict, but this can also provide an alternative solution to problems that are more diverse than homogeneous board members. In addition, the diversity of the board of directors provides unique characteristics for companies that can create added value. Carter et al. (2003) conducted a study on the relationship between board diversity, corporate value, with the corporate goverrnance.Board diversity is seen from the percentage of women, minority races (African Americans, Asians and Hispanics), and the proportion of outsider {2}directors.{/2}

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Agency Theory

This theory states that an agency relationship arises when one party (the principal) hires another party (the agent) to perform some services on its behalf which involves delegating some decision-making authority to the agent (Jensen & Meckling, 1976).The principal refers to shareholder or investor, while the agent is the company's management. The problems that arise as a result of such corporate ownership system is that agents do not always perform decision-making that aims to meet the best interests of the principal.

Corporate Value

According to Christiawan and Tarin (2007), there are several concepts that describe the corporate value: the nominal value, intrinsic value, liquidation value, the book value, and market value. The most representative concept to determine corporate value is the intrinsic concept. The corporate value in the intrinsic value concept is not only the price of a set of asset value, but also the corporate value as a business entity that has the ability to generate profits in the future. However, it is very difficult to estimate the value of this concept as it needs the ability to identify significant variables that determine the profitability of a company. Those variable differ from one company to another. In addition, the determination of the intrinsic value also requires the ability to predict the trend that will occur in the future. According Michell (2006), corporate rating has the elements of projections, estimates and judgments. The basic concept of assessment are:

1. The value is determined by time or a certain period.
2. The value is to be determined at a reasonable price.
3. Ratings are not influenced by a group of buyers.

In the long term, the company's goal is to maximize the corporate value. The higher the value of the company, the more prosperous the owner will apparently be. The corporate value is highly considered by investors. The prosperity of shareholders or investors is reflected in the corporate value. In other words, the corporate value is a measure of the performance of the financial manager. According to M Fuad (2006: 23), the corporate value is the company's selling price deemed appropriate by prospective investors that they will pay if one day the company is sold.

Board Diversity

Rondoy et al. (2006) stated the corporate governance mechanism helps shareholders and stakeholders to oversee management and corporate insiders. In the resource dependency theory, the board can facilitate access to resources. Resource dependence theory finds the use of diverse constitunces and stakeholders in the council to facilitate the acquisition of important resources for the company. According to Charter et al. (2007), the five propositions of board diversity are: first, corporate diversity encourages a better understanding of the market, at which it's associated with supplier and customer demographic conditions which are also diverse, increasing the corporate ability to penetrate the market. Secondly, diversity increases creativity and innovation. According to this view, attitudes, cognitive function, and trust are not randomly distributed in the population, instead, it tends to vary systematically according to demographic variables such as age, race, and gender. Third, diversity produces a more effective solution to problems. Diversity, indeed, generates more conflict in the decision-making process, but the various perspectives that emerged led the decision maker to evaluate more alternatives exploring more carefully the consequences of the alternatives given. Fourth, diversification improves the effectiveness of the company's leadership. Lastly, diversity encourages more effective global relationships.

Corporate Governance

According to Syakhroza (2003), corporate governance is a system of governance that is organized by considering every element. Investors put more attention on corporate governance practice before making any investment decision.Majidah (2004) defines corporate governance as:

1. A process, behavior, policy, law, and institution affecting the way a company is managed, regulated, and supervised.
2. A system at which a company is run and supervised.

Corporate governance structure explains the distribution of rights and obligations between the parties within the company such as the board of directors, managers, shareholders, and other stakeholders, as well as revels the rules and procedures for decision-making at the company's relationship.(OECD)

3. Corporate governance is the relationship between the company and related parties consisting of shareholders, employees, creditors, competitors, customers, and others.
4. The mechanism of checking and monitoring for the behavior of top management

Diversification Effect of Directors on Corporate Value

According to Emerson (1962) in the theory of resource dependence, the discussion of this theory in a causal relationship between the concept of power with the concept of dependency, All forms of human resources owned by the company should be used optimally. This will encourage the company to improve performance and potential for the sake of wealth (Mitchell, 2003).The diversification of human resources structure related to gender mix is often seen as important to optimize essential company's resources. In the literature of corporate governance and resource dependence theory, it's often expressed that the diverse and well-balanced BOD can significantly improve the performance of the company (Mitchell, 2003).Board members who have higher diversity will be better able to face the challenges and dynamics of the business environment.

Corporate Governance Influence on Corporate Value

Corporate governance mechanism proxied by the board of directors is an important mechanism in the company by monitoring the managers (Fama, 1980).The monitoring by the board of commissioners and directors will prevent management to perform detrimental actions to shareholders so as to reduce costs or losses caused by the management.Yermack (1996) and Vintila and Gherghina (2012) found that the size of the board of directors negatively influence the corporate value which is proxied with Tobin's Q.The results said that the number of smaller board would be more effective in an effort to maximize the value of the company. The need to implement corporate governance is an essential part in the company in order to create added value for all interested parties. Therefore, the parties involved in the mechanism of corporate governance play an important role in the implementation of good corporate governance principles.

Hypothesis for these research are :

Ha 1: There is a significant influence of women directors to corporate value
Ha 2: There is a significant influence of outsider directors to corporate value
Ha 3: There is a significant influence of directors age to corporate value
Ha 4: There is a significant influence of Board of Directors education to corporate value
Ha 5: There is a significant influence of the number of directors to corporate value
Ha 6: There is a significant influence of company size to corporate value

RESEARCH METHODS

Research Design

This study uses causal research. The research is conducted by gathering evidences in form of financial statements of the annual report of real estate and property companies listed on the Indonesia Stock Exchange.In addition to financial statements, the researcher also refers to previous research journals and some reference books to support this research.

Population and Sample

The target population as a whole unit of analysis in this research is property and real estate companies listed on the Indonesia Stock Exchange.The total population is 35 companies during 2011 to 2014.The selection of the sample is done using purposive sampling method, samples that meet the criteria in this study are 28 companies. With observation time of three years the number of samples are 84 companies.

Data Analysis Method

The data used in this research is secondary data, with measurement scale in form of ratio scale. Data testing is done through descriptive statistics test, classical assumption test, and multiple linear regression test.

RESULT ANALYSIS AND DISCUSSION

Data Normality Test

One of the requirements to perform regression test is that the data should have a normal distribution with the Kolmogorov-Smirnov One Sample test.The result from the test is as follow:

Table 5.2
Data Normality Test
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		84
Normal Parameters[a,,b]	Mean	.0000000
	Std. Deviation	.91256753
Most Extreme Differences	Absolute	.126
	Positive	.126
	Negative	-.097
Kolmogorov-Smirnov Z		1.157
Asymp. Sig. (2-tailed)		.138

a. Test distribution is Normal.

b. Calculated from data.

From the table above it can be seen that the Asymp. Sig. (2-tailed) value is 0138 or greater than 0.05. It can be concluded that the data in this study are normally distributed.

Multiple Regression Analysis
R Square (R 2) Test

Table 5.5
Summary-Model Regression Coefficient Value

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.436[a]	.191	.127	.94746

a. Predictors: (Constant), LOG SIZE, WOMEN DIRECTOR, EDUCATION, AGE, OUTSIDER DIRECTOR, BOARD OF DIRECTORS

R Square Test results showed a value of 0.191, meaning that 19.1% of PBV can be explained by the independent variables used in the study,while the remaining 80.9% is influenced by other factors.

Hypothesis Test
F Test Table 5.6
F Calculation Value

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16.269	6	2.712	3.021	.011[a]
	Residual	69.121	77	.898		
	Total	85.390	83			

a. Predictors: (Constant), LOG SIZE, WOMEN DIRECTOR, EDUCATION, AGE, OUTSIDER DIRECTOR, BOARD OF DIRECTORS

b. Dependent Variable: PBV

In global testing (Test-F), the significance value reached 0,011. The samples are said to meet the model fitness test because the significance result is below 0.05.

T-test
T table 5.7
Regression coefficient (enter method) with Independent Variables

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.662	1.833		.907	.367
	WOMEN DIRECTOR	.025	.143	.019	.174	.862
	OUTSIDER DIRECTOR	.163	.138	.127	1.180	.242
	AGE	-1.337	.520	-.281	-2.570	.012
	EDUCATIONO	.047	.023	.217	2.081	.041
	BOD	.158	.063	.301	2.506	.014
	LOG SIZE	-.035	.157	-.026	-.225	.823

a. Dependent Variable: PBV

According to the table above, it can be concluded that the variables affecting corporate value are age, educational background and the number of board of directors, in which the significance value is below 0.05.According to the table, the regression equation is as follows:

PBV = 1,662 + 0,025 F.D + 0,163 O.Dir – 1,337 Age + 0,047 Edu + 0,158 BOD–0,035 Size

Constants of 1662 pales DW, out.Dir, age, Pend, Total Project Board and the Size value of 0 (zero), the value of the company for 1662.

DISCUSSION OF RESULTS:

Board Diversity Influence on Corporate Values

The research on the influence of board diversity showed that variables affecting corporate values are female directors, directors' age and educational background. These variables influence corporate value and support the research conducted by Charter et al. (2007) that stated board diversity influences the corporate value, in which the diversity enhances creativity and innovation. According to this view, attitudes, cognitive function, and trust are not randomly distributed in the population, instead, it tends to vary systematically according to demographic variables such as age, race, and gender. The study also supports the research conducted by Sari Kusumastuti, Supatmi, and Perdana Sastra (2007). Diversification in the board of directors has a positive influence on corporate value. Women directors and outsider directors are considered less influential to create corporate value as they are less efficient. The role of women is still considered low in the company.

Corporate Governance Influence on Corporate Values

The study showed that the number of directors influences the corporate value, while the company size does not. Corporate value is not only measured by the company size which is proxied from total assets but also from other internal factors such as the role of directors in managing the company. Corporate governance mechanism which is proxied with the number of board of directors is an important mechanism in the company along with their function as the company manager. This study supports research conducted by I Nyoman Muryati and I Made Suardikha (2014). This study does not support the research by Yermack (1996) and Vintila and Gherghina (2012) who found that the board of directors size negatively influence the corporate value, in which smaller board of directors size will be more effective in maximizing the corporate value.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

From the statistical test results, this study concludes that:

a. The directors' age and directors' education positively affect the corporate value, while female directors and outsider directors has no influence on corporate value.
b. Corporate governance influence on corporate value shows that the number of directors has a positive influence on the value of the company, while the company's size has no influence on corporate value.

Suggestion

Some suggestions could be addressed in this study due to the imperfections of research conducted by the author so as to improve the knowledge of this study. These suggestions are as follow:

a. Further research is essential to identify more factors know more factors affecting the corporate value other than women directors, outsider directors, directors' age, education, and company's size.
b. The study should be done longer, in order to provide a better picture. The result is likely to be different when using a different period.

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