INTERNATIONAL JOURNAL OF MULTIDISCIPLINARY RESEARCH AND ANALYSIS

ISSN(print): 2643-9840, ISSN(online): 2643-9875

Volume 08 Issue 01 January 2025

DOI: 10.47191/ijmra/v8-i01-11, Impact Factor: 8.22

Page No. 89-95

The Effect of Board Size, Board Independence and CEO Duality on Firm Value with Financial Performance as A Mediating Variable

Yusbardini[1], Kurniati W. Andani[2]

[1,2]Faculty of Economics Tarumanagara University Jakarta

ABSTRACT: This study aims to determine the effect of board size, independent commissioners, CEO duality on firm value with company performance as a mediating variable for corporate governance variables. The number of samples used in this study were 44 companies listed on the Indonesia Stock Exchange in 2019 - 2022 in the manufacturing sector. The analysis method used is multiple linear regression using Eviews 10 to process data. Data collection is taken through the Indonesia Stock Exchange website or the company's official website. The results of this study can show the effect of board size, independent commissioners, CEO duality, performance on firm value mediated by company performance.

KEYWORDS: Board size, Independent Commissioner, CEO duality, Firm performance, Firm value.

INTRODUCTION

Firm value is a reflection of the company's performance that can affect the interest of shareholders or investors in the company. The high value of the company provides a positive signal for investors to invest their capital in the company. Firm value is one of the fundamental metrics used in company valuation such as financial analysis, accounting, portfolio analysis, risk analysis and assessment of corporate governance. *Corporate* value is usually associated with the company's stock price and *corporate* governance which investors use to measure the company's performance. *Corporate governance* is a method consisting of a set of rules to direct the company with principles that can increase company value. The system of implementing corporate governance is based on the rules used by management to direct and supervise company activities. Good governance should add value to the company in the long run. When shareholders and stakeholders work together to make the right decisions to maximize capital and apply corporate governance principles properly, the company's value will increase. Therefore, to direct to the right goal, proper monitoring and supervision is needed. One way is the formation of a board of commissioners and an audit committee to run the company with the right governance system. The purpose of this study was to determine the effect of board size, independent commissioners, CEO duality on firm value with firm performance as a mediating variable for corporate governance variables.

The debate is whether there is a need for CEO Duality in a company. CEO Duality is someone who has 2 positions at once, namely as Chairman of the Board (Board of commissioners) and Chief Executive Officer (Board of directors) in a company (Boot et Al. 2002). This phenomenon is often discussed academically and practitioners about the impact of CEO duality on a company. CEO duality is one of the main attributes in corporate governance because the CEO has a strong role in contributing to company performance.

In addition, increasing the size of the board of directors (Board Size) also provides greater capacity in overseeing company activities. Similarly, having a greater number of directors in the company's board structure can compensate for individual deficiencies in skills through the board's collective decision making. Also, the independence of company commissioners is very important to maintain harmony between the interests of majority and minority shareholders (Hendrawaty et al., 2021). Thus, independent commissioners play a role in supervising and ensuring that all company policies are implemented according to good governance in order to avoid opportunistic behavior in the company.

The Effect of Board Size, Board Independence and CEO Duality on Firm Value with Financial Performance as A Mediating Variable

Several studies show that the size and diversity of the board of directors affects company performance, not only monitors management effectively but also with its knowledge and expertise but this condition is in a better position to obtain the availability of resources for the company (Hendratni et al., 2018). The results of research showing that the relationship between board size and company performance is evidenced by research by Waheed & Malik (2021), Rashid (2020), and Handriani & Robiyanto (2018). shows a positive relationship to company performance. The results of research by Shao (2019), show that a higher proportion of independent directors will have a positive impact on company performance. The results of research showing that the relationship between independent commissioners and company performance shows a positive relationship, as evidenced by research by Rashid (2020); Merendino & Melville (2019); Saidat et al. (2019); and Handriani & Robiyanto (2018).

This study aims to examine the effect of board size, independent commissioners, CEO duality on firm value with firm performance as a mediating variable. The hypothesis proposed in this study is:

H1 : *Board Size* has a positive effect on *Financial Performance*
H2 : *Board Independence* has a positive effect on *Financial Performance*
H3 : *CEO Duality* has a positive effect on *Financial Performance*
H4 : *Board Size* has a positive effect on *firm value*
H5 : *Board Independence* has a positive effect on *firm value*
H6 : *CEO Duality* has a positive effect on *firm value*
H7 : *Financial Performance* can mediate *Board Size* and *firm value*

METHODOLOGY

This study uses secondary data. The population of this study uses manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the observation period from 2019 to 2022. This study uses purposive sampling technique in determining the sample. The data used is annual report data of manufacturing companies listed on the Indonesia Stock Exchange during the observation period from 2019 to 2022 obtained through the website www.idx.co.id and the company's official website. The type of data used in the study is annual report data. Sample selection in this study using purposive sampling technique. Data analysis using panel data regression models. The statistical program used is eviews.Because there are mediating variables, two equations will be used, namely:

ROA = Board Size + Board Independence + CEO Duality (Equation 1)
Firm Value = Board Size + Board Independence + CEO Duality + ROA (Equation 2)

Path Analysis and Sobel test

The intervening variable is a connecting variable (mediation), which functions to mediate the relationship between the independent variable and the dependent variable using the Sobel test. If the Sobel test statistic ≥ 1.96 with a significance of 5%, then the variable can be said to be able to mediate between the independent variable and the dependent variable (Ghozali, 2018).

The indirect effect is calculated by multiplying the path as follows: X1 $\rightarrow$ Z (a), Z $\rightarrow$ Y (b), X2 $\rightarrow$ Z (c), Z $\rightarrow$ Y (d) (Abu-Bader & Jones, 2021) calculated by the formula:

$$s_{ab} = \sqrt{b^2 s_a^2 + a^2 s_b^2 + s_a^2 s_b^2}$$

$$\text{Scd} = \sqrt{d^2 s_c^2 + c^2 s_d^2 + s_c^2 s_d^2}$$

RESULTS AND DISCUSSION

The results of testing the equation I and equation II models can be seen below:

First equation model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BS	-1.687590	0.614505	-2.746261	0.0067
BI	7.540393	4.037518	1.867582	0.0635
CDUAL	-4.942500	4.132887	-1.195895	0.2334
C	12.14520	4.438860	2.736109	0.0069

Effects Specification Cross-section fixed (dummy variables)

R-squared	0.785936	Mean dependent var	4.500727
Adjusted R-squared	0.729017	S.D. dependent var	7.101128
S.E. of regression	3.696566	Akaike info criterion	5.639623
Sum squared resid	2363.976	Schwarz criterion	6.364625
Log likelihood	-573.3585	Hannan-Quinn criter.	5.932398
F-statistic	13.80801	Durbin-Watson stat	1.908774
Prob(F-statistic)	0.000000		

Second equation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BS	-0.342248	0.116630	-2.934483	0.0038
BI	0.236304	0.757647	0.311892	0.7555
CDUAL	-0.234603	0.771009	-0.304281	0.7613
ROA	0.022336	0.014125	1.581300	0.1156
C	3.322048	0.842342	3.943822	0.0001

Effects Specification Cross-section fixed (dummy variables)

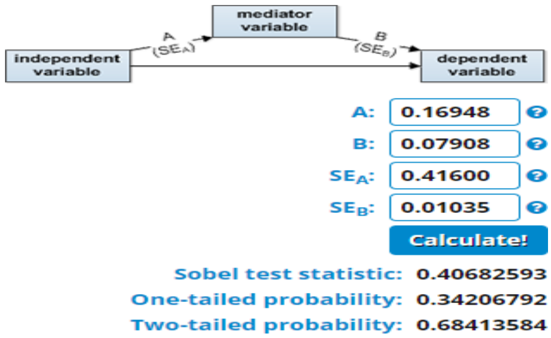
R-squared	0.743462	Mean dependent var	1.530955
Adjusted R-squared	0.673361	S.D. dependent var	1.201663
S.E. of regression	0.686778	Akaike info criterion	2.276621
Sum squared resid	81.12632	Schwarz criterion	3.017048
Log likelihood	-202.4283	Hannan-Quinn criter.	2.575625
F-statistic	10.60565	Durbin-Watson stat	1.772476
Prob(F-statistic)	0.000000		

Sobel test

The sobel results from the website will show whether the mediating variable can mediate the independent variable.

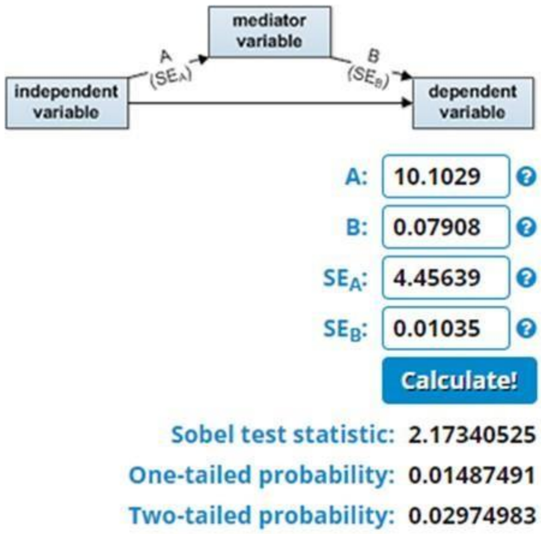
If the sobel test statistic ≥ 1.96 with a significant 5%, then the variable can be said to be able to mediate between the independent variable and the dependent variable.

1.Board Size > Financial Performance > Firm Value



0.40682593 < 1.96 then Financial Performance c a n n o t mediate Board Size

2.Board Independence > Financial Performance > Firm Value



2.17340525 > from 1.96 then Financial Performance can mediate Board Independence

3.CEO Duality > Financial Performance > Firm Value

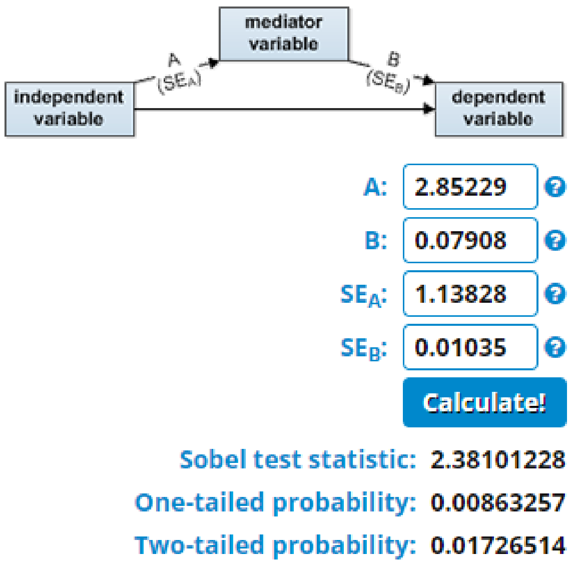


Table 4.11

2.38101228 > from 1.96 then Financial Performance can mediate CEO Duality

DISCUSSION

H1 : Board Size affects Financial Performance Based on the results of data analysis, it is found that Board size has a significant and negative effect on Financial Performance. The significant effect can be determined by its probability of 0.0067 which is smaller than the significance of 0.05. The results of this study agree with Pudgiastuti and Mardiyah (2007) who state that board size is not a factor of a company's financial performance. It was found that an increase in board size will negatively affect the company's financial performance.

H2 : Board Independence affects Financial Performance Based on the results of data analysis, it is found that Board Independence has an insignificant and positive influence on financial performance. This insignificant effect is due to the probability value of 0.0635 which is greater than 0.05. The results of this data analysis are in accordance with agency theory where a larger proportion of independent boards generally provide better company performance. This study has the same results as the researcher Balsmeier et al. (2011) which shows that the relationship between board independence and company performance is positive.

H3 : CEO Duality affects Financial Performance

The data results show that CEO Duality has an insignificant and negative effect on financial performance. This insignificant effect is due to the probability result of 0.2334 which is greater than 0.05. This study has the same results as research from Hsu et al (2019) showing that CEO Duality has a negative effect on Financial Performance. This may occur because when the position of CEO and the board of commissioners is placed in the same person, there is a possibility of reducing the supervisory function for the board because there is a highly concentrated power that can reduce company performance.

H4 : Board Size affects firm value

The data results show that Board Size has a significant and negative effect on Firm Value. The insignificant effect is due to the probability result of 0.0038 which is smaller than 0.05. This means that the results of this study indicate that the more board members in the company will provide a form of supervision of better company performance. With good and controlled company performance, it will result in good profitability. The results of this study are in line with the research of De Oliveira et al., (2012) which shows that Board Size has a positive effect on Firm Value.

H5 : Board Independence affects firm value

The data results show that Board Independence has an insignificant and positive effect on Firm Value. This influence is not significant because the probability result is 0.7555 and greater than 0.05.According to research conducted by Ibrahim & Muthohar (2019), the size of the independent board of commissioners has no significant effect on firm value. This is because the greater the proportion of independent commissioners in a company, the lower the company value.

H6 : CEO Duality affects firm value

The data results show that CEO Duality has an insignificant and negative effect on Firm Value. This effect is not significant due to the probability result of 0.7613 and greater than 0.05. The results of this study are not in accordance with the theory because the existence of CEO Duality should put the Board of Directors in a strong position when managing company activities and also overseeing the direction of the company by taking into account the future which in turn can increase the value of the company.

H7 : Financial Performance can mediate Board Size and firm value Performance cannot mediate Board Size because the sobel test static is 0.40682593 and smaller than 1.96 then Financial Performance cannot mediate Board Size.

H8 : Financial Performance can mediate Board Independence and firm value.

Financial Performance can mediate Board Independence because the sobel test statistic is 2.17340525 and greater than 1.96, so Financial Performance can mediate Board Independence.The results of this study are in line with theory because companies generally increase board independence when underperforming, because they believe management underperforms due to lack of supervision, so more supervision is needed. This increase can increase the effectiveness of the corporate board which can improve company performance and increase company value in the eyes of investors. The research results are the same as Rehman and Shah (2013) which show positive results.

H9 : Financial Performance can mediate CEO Duality and firm value Performance can mediate CEO Duality because the sobel test static is 2.38101228 and greater than 1.96 then Financial Performance can mediate CEO Duality.

H10 : Financial Performance can affect firm value The data results show that Financial Performance has an insignificant and positive effect on Firm Value. The insignificant effect is caused by the probability result of 0.1156 which is smaller than 0.05. The results of this study are in accordance with the theory because ROA can measure the company's performance in empowering its assets. An increase in the company's financial performance will lead to an increase in firm value.

CONCLUSIONS

1. Board size has a significant and negative effect on Financial Performance. The significant effect can be determined by its probability of 0.0067 which is smaller than the significance of 0.05.
2. Board Independence has an insignificant and positive effect on financial performance. This insignificant effect is due to the probability value of 0.0635 which is greater than 0.05.
3. CEO Duality has an insignificant and negative effect on financial performance. This insignificant effect is due to the probability result of 0.2334 which is greater than 0.05.
4. Size has a significant and negative effect on Firm Value. The effect is not significant due to the probability result of 0.0038 which is smaller than 0.05.
5. Board Independence has an insignificant effect and a probability of 0.7555 and greater than 0.05. Probability 0.7555 and greater than 0.05.
6. Duality has an insignificant and negative effect on Firm Value. This influence is not significant due to the probability result of 0.7613 and greater than 0.05.
7. Performance cannot mediate Board Size because the sobel test static is 0.40682593 and smaller than 1.96, so Financial Performance cannot mediate Board Size.
8.Financial Performance can mediate Board Independence because the sobel test statistic is 2.17340525 and greater than 1.96, so Financial Performance can mediate Board Independence.
9. Financial Performance can mediate CEO Duality because the sobel test statistic is 2.38101228 and greater than 1.96 so firm Performance can mediate CEO Duality.
10. performance does not have a significant and positive influence on Firm Value. The insignificant effect is caused by the probability result of 0.1156 which is smaller than 0.05.

LIMITATIONS AND SUGGESTIONS

Limitations

This research is expected to provide benefits to parties who may be involved with the research, but this research is inseparable from several limitations such as:

1.This research uses data from the IDX which means it is based on book value, while investors generally use market value as a company valuation.

2.This study only uses several companies in the manufacturing sector listed on the IDX from 2016 to 2020.

3.The governance used in this study is only Board Size, Board Independence, and CEO Duality to represent corporate governance.

Advice

Suggestions for research conducted for academic purposes or other researchers

1.Researchers can use more other independent variables. Can add several years of research period in order to see the effect of research more broadly.

2.It is necessary to test for Board Size and Board Independence because there are other research results that contradict the results of this study.

REFERENCES

1) Roespinoedji, R. (2021). Influence of Firm Size, Profitability and Geographic Location of Government Owned Firms on Firm Value: A Study on Indonesia Banking Sector. Review of International Geographical Education 11(1), 760- 766.

2) Obradovich & Gill (2013). The Impact of Corporate Governance and Financial Leverage on the Value of American Firms.
3) Rizky, A., Nur, K. I. & Siti, A. (2017). The effect of growth opportunity, profitability, firm size to firm value through capital structure (study at manufacturing companies listed on the Indonesian stock exchange). Imperial Journal of Interdisciplinary Research (IJIR), 3(2), 1887-1894.
4) Ayuba, Bambale, Ibrahim, & Sulaiman. (2019). Effects of Financial Performance, Capital Structure and Firm Size on Firms' Value of Insurance Companies in Nigeria. Journal of Finance, Accounting and Management, 10(1), 57-74.
5) Fermadi, H. L., Trisnawati, F., Fermadi, H. L., & Trisnawati, F. (2015). the effect of financial performance to the firm value on manufacturing companies that listed on the indonesia stock exchange the period 2013-2015. 1-13.
6) Natanael & Suhendah (2021). Factors Affecting Firm Value in Manufacturing Companies on the Financial IDX. Journal of Multiparadigm Accounting 3 (1), 331-338
7) Amyulianthy, R. (2012). The effect of corporate governance structure on the performance of public companies. 1(2).
8) Ajija, Shochrul Rohmatul, et al. 2011. How to Smartly Master Eviews. Jakarta: Salemba Empat.
9) Ahmed and CheAhmad (2016). Effects of Corporate Governance Characteristics on Audit Report Lags
10) Angelia Meysi Setyawan & Devi (2017). The Effect of CEO Duality on Firm Value with Financial Performance as an Intervening Variable.
11) Rasyid Imanuddin (2021). The effect of company size, board size, public accounting firm size and audit committee size on audit report lag.
12) Kevin Chandra & Devie (2017). The Effect of CEO Duality
13) Rinjani Sanusi Putri & Linda Santioso (2019). Factors Affecting Firm Financial Performance of Manufacturing Companies Listed on the IDX
14) Dikky Wijaya & Saarce Elsye Hatane (2017). The Effect of Board Size on Firm Value Through Earning Management as an Intervening Variable.
15) Yohanes Mardinata Rusli, Piter Nainggolan & Juan Carlos Pangestu (2020). The Effect of Independent Board of commissioners, Institutional Ownership, and Audit Committee on Firm Value
16) Livia Juanita (2018). The effect of audit committee composition and audit quality on real earnings management before and after seasoned equity offering.
17) Aldila Khairina Sissandhy & Sudarno (2014). The effect of foreign ownership on firm value with corporate social responsibility disclosure as an intervening variable.
18) Kristie Onasis & Robin (2016). The effect of corporate governance on firm value in financial sector companies listed on the IDX.
19) Amelya Dwi Ade Irma (2019). The influence of commissioners, audit committees, ownership structure, size, and leverage on the performance of housing and construction property companies 2013-2017.
20) Madha Sugeng Saputri (2021). The effect of gender, age, and CEO temure on earnings management practices.
21) Ni Nyoman Tri Sariri Muryati & I Made Sadha Suardikha (2014). The effect of Corporate Governance on firm value.
22) Via Novianty & Herlin Tundjung Setijaningsih (2021). The influence of Firm size, profitability and CEO duality on Risk disclosure.