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The Influence of Independent Commissioner, Audit Committee, and Institutional Ownership on Stock Price and Its Impact on Profitability (Study at LQ45 Companies Listed on Indonesia Stock Exchange)

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ABSTRACT

This study aims to determine the effect of independent commissioners, audit committees and institutional ownership of stock prices and their impact on profitability. The research population is all LQ45 companies listed in Indonesia Stock Exchange year 2013-2016, the sample of the company is 144 units of analysis. Sources and techniques of data collection using secondary data is financial statements. The method of analysis used is multiple linear regression with path analysis. The results show that independent commissioners, audit committees and institutional ownership simultaneously and partially influence stock prices. Independent commissioners, audit committees, institutional ownership and stock prices simultaneously and partially influence profitability. Partial stock prices mediate independent commissioners, audit committees and institutional ownership of profitability.

KEYWORDS: ***Audit Committee, Independent Commissioner,Institutional Ownership, Share Price and Profitability.***

INTRODUCTION

The capital market is one of the main drivers of the world's economy including Indonesia. Through the capital market the company can obtain funds to conduct economic activities (Zuliarni, 2012). The capital market is seen as an effective institution in improving development, so then the company will indirectly follow the situation of stock prices. For the company, stock prices are an indication of an increase of prosperity. Changes in trading volume and stock prices in the stock market are the most important foundation in studying investors behavior (Sudarti, 2013). Thus, the rise in stock prices serves as benchmark of the success of a company.

The objective measure of the investment value in a company is shown through the stock price. According to Fama (1978), the value of the company will be reflected from its share price. The higher price of a stock, the higher value of the company. If the company's financial performance increases then the stock price indirectly will rise, as investors assume that a good companny performance will provide more compensation to investors. Conversely, the declining financial performance causes the stock price to decline. The company's performance determines stock prices to be high or low in the capital market, so investment by the investor will depend on the company's previous performance as seen from periodically-issued financial report (Siti Resmi, 2002).

The success of a company that has implemented good corporate governance can be reflected through the company's performance is seen from the company's profitability. The ability of a company to generate profits in operational activities is a major focus in the company's performance assessment. Profitbecomes an indicator of the company's ability to meet liabilities to creditors and investors (Dwi and Damar, 2012). Companies that perform well are characterized by positive earnings growth that can be known from the increase in corporate profits in the next financial period. Return on equity (ROE) is an assessment method that can be used to measure the ability of capital to generate income. The increase in the ROE is usually followed by a rise in its stock price (Heriyati, 2011). The higher ROE means the better the company's performance in managing its capital to generate profits for shareholders.

Supervision conducted by independent commissioners may influence the behavior of managers in an effort to improve company performance (Maryanah and Amilin, 2011).The larger the independent commissioner then the supervision of the management company will be better so that will improve the company's financial performance. The higher the independent commissioner will further increase the level of profitability of the company. Anderson et al (2004) stated that the greater number of audit committees of a company will provide better protection and control of the accounting and financial processes and will ultimately have a positive effect on the company's financial performance. Koh (2003) argues that institutional investors with large amounts of ownership can reduce managerial incentives to manage profits aggressively. Brickley, Lease and Smith (1988) in Dody (2008), indicates that institutional investors vote more actively on amendments of takeover than other owners. In addition to better monitoring by institutional investors compared to other investors. Antonius (2014), argues that institutional ownership affects the value of company in respect of stock prices. In addition, the results of research by Cyert et al (1998) found that the sole and dominant (blockholder) ownership has a significant effect on the value of the company.

RESEARCH METHODS

This study aims to examine the effect of exogenous variables (independent commissioners, audit committees, and institutional ownership) on endogenous variables (stock prices) with the variables of moderation (profitability) through hypothesis testing.We purposively selected sample from LQ45 companies listed in the Indonesia Stock Exchange (IDX) which published its financial statements in the period 2013 to 2016. The sample consisted of 36 LQ45 companies listed in IDX for 4 years, in the period of 2013-2016, so there were 144 observation.

RESULTS AND DISCUSSION

Based on the substructure path model 1, it can be written the equations for the path model as follows:

$$\mathbf{Y = 0{,}471X_1 + 0{,}271X_2 + 0{,}292X_3 + \varepsilon_1}$$

Coefficients Substruktur I

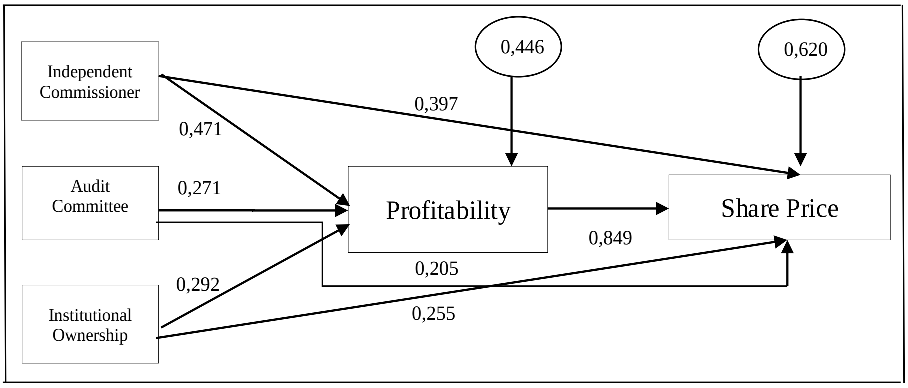
Variable	Standardized Coefficients Beta	t_{hitung}	Sig
Independent Commissioner (X_1)	0,471	7,742	0,000
Audit Commitee (X_2)	0,271	4,395	0,000
Institutional Ownership (X_3)	0,292	5,019	0,000
R	= 0,744		
R_{Square}	= 0,554		
F_{hitung}	= 57,863		
Sig.	= 0,000		
F_{tabel}	= 2,669		

Based on the second substructure lane model above, we can write down the equation for the path model as follows:

$$Z = 0{,}397X_1 + 0{,}205X_2 + 0{,}255X_3 + 0{,}849Y + \varepsilon_2$$

Coefficients Substruktur II

Variable	Standardized Coefficients Beta	t_{hitung}	Sig
Independent Commissioner(X_1)	0,397	5,536	0,000
AuditCommitee (X_2)	0,205	2,824	0,005
Institutional Ownership (X_3)	0,255	3,717	0,000
Profitability (Y)	0,849	19,153	0,000
R	= 0,616		
R_{Square}	= 0,380		
F_{hitung}	= 28,610		
F_{tabel}	= 2,669		
Sig.	= 0.000		



Scheme Result Testing Path Analysis With Complete Structure

The influence of independent directors partial to profitability

The results showed that independent commissioners have an influence on profitability with a coefficient value of 0.471, meaning that any change to independent commissioner variable of 1 unit, it will increase the profitability of 0.471%. This shows that supervision by independent commissioners can influence manager behavior in an effort to improve company performance. The larger independent commissioner then the supervision of management will be better so that will improve the company's financial performance.

This result is in line with the previous study by Kuslinah (2015) which showed that independent commissioners have a positive influence and significant influence on the performance of food and beverage companies listed on the Stock Exchange. In addition, the results of research from Tetty and Imam (2012) also showed a positive influence, meaning that the higher the independent commissioner will further increase the level of profitability of the company. Commissioner board plays an important role in the implementation of good corporate governance as this board is core of corporate governance to ensure the implementation of the company strategy, to oversee management in managing the company and to obligate effective accountability. So the increasing proportion of independent board of commissioners will certainly further improve the performance and profit of the company.

The effect of the audit committee partially on profitability

The result of this study shows that audit committee has an influence to increase profitability with coefficient value 0.271. It means that every 1 unit of change to variable audit committee will increase profitability to 0,271%. The result of this study is in line with those proposed by Dody (2008) and Gil and Obradovich (2012) which statedthat there is a positive relationship between the number of audit committees with financial performance. Besides, the study by Tetty and Imam (2012) also explained that audit committee has a significant positive effect on the level of profitability of the company. This indicates that audit committee also plays an important role in the improvement of corporate value by applying the principles of good corporate governance. Thus, the existence of the audit committee will positively affect the profitability of the company because the more effective supervision by audit committee will optimize the performance of the company which will eventually affect the profitability.

The influence of institutional ownership partially to profitability

The results show that institutional ownership has an influence on the increase of profitability. The magnitude of influence can be seen from the coefficient of 0.292, meaning that any change to the variable of institutional ownership by 1 unit, it will increase the stock price by 0.292%. The results of this study are consistent with the study conducted by Maria (2013), showing that the ownership of the institution has a positive effect on financial performance.

This result shows that the control function of the majority shareholder, in this case the institutional ownership, is crucial in improving financial performance. Theoretically, the higher the institutional ownership, the stronger the control of the company. The performance and value of a company will increase if the majority shareholder of the company can control the behavior of management to perform in accordance with the company's objective (Darwis, 2009). Thus, the greater value of institutional ownership will cause the stronger control of the company so that the owners of the company can control the behavior of management to act in accordance with corporate goals that will ultimately improve the financial performance of the company.

The influence of independent commissioners partially on stock price

The results showed that independent commissioners have an influence on stock price with the coefficient value of 0.397, meaning that any change to independent commissioner variable of 1 unit, it will increase the stock price by

Volume 2 Issue 12 December 2017
DOI: 10.18535/afmj/v2i12.05
Page no.1199-1206

0,397%. The results of this study prove that independent commissioners influence the increase in stock prices. The results of this study indicate that independent commissioners are able to provide more effective supervision of corporate managers. With more effective supervision then the company's performance will increase and eventually increase the stock price. This study is consistent with the results of research conducted by Maryanah and Amilin, (2011).

The larger the independent commissioner so then the supervision of the management company will be better. This will eventually improve the company's financial performance. The higher the independent commissioner will further increase the level of profitability of the company. In addition, Dyan Fadila and Yan (2012) stated that the effectiveness of an independent board of commissioners may increase the company's stock price. In other words, an increasingly effective board of commissioners will promoteimplementation of good corporate governance, which can increase the credibility of the company in the eyes of investors, thereby increasing the value of the company as reflected in the stock price.

The effect of audit committees partially on stock prices

The result of this study shows that audit committee has influence on the stock price with coefficient value 0,205, it means that every 1 unit change of the variable of audit committee will increase stock price by 0,205%. This result proves that the audit committee has an influence on the increase in stock prices. Dyan Fadila and Yan (2012) explained that the effectiveness of the audit committee can increase the company's stock price. In other words, an increasingly effective audit committee will promote implementation of good corporate governance, which can increase the credibility of the company in the eyes of investors, thereby increasing the value of the company reflected in the stock price. In addition, Tetty and Imam (2012), indicating that the existence of the audit committee managed to affect the profitability of the company because the more effective supervision audit committee will create an optimum corporate performance that will affect the profitability of the company. Then this result is also consistent with research conducted by Dody (2008) and Gil and Obradovich (2012) which demonstrated a positive relationship between the number of audit committees with financial performance.

The influence of institutional ownership partially to the stock price

Ownership of institution has an influence on the increase in the stock price. This can be seen from the value of the coefficient of 0.255, meaning that any change to the variable of institutional ownership by 1 unit will increase the stock price by 0.255%. The result of this study proves that the ownership of the institution has an influence on the increase in stock prices.

The results of this study are consistent with the study conducted by Diana and Ni Gusti (2015) showing a positive relationship between institutional ownership and profitability. In addition, research conducted by Maria (2013), indicates that the company is expected to increase the proportion of institutional ownership in order to improve the company's financial performance. This is because, with the high institutional ownership, the supervision on the performance of management is also higher so that it will be able to control the manager to not perform that are not in line with the interests of shareholders.

Effect of profitability on stock prices

The statistical tests show that profitability has a significant effect on stock prices. This means that it can be concluded that the return on equity (ROE) significantly affects stock prices.. If the profit generated by the company increases, then the results obtained by the company that is high

Volume 2 Issue 12 December 2017
DOI: 10.18535/afmj/v2i12.05
Page no.1199-1206

profit, thus inviting investors to make a sale and purchase of stocks, because they will see the good earnings of the company. According to Heriyati (2011), an increase in ROE is usually followed by a rise in the company's stock price. The higher the ROE means the better the company's performance in managing its capital to generate profits for shareholders.

The results of this study are also consistent with previous research conducted by Cerpen Naibaho (2010), which demonstrated that Return on Equity (ROE) has a significant positive effect on stock prices. Donny Siahaan (2011) in his study, showed the influence of ROE on stock prices. Thus,it can be concluded the higher ROE, the higher stock price, vice versa.

The stock price mediates the effect of the independent commissioner on profitability

The direct influence of independent commissioners on profitability is 0.471 and the indirect effect of independent commissioners on profitability is 0.397, this indicates that the direct influence of independent commissioners is greater than indirect influence. Thus the direct influence of independent commissioners is greater to increase profitability.

Based on the results of this research, it can be explained that the independent commissioners partially affect the price of shares of LQ45 companies listed on the Indonesia Stock Exchange. This result is in line with the results of research conducted by Coller and Gregory in Tetty and Imam (2012) stating that the larger the number of independent commissioners, it gets easier to control and monitor the activities of the company. This research is also supported by the result of study conducted by Setiyarini and Lilik (2014) showing the influence of independent commissioner to company performance. So that it can be concluded that there is a positive influence of independent commissioner to company performance.

The stock price mediates the influence of the audit committee on profitability

The direct influence of the audit committee on profitability is 0.271 and the indirect effect of the audit committee on profitability is 0.205, so it can be said that the direct influence of the audit committee has greater effect on profitability than indirect influence.

The implication of this study serve as an evidence that audit committees have a big influence in increasing stock prices, this is because audit committees have an impact on increasing stock prices and increasing profitability in the company. The result of this study is supported by research conducted by Ni Nyoman and I Ketut (2013) concluded that statistically, the number of audit committee members influences the stock price. Then research conducted by Dyan Fadila and Yan (2012) show that the effectiveness of the audit committee can increase the company's stock price. In other words, an increasingly effective audit committee will promote the implementation of good corporate governance, which can increase the credibility of the company in the eyes of investors, thereby increasing the value of the company as reflected in the stock price.

The stock price mediates the effect of institutional ownership on profitability

Institutional ownership directly affects profitability which has value of 0.292 and the indirect effect of institutional ownership on profitability of 0.255, indicating that the direct influence of institutional ownership has greater effect on profitability compared to indirect influence. Thus the effect of institutional ownership can directly increase profitability.

Furthermore, with regard to institutional ownership, it can be explained that institutional ownership also has a significant influence on stock prices. This indicates that the ownership of the institution can affect the increase in stock

Volume 2 Issue 12 December 2017
DOI: 10.18535/afmj/v2i12.05
Page no.1199-1206

prices and increased profitability. The resultis consistent with research conducted by Antonius (2014) demonstrating that institutional ownership affects the value of the company in this case related to the stock price, which also supported by the Holderness and Sheehan (1988) who specifically found a significant positive effect between block holder on stock returns in the stock market. The basis of this argument is that the greater level of stock ownership by the institution, the more effective the control mechanism on the performance of management.

CONCLUSION

Based on the formulation of the problem, hypotheses and research results that have been discussed, we can withdraw some conclusions that are, (1) Independent commissioners have an effect on profitability; (2)Audit committee affects profitability; (3) Institutional ownership affects profitability; (4) Independent commissioners partially affect the stock prices; (5) Audit committee affects stock prices; (6)Institutional ownership affects stock prices; (7) Profitability affects the stock price; (8) Stock prices mediate the influence of independent commissioners on profitability; (9) The stock price mediates the influence of the audit committee on profitability; (10) Stock prices mediate the effect of institutional ownership on profitability

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