

The Influence Of Institutional Ownership, Board Of Directors Diversity And Auditor Reputation On Company Value

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Abstract

This study aims to examine the influence of institutional ownership, board of directors diversity, and auditor reputation on company value. The independent variables used in this research are institutional ownership, board of directors diversity, and auditor reputation, while the dependent variable is company value, which is measured by Tobin's Q ratio. The population in this study consists of 66 industrial companies listed on the Indonesia Stock Exchange (IDX) during the 2020-2023 period. The sample was determined using a purposive sampling method, resulting in a sample of 40 industrial companies based on specific criteria. Regression analysis is employed to test the data. The results show that institutional ownership has a significant positive effect on company value. It is interpreted that an increase in the company's share owned by institutions will drive an increase in the company's value. In contrast, the board of directors' diversity does not affect company value. It can be interpreted that this information is not reflected in investors' investment decisions; therefore, it has no impact on company value. Finally, auditor reputation has a significant negative effect on company value. The higher reputation of the auditor is negatively perceived by investors; therefore, it will decrease the company's value.

Keywords: Institutional ownership, board of directors diversity, auditor reputation, company value.

INTRODUCTION

Corporate governance, also known as "corporate governance", is a system consisting of various systems, rules, and strategies designed to manage a company and

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is based on accountability principles that have the potential to increase the value of the company in the long run. Management uses a set of rules and impulses derived from a corporate governance system to govern and supervise how business activities run. Effective corporate governance can increase the chances of increasing the company's profits and value in the long term for shareholders (Onasis and Robin 2016). If the performance of a company is also good, then the company is considered to have good value. The value of a company is defined as the price that a potential investor is willing to pay if the company is to be sold. The prosperity of business owners will increase as the value of the business increases. The price of shares traded on the stock exchange is a measure of the value of companies that issue shares in the capital market (Husna and Pudjiastuti in Lumoly et al., 2018). Therefore, maintaining stability and increasing the value of the company is an important task for management.

One of the factors that is expected to affect the value of a company is institutional ownership. In order for managers to work properly, these tasks must be well supervised. Keeping a company's value stable is a difficult task. Institutional ownership is one way to supervise (Sari and Wulandari, 2021). Institutional ownership is the shares of a company owned by an institution or institution such as an insurance company, bank, investment company, and others. This is very important for management supervision because it allows for better supervision (Darmayanti et al., 2018). A high level of institutional ownership will make institutional investors more cautious to prevent the selfish behavior of managers or opportunistic managers (Purnama, 2017).

In top management, the diversity of the board of directors and *corporate governance* of the company are closely linked. In addition to being responsible for decision-making and setting company goals, the company's board is also responsible for being the company's leader. Due to the increasing diversity of cognitive styles, the knowledge, wisdom, ideas, and approaches available to boards will become more diverse, thereby improving the quality of complex decision-making (Putri, 2020). Diversity board is a term used to describe the structure of a company's diversified board of directors.. Members of the board of directors who have an international background, either through education, employment, or mastery abroad, are referred to as foreign directors. There is an increase in the number of foreign directors and committee members which shows that the business is open to international network information. This will inevitably have an impact on the way the company runs its operations. This is due to the fact that board diversity and corporate ethics issues, in addition to being considered as a measure of decision-making independence and accountability, are considered when assessing the effectiveness of



corporate decision-making. Good decisions will result in higher profitability (Pramesti and Nita, 2022). Therefore, the Foreign Board of Directors is suspected to be able to affect the Company's Value.

According to Wafiyah and Santoso (2021), the reputation of auditors can also affect the company's value of audited financial statements. Companies listed on the IDX will choose high-quality public accounting firms in addition to making disclosures in annual reports to increase public trust, both *stakeholders* and investors. To increase investor confidence, the company needs external supervision carried out by an independent party, namely auditors. Auditors are essential for a company to be trusted as a source of decision-making. The reputation of the auditor who conducts the audit can affect the confidence of the user of the financial statements. Auditors with a good reputation and showing high audit quality as proof of a company's excellence are known as auditors with reputation (Yunengsih, Ichi, and Kurniawan, 2018). Therefore, the Auditor's reputation is suspected to affect the value of the company.

Several studies related to the analysis of factors that affect the company's value such as institutional ownership variables, foreign directors and auditors' reputation on the company's value but the results were inconsistent. Research conducted by Darmayanti and Sanusi et al. (2018) and Rahman et al. (2022) states that institutional ownership variables have a positive and significant effect on the value of manufacturing companies. However, the results of the study are different from the research conducted by Rahma (2014), showing that the institutional ownership variable has a significant negative effect on the value of manufacturing companies. Furthermore, research on the influence of the diversity variable of directors on the value of the company, especially the variable of the board of directors of foreign nationality, proposed by Saputra (2019), and Yulia et al. (2022), shows that the variable of foreign directors has a positive influence on the value of the company. However, the results of research presented by Putri (2020) and Pramesti and Nita (2022) show that the variables of foreign directors do not affect the value of the company. Finally, the research on the influence of auditor reputation variables on company value proposed by Muren and Pangathousands (2023) and Simanjuntak and Mahroji (2024) stated that auditor reputation variables have a positive effect on company value. Meanwhile, the results of research conducted by Wafiyah and Santoso (2021) and Permatasari (2023) show that the auditor's reputation variable has a significant influence on value.

Research topics regarding the influence of institutional ownership, foreign directors, and auditors' reputation on company value have been widely discussed, but the results



have been inconsistent. Some studies showed a significant effect, while others found different or insignificant results. This inconsistency creates a *research gap*, making it interesting to conduct further research, especially in the context of manufacturing sector companies. This research is different from previous research, such as those conducted by Wafiyah and Santoso (2021), which only uses the variables of institutional ownership and auditor reputation and measures the value of the company *by the price book value*. This study adds the variable of foreign directors and uses the Tobin's Q ratio as a measure of the company's value, with the population of industrial sector companies listed on the Indonesia Stock Exchange (IDX) for the 2020–2023 period.

The purpose of this study is to overcome the inconsistencies of previous research results by re-examining the influence of institutional ownership, diversity of directors, and auditor reputation on company value. This research is expected to provide more accurate and in-depth empirical evidence, as well as make an important contribution to the existing literature. The title of this study is: "The Influence of Institutional Ownership, Board of Directors Diversity, and Auditor Reputation on Company Value".

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

Agency Theory

Michael C. Jensen and William H. Meckling, two American economists, developed the agency theory in 1976. Agency theory describes the relationship between management as an agent and shareholders as principals. An agency relationship is defined by Jensen and Meckling (1976) as a contract between one or more people (*principals*) that instructs another person (*agent*) to do work on behalf of the principal and authorizes the agent to make policies on behalf of the principal. In this theory, there is a difference between a principal and an agent. The principal is the owner or shareholder of the company, while the agent is the management party who manages the company. Maximizing the relationship between ownership and control of the company is the main goal of the company (Darmayanti et al., 2018).

Signalling Theory

Signal theory, also known as *signaling theory*, was first introduced by Akerlof in his paper entitled *The Market for "Lemons"* in 1970. Spence (1973) later developed this theory again. Houston (2013) states that signal theory is an action taken by company management. This is done by giving investors a clue as to how management's views relate to the company's prospects.



Investors receive clues that contain positive information about the state of the company. This makes investors have a positive view of the company (Connelly et al., 2011). Investors can consider these signals to distinguish good and bad businesses. The purpose of this signalling is to increase the value of the company during the sale of shares. This theory is based on the idea that managers, as an internal part of the company, have more information about the company than external investors, which is known as information asymmetry (Sari T. A. M, 2020).

Resource Dependence Theory

Based on the theory of resource dependence, a company will rely on its board members (board of directors) to manage its resources to improve its performance. According to Preffer and Salancik in Putri (2020), the perspective of resource dependence focuses on how to obtain and obtain resources rather than how they are used. According to the resource dependency theory, boards are an essential resource for companies. A diversity of board members can help a company increase its value by building relationships with outside parties to obtain important information and ensure the availability of resources. As a result, this theory can connect the diversity of members.

The Influence of Institutional Ownership on Company Value

In their role as principals, shareholders have a primary interest in profiting from the capital they provide to the company. According to agency theory, the shareholder, or principal, would authorize the agent, or manager, to manage the company and make decisions that are important to the principal. Since the manager as an internal party has more information about the company, the manager can misuse the interests of the shareholders. Therefore, shareholders use institutional ownership to supervise and control managers so as not to misuse the interests of shareholders (Sari and Wulandari, 2021).

According to Jensen and Meckling (1976), in the theory of agency, institutional ownership can be a supervisory medium, the institutional ownership arena is involved in strategic taking of the company and moves independently outside the internal party of the company, and institutional ownership can be the best way for managers to supervise. If the main interests of shareholders are achieved, it means that the company can maintain the welfare of its shareholders. The well-being of shareholders reflects the value of the company because over a period of time, shareholders had a positive perception of the company's performance. If the welfare of shareholders increases, then the perception of shareholders about the company's performance increases (Sari and Wulandari, 2021).



The results of previous research conducted by Darmayanti and Sanusi et al. (2018), Thanatawee (2014), Yuslirizal (2017) and Rahman et al. (2022) which stated that institutional ownership has a significant positive effect on company value. The results of the study are different from the results of research conducted by Wijaya and Sedana (2015), Hidayati (2017) and Rahma (2014) showing that institutional ownership has a significant negative effect on company value.

Then research conducted by Purba and Africa (2019) did not have a significant effect on the company's value. Meanwhile, research conducted by Sari and Wulandari (2021), Kusumawati and Setiawan (2019), Setyabudi (2021), Sukmawardini and Ardiansari (2018) Institutional ownership has no effect on company values. Based on the description above, the first hypothesis of this study is as follows:

H1: Institutional ownership has a positive and significant influence on the company value.

The Influence of Diversity of Directors on Company Value

Yulia, Hendrawaty and Huzaimah (2022) stated that board members who come from abroad have diverse work experience backgrounds, so they are able to contribute diverse views and viewpoints. Individual complexity in experience, ideas, and innovation can impact business performance. Companies that have a board of directors made up of expats have the ability to improve the company's image because expats have higher expertise and professionalism in their field. Ultimately, this can increase business value. It is believed that foreign councillors bring a wide range of perspectives, viewpoints, languages, beliefs, family and professional backgrounds. Therefore, they enhance business knowledge and offer alternative solutions to complex problems. Randoy in Pramesti and Nita (2022) argue that the existence of board members and directors of foreign nationality shows that businesses have carried out the process of globalization and data sharing in international networks.

The results of previous research conducted by Hidayati (2017) found that the diversity of foreign nationalities has a positive effect on company value. In line with the research of Saputra (2019), as well as Yulia, Hendrawaty, and Huzaimah (2022) have a positive influence on company value.

In contrast to the results of research presented by Pramesti and Nita (2022), Kesaulya and Febriany (2018), Yuniasih and Kusumawati (2020) and Putri (2020), the variable of national diversity has no effect on company value. This may be due to the fact that the board of directors is of very few foreign nationals, making it impossible to show that their existence affects the value of the company. Because the competitive advantage of the board of commissioners attracts more attention from investors, the presence of foreign nationalities on



the board is a positive signal according to signal theory. This attracts investors' interest to make investments, which results in an increase in the value of the company. Based on these descriptions, the hypothesis of this research was then made, namely:

H2: The diversity of the foreign/foreign board of directors has a positive and significant effect on the company value.

The Influence of Auditor Reputation on Company Value

According to Rizka and Arifin (2015), auditors with good reputations and maintain their reputation by providing high audit quality as a sign of company quality are known as auditors with reputation. Auditors are responsible for providing high-quality information that can help decision-making for parties who use financial statements (Putri T.W, Rasuli and Diyanto, 2014). The reputable Public Accounting Firm (KAP) is one of the four large KAPs, which are used as a measuring tool (Muren and Pangaribuan, 2023). As a representation of auditor reputation, *the Big Four* are considered to have a strong reputation and expertise in identifying corporate risks. By providing guidance for *good corporate governance* practices, auditors assist in evaluating and improving risk management, which results in a level of quality assessment and supervision of corporate risks (Chen et al. in Rizka and Arifin, 2015).

The results of the study on the influence of auditor reputation on company value were stated by Karjono and Himawan (2019) who stated that auditor reputation has a positive effect on company value and is in line with the results of research conducted by Wafiyah and Santoso (2021), Muren and Pangathousands (2023) and Simanjuntak and Mahroji (2024) stating that the auditor's reputation for the company's value has a positive influence on the company's value. Then the results of research conducted by Permatasari (2023), Wafiyah and Santoso (2021) stated that auditors' reputation on company values has a significant influence. Based on the analysis and findings above, then this hypothesis is made as follows: H3: Auditor's reputation has a positive and significant effect on the company value

RESEARCH METHODS

Population and Sample

The population in this study is companies in the industrial sector that have been listed on the Indonesia Stock Exchange (IDX) for the period of 2020-2023. Sampling in this study was carried out using *the purposive sampling method*, with the following criteria (1) Industrial Companies listed on the IDX in 2020-2023, (2) Industrial Companies that publish annual reports, (3) Industrial Companies that publish financial statements and annual reports, (4) Companies that have complete data related to the variables used in the study, (5) Report data

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Available for the reporting years from 2020 to 2023. Based on these criteria, 40 industrial companies were selected that met the criteria with an observation period of 4 years, so the total sample was 160. The sample selection process is presented in Table 1.

Data Types and Sources

The type of data in this study is secondary data, in the form of annual reports and financial statements engaged in the industrial sector for the period of 2020 to 2023. The data sources in this study come from the *websites* of related companies and the official website of the IDX.

Table 1. Sample Selection Process

Remarks	Quantity
Industrial company amount	66
Companies that do not publish full financial statements in the period 2020 – 2023 and does not have the required data th related to research variables	(26)
Companies that are sampled (per year)	40
Amount of data used for research	160

Source: data processed, 2025

Research Variables

This study uses independent variables, namely institutional ownership, diversity of directors, and auditor reputation.

Institutional Ownership

Institutional ownership is the shares of a company owned by an institution or institution such as an insurance company, bank, investment company, and others. This is very important for management supervision because it allows for better supervision (Darmayanti et al., 2018). According to (Sari and Wulandari, 2021) institutional share ownership can be calculated by the following formula:

$$KI = \frac{\text{Institutional owned share}}{\text{Total outstanding share}} \times 100\%$$

Diversity of Directors

The diversity of board of directors members is a variation in the structure or composition of the board of directors. Cultural differences such as gender or gender, sexual orientation, race, ethnicity, and age are examples of the composition in question (Anjani



2016). Calculating the foreign of the foreign board of directors with a formula using the formula from Nugroho et al. (2021).

$$DD = \frac{\text{Foreign director}}{\text{Total directors}} \times 100\%$$

Auditor Reputation

According to research by Putri T. W. et al. (2014), the reputation of auditors is their achievements and the public trust they receive on their big behalf. Wahyuningsih in Wafiyah and Santoso (2021) stated that Public Accounting Firms can be classified into *The Big Four KAP* through the process of categorizing KAP into rankings based on the number of employees and opinions obtained from the audit results. The revenue rating obtained by KAP Bigfour can be seen in Table 2.

Table 2. Auditor Reputation Rank

Accounting Firm	Revenue 2023 (US\$)	Rank
Deloitte	64.9 billion	5
PwC	50.09 billion	4
EY	49.4 billion	3
KPMG	36.4 billion	2
Non-big four		1

Source: (Wafiyah dan Santoso, 2021)

Company Values

Companies can measure their value by using *Tobin's Q* ratio. Companies with a higher Q ratio indicate that they have good prospects for utilizing the resources they have according to research conducted by Saputra (2019) and Pramesti and Nita (2022). *Tobin's Q measurements* are as follows:

$$Tobin'q = \frac{\text{Euity market price} + \text{Total liability}}{\text{Book value of assets}}$$

(Saputra, 2019) and (Pramesti & Nita, 2022)

Data Analysis Methods

The data analysis technique in this study uses multiple linear regression method. This method is used to test the influence of two or more independent variables on one dependent variable, Janie in (Sari & Wulandari, 2021). The stages of analysis carried out include



descriptive statistics, classical assumption tests, multiple regression analysis, determination coefficient testing, and hypothesis tests. To support the analysis process, this study uses SPSS software version 27. The regression equations used to test the hypothesis in this study are as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Description:

Y = Company Value

α = Konstanta

$\beta_1, \beta_2, \beta_3$ = Cohesion Regression

X_1 = Institutional Ownership

X_2 = Diversity of the Board of Directors (Foreign Directors)

X_3 = Auditor Reputation

e = Standar error

RESULT AND DISCUSSION

Descriptive statistics for each variable, both dependent and independent, are presented in Table 3. The results of the classical assumption test are presented in Table 4, Table 5, Table 6, and Table 7. Based on Table 3, the results of descriptive statistical analysis are shown as follows.

1. Institutional ownership has a minimum value of 0.14, a maximum value of 0.99, a *mean* value (average) of 0.6459, and a standard deviation of 0.22857. Standard deviation the institutional ownership has a lower value compared to the average value, this indicates that the data is homogeneous.
2. Diversity of directors has a minimum value of 0.00, a maximum value of 1.00, a *mean* value of 0.1465, and a standard deviation of 0.25575. Standard deviation DD has a lower value compared to the average value, this indicates that the data is heterogeneous.
3. The auditor reputation has a minimum value of 1.00, a maximum value of 5.00, a *mean* value of 1.6250, and a standard deviation of 1.22217. Standard deviation auditor reputation has a lower value than the average value, this indicates that the data is homogeneous.
4. Company value has a minimum value of 0.00, a maximum value of 17.31, a *mean* value of 1.3076, and a standard deviation of 1.58179. Standard deviation company value has a lower value compared to the average value, this indicates that the data is heterogeneous.



Table 3. Results of Descriptive Statistical Analysis

	N	Minimum	Maximum	Mean	Hours of deviation
Institutional Ownership	60	0.14	0.99	0.6459	0.229
Diversity BOD	60	0.00	1.00	0.1465	0.256
Auditor Reputation	60	1.00	5.00	1.6250	1.222
Company Values	60	0.00	17.31	1.3076	1.582
Valid N (listwise)	60				

Source: Data processed 2025.

Table 4. Classical Assumption Test Results

Test Type	Test Criteria	Test Results	
Normality	Kolmogorov-Smirnov	Asymp. Sig. (2-tailed)	0.200
Multikolinearity	VIF	Institutional Ownership	1.082
		Diversity of BOD	1.098
		Auditor Reputation	1.022
Herokedasticity	Significant	Institutional Ownership	0.272
		Diversity of BOD	0.881
		Auditor Reputation	0.258
Autocorrelation	Durbin Watson		1.553

Source: Data processed 2025.

Based on Table 4 the data have met the classical assumption test, which includes normality test, multicollinearity test, autocorrelation test, and heteroskedasticity test. Thus, multiple regression analysis can be used to test hypotheses.

Hypothesis Testing and Discussion

Hypothesis testing was carried out using a regression model. The adjusted R-square value can be seen in Table 5. The adjusted value of R square shows only 0.2% variation in the dependent variable that can be explained through the independent variable in the model. While 99.8% of the variation of dependent variables is caused by factors outside the model.

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The relationship between independent and dependent variables is still significant, suggesting an influence, although the contribution is small to the total variation.

Table 5. Determinant Coefficient Test Results

Regression Statistics	
Multiple R	0.144
R Square	0.021
Adjusted R Square	0.002
Standard Error	1.580
Observations	160

The F test or ANOVA test can be seen in Table 6. The F-value is calculated as 1.108 with a significance level of 0.035 that less than 0.05, which means that it can be concluded that the linear regression model meets the eligibility requirements to be used in analysing the influence of institutional ownership, diversity of directors, and auditor reputation on the company value.

Table 6. F Test Result

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	3	8.298	2.766	1.108	0.035
Residual	156	389.589	2.497		
Total	159	397.887			

Tabel 7. Hasil Uji T

Model	Coefficients	Standard Error	t Stat	P-value	Conclusion
Intercept	1.198	0.419	2.862	0.005	
Institutional Ownership	0.477	0.570	0.836	0.020	H1 supported
Diversity of BOD	-0.839	0.514	-1.633	0.104	H2 is not supported
Auditor Reputation	-0.047	0.104	-0.449	0.028	H3 not supported

Based on the results of multiple regression analysis in Table 10, it can be determined that the level of significance in the institutional ownership variable is 0.020. This value shows



that the value of $\text{sig} < \alpha$ ($0.020 < 0.05$), so it can be said that H1 is accepted and institutional ownership has a significant positive effect on the value of the company. These results are in line with research conducted by Rahman et al. (2022), Darmayanti and Sanusi (2018), and Yuslirizal (2017) which stated that institutional ownership has a significant positive effect on company value. This shows that institutional ownership reduces agency conflicts, improves management supervision, and provides positive signals to the stability and prospects of the company, which ultimately encourages an increase in the company's value.

The results of multiple regression analysis for the diversity variable of the board of directors, the significance value for the independent variable was 0.554. This value indicates that the sig value is $> \alpha$ ($0.104 > 0.05$), so it can be said that H2 is rejected or not supported and the diversity of the board of directors has no effect on the company's value. These results are in line with research conducted by Pramesti and Nita (2022), Yuniasih and Kusumawati (2020), and Putri (2020) that the diversity of directors has no influence to the value of the company. This result indicates that the presence of foreign directors in several companies is unable to increase the company's value due to significant proportional inequality. From the investor side, the diversity of the board of directors is not the main factor in determining the company's value. This shows that many or few foreign directors will not affect the value of the company.

Furthermore, the results of multiple regression analysis for the auditor's reputation variable have a significance value of 0.028, this value shows that the auditor's reputation has a significant negative influence on the company's value, because the $\text{sig} < \alpha$ value ($0.028 < 0.05$) and the value of the regression coefficient leads to negative, so it can be said that the third hypothesis is rejected or not supported. These results are not in line with research conducted by Muren and Pangathousands (2023), Wafiyah and Santoso (2021), and Karjono and Himawan (2019) which stated that auditor reputation has a significant positive influence on company value. These results show that auditors' reputations have a negative impact on the company's value because of strict oversight that can reveal hidden risks, increase risk perception, and high costs that reflect the company's unstable condition. This means that the larger the public auditor will cause the lower the value of the company.

CONCLUSION

This study aims to analyze the influence of institutional ownership, diversity of directors and auditor reputation on company value in industrial companies listed on the Indonesia Stock Exchange (IDX) in 2020-2023. A total of 160 observations were obtained, with the results of the analysis showing that institutional ownership has a positive and significant effect on the

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value of the company. This shows that institutional ownership reduces agency conflicts, improves management supervision, and provides positive signals to the stability and prospects of the company, which ultimately encourages an increase in the company's value.

Testing of the variables of the diversity of the board of directors and the reputation of the auditor showed results that were contrary to the hypothesis formulated. For the auditor's reputation variable, the results actually have a significant negative effect on the company's value. These results show that auditors' reputations have a negative impact on the company's value because of strict oversight that can reveal hidden risks, increase risk perception, and high costs that reflect the company's unstable condition. This means that the larger the public auditor will cause the lower the value of the company.

This result has implications for stakeholders, including for companies, for investors and for regulators, namely:

1. For companies

Institutional ownership increases the value of a company through strict oversight, so transparency and governance need to be strengthened. The diversity of the board of directors has no effect, indicating that other factors are more dominant. Meanwhile, the auditor's negative reputation significantly emphasizes the importance of evaluating audit quality to maintain investor confidence.

2. For investors

Investors can use institutional ownership as an indicator of a company's prospects because it is proven to increase value. However, a bad auditor's reputation can signal risks in financial statements. Meanwhile, because the diversity of the board of directors has no effect, the focus can be shifted to business strategy and operational efficiency.

3. For regulators

Regulators can strengthen institutional ownership policies to encourage long-term investment and improve audit quality oversight so that companies choose auditors based on credibility and independence, rather than just reputation.

This research also has several limitations and suggestions that can influence different results in the research, including that this research is limited to industrial companies, so the results cannot be generalised to all sectors. Further research is recommended to cover other sectors, such as finance and energy, as well as add more relevant independent variables, given that this research model only explains 0.2% variation in company value. Additionally, the diversity analysis of directors can be expanded to include factors such as the age, background, and gender of the directors, potentially minimising agency conflicts.



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