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The Effect of Board of Directors Characteristics on Company Value

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Abstract. This study aims to analyse the influence of the characteristics of the board of directors on the company value. The characteristics of the board of directors are measured by size, age, and busy board of directors on company values. The sample of this research is taken randomly for 266 companies listed on the Indonesia Stock Exchange from 2011-2017. The results of this study indicate that the size of the board of directors has a negative and significant effect on company value. However, age, busy board of directors and company growth do not have a significant effect on company value. Company leverage has a positive and significant effect on company value.

Keywords: Company value, size, age, busy of board of directors.

1 Introduction

Indonesia is one of emerging countries. Emerging country has low quality of legal environment and weak protection for investor (La Porta et al., 1998), poor corporate governance system (Joh, 2003). Characteristics of board of directors is one of way for better corporate governance practice. According to Berezinets, Ilina, and Cherkasskaya (2017), the effect of board characteristics on company value is one of issues that still in debate.

Several prior researches most focus on board of directors characteristics in Anglo-Saxon system (Baysinger and Butler, 1985; Nelson, 2005; Assenga, Aly, and Hussainey, 2018). Meanwhile, limited attention of researchers explore the effect of board of directors in Continental European system (e.g., Melmusi, Ilona, Elfiswandi, and Kurniawan, 2019).

Board of directors produce a crucial information for practices, strategies, and other decision-making in order to solve thecompany's problems (Fernandez and Thams, 2018), as the backbone for better corporate governance (Bozec and Dia, 2017), and important part of internal mechanism when external mechanism is not effective (Kamardin and Haron, 2011).

The current study contributes to the literature in term of theoretical and practical area. Form theoretical area, this study examines the effect of board of directors characteristics and company value in country that adopt Continental European system. This system has two separate board, namely board of commissioners (monitor and control the strategy taken by board of directors) and board of directors (manage the company operation). Thus, this study offers to body of knowledge how board of directors characteristic could influencing company value.

In general, board of commissioners is chosen by general meeting of shareholders and board of directors is selected by board of commissioners in Continental Europen system. However, Indonesia has modified that system while board of commissioners and board of directors are voted by general meeting of shareholders. This practice phenomenon will impact on the power of board of commissioners in monitor and control the action taken by board of directors. Thus, characteristics of board of directors could improve the effectivenes of board of directors in manage the company's operational and finally enhancing the company value.

The remainder of this study is prepared as follows. Section two explores related litereture and hypothesis development of board of directors charactheristic and company value. Section three gives research design. It continue to explain the findings and discussion of this study. Finally, it reports conclusion and recomendation.

2 Literature Review And Hypothessis Development

Agency theory claims that separation of directors and owners create conflict of interest among them (Jensen and Meckling, 1976). Board of directors characteristic could reduce the agency cost and enhance shareholders' wealth.

2.1 Size of Board of Directors

Size of board of directors is the number of board of directors member. Larger number of board of directors is likely less effective to increase company value (Kumar and Singh, 2013), create greater conflict among board members (Goodstein, Gautam, and Boeker, 1994), and increase cost associated to board of directors (Merendino and Melville, 2019). However, other studies believe that increasing number of board member creates ability to solve the company's problem (Haleblian and Finikelstein, 1993) and better market value (Larmou and Vafeas, 2010). According to Jensen (1993) claims that the number of board members are not more than seven board of directors.

Kumar and Singh (2013) investigate the effect of size of board of directors and company value for 176 selected companies listed in India. They find that size of board of directors has negative impact on company value. Nuryanah and Islam (2011) find that size of board of directors has a positive and significant impact on company value. Adeabah, Gyeke-dako, and Andoh (2019) examine 21 banking company for 2009-2017 periods. They find that the number of board members could increase bank efficiency.

H1 : Size of board of directors has relationship with company value.

2.2 Age of Board of Directors

Age of board of directors give impact on decision taking by them. Younger directors tend to choose risky strategies in order to enhance the future company performance (Mcclelland, Barker, and Oh, 2012). While, older directors has more experience, economic resources, and wisdom (Kang, Cheng, and Gray, 2007).

Previous studies focus on age of board of directors and company value show mix result. Kagzi and Guha (2018) find that age of board of directors has a positive and significant impact on company value. Alqatamin, Aribi, and Arun (2017) examine the relationship between directors' age for non-family versur family companies and earning management. They find that directors' age has no relationship with earning management. Mcclelland et al. (2012) find that directors' age has little impact on future company performance. In addition, the effect of

directors' age has received slow attention form researchers (Halioui, Neifar, and Abdelaziz, 2016; Kagzi and Guha, 2018).
H2 : Age of board of directors has relationship with company value.

2.3 Busy of Board of Directors

Busy of board of directors means that multiple directorships held by board members. Busy board create absence from meeting (Li and Ang, 2000), destroy the capability of board of directors to conduct their responsibility effectively (Kavitha, Nandagopal, and Uma, 2019), and reducing company performance (Haniffa and Hudaib, 2006). However, busy of board of directors create better expertise of board in manage the company operational (Jiraporn, Singh, and Lee, 2009).

Prior study of Chen, Gray, and Nowland (2013) find that busy of board of directors has a negative and significant impact on company value. Therefore, Field, Lowry, and Mkrtchyan (2013) find that the positve and significant relationship between busy of board of directors and company value. Kavitha et al. (2019) investigate the effect of busy of board of directors on discretionary disclosures for 500 companies listed in India. They find that busy of board of directors has negative impact on discretionary disclosures.
H3 : Busy of board of directors has relationship with company value.

3 Research Method

The sample of this paper comprised of the 266 companies listed in Indonesia from 2011-2017 periods. The dependent variable of this research is company value. To assess the company value, this study has employed Tobin's Q. According to Kagzi and Guha, (2018), Tobin's Q is as expected value of future cash flow from market value of company's assets. This study follows prior work of Klapper and Love (2004) to measure Tobin's Q.

Size of board of directors is calculated with the number of board of directors members (Hoseini, Gerayli, and Valiyan, 2019). Age of board of directors is measured by the difference among board of directors' date of birth and the year of this study (Alqatamin et al., 2017). Busy of board of directors is proxied as the proportion of multiple appointments of board of directors in other companies (Virk, 2017).

Company growth and company leverage are control variables of the current study. Company growth is measured by sales for this year less than last year divided by sales last year (Mak and Kusnadi, 2005). Company leverage is leverage ratio which is proxied of total debt divided by total assets (Alqatamin et al., 2017). Multivariate regression analysis is applied to analyse the data (Gujarati, 1995) and mathematical model is demonstrated below.

$$TOQ_{it} = \alpha + \beta_1 SBOD_{it} + \beta_2 ABOD_{it} + \beta_3 BBOD_{it} + \beta_4 CG_{it} + \beta_5 CL_{it} + e \qquad (1)$$

TOQ = Tobin's Q
SBOD = Size of board of directors
ABOD = Age of board of directors
BBOD = Busy of board of directors
CG = Company Growth
CL = Compay Leverage

4 Result And Discussion

The analysis of this study is started to conduct the classical assumption. Normality, multicollinearity, and heteroskedasticy test have been conducted. The result show that the model is free from classical assumption problem. As can be seen in Table 1, the statistics descriptive results present that the average and median of Tobin's Q is 0.91 (0.79). While the minimum and maximum value of Tobin's Q is 0.05 (2.55).

Board of directors variables show SBOD has mean 4.56 with median is 4. The average of ABOD is 52.01 and median around 50.5 years old. The mean (median) value of BBOD around 0.27 (0.00). The average (median) of company growth and company leverage around 0.31 (0.29) and 0.57 (0.48). The result of descriptive statistics has been showed in Table 1 bellow.

Table 1. Statistics Descriptive

	Min	Max	Median	Mean	Std. Dev
TOQ	0.05	2.55	0.79	0.91	0.52
SBOD	2.00	13.00	4.00	4.56	2.35
ABOD	29.00	72.00	50.5	52.01	8.45
BBOD	0.00	1.00	0.00	0.27	0.25
CG	-8.56	76.12	0.29	0.31	2.79
CL	-2.89	10.79	0.48	0.57	0.49

Notes: TOQ (Tobin's Q), SBOD (Size of board of directors), ABOD (Age of board of directors), BBOD (Busy of board of directors), CG (Company growth), CL (Company leverage).

Examining the effect of board of directors characteristic on company value, this paper employes multivariate regression analysis. This study conduct the fixed effects panel data regression analysis to investigate the effect of board of directors characteristic on company value.

Table 2 shows the fixed regression results of this study. SBOD has a negative and significant relationship with company value. It means that small size of board members may enhancing company value due to small size of board members is more effective in taking decision. This finding is opposite with previous study of (Adeabah et al., 2019). They find larger number of board members could increase bank efficiency.

The next independent variable is ABOD. ABOD has insignificant association with company value. This result appears to be consistent with Alqatamin et al. (2017) and Arun (2017). There is insignificant relationship between BBOD and company value. Thus, this result does not support hypothesis and existing study of (Field et al., 2013). They find BBOD has a positive and signifiant association with company value. The result of control variables show mix results.

Table 2. Fixed Effect Regression Result

	Coef	Std. Error	t-Stat	Prob.
C	0.80	0.13	6.06	0.00
SBOD	-0.02	0.00	-3.12	0.00*
ABOD	0.00	0.00	0.84	0.40
BBOD	0.02	0.05	0.39	0.69
CG	0.00	0.00	0.15	0.87
CL	0.17	0.02	8.26	0.00*
R^2	0.74			
Adj. R^2	0.70			
F value	0.00			

Notes: * indicates that a significant at 1%, SBOD (Size of board of directors), ABOD (Age of board of directors), BBOD (Busy of board of directors), CG (Company growth), CL (Company leverage).

Company growth (CG) has no relationship with company value. However, company leverage (CL) has a positive and significant effect on company value. It indicates that debt holders are more effective in monitoring the company action in order to enhance stakeholder wealth. This finding is inconsistent with (Grove, Patelli, Victoravich, and Xu, 2011). Grove et al. (2011) find that company leverage has a negative impact on company value.

5 Conclusions

The result presented in this study show board of directors characteristics as measured by board size significantly influence company value. However, other variables of board characteristics that are age and busy of board of directors have no effect to improve company value. This paper provides the highlight to agency theory where large size of board bring to problem of communiction, and decision making.

The negative effect of board size on company value implies that company value would increase if there is no communication and decision making problem. this study has several limitations, such as small sampel, and one perspective. Future investigation may focuses on by adding more sample and varous perspective.

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