The Impact of Corporate Governance, Ownership Structure, and Cash Holdings on Firm Value with Profitability as Intervening Variable

Lucy Novianti

***Abstract*—** The purpose of this study is to determine the effect of corporate governance, ownership structure, and cash holdings on firm value, either direct or indirect through profitability as an intervening variable for non-financial companies listed on the Indonesia Stock Exchange during 2006 to 2014. Samples of 176 firms are chosen based on purposive sampling method.

The results of this study conclude that profitability, the size of Audit Committee, audit quality, and cash flow have positive effects on firm value. This study also shows that the meeting frequency of the Board of Directors and free cash flow have negative effects on firm value. In addition, this study finds that the size of the Board of Directors, Independent Commissioner, and ownership structure do not have significant effects on firm value. In this study, the function of profitability as an intervening variable can only be done on the impact of the meeting frequency of the Board of Directors and cash flow on firm value. This study provides a reference for management in decision making concerning the application of corporate governance, cash holdings, and financial performance. Moreover, it can be used as additional informations for investors in assessing the feasibility of an investment. Finally, it provides suggestion for government regarding the regulation of corporate governance.

***Keywords*—** Cash Holdings, Corporate Governance, Firm Value, Ownership Structure, Profitability.

I. Introduction

THE main goal of a profit-based company is to maximize profit for its shareholders. For those companies that have made an Initial Public Offering (IPO), high firm value can be used as an indicator in achieving this goal. Firm value is the selling price of a company by calculating future profits that are represented on the current value [1]. There are several factors that affect firm value, namely corporate governance, ownership structure, cash holdings, profitability, leverage, dividend payout ratio, and investment [2]-[7]. However, the failure of implementing good corporate governance tends to lead to the failure of maximazing firm's value [8].

Good corporate governance will improve the alignment of interests of principals and agents, then increase the firm value [2], [7], [9]-[12]. However, there are difference results of research on the relationship between corporate governance and firm value. Corporate governance has no effect on firm value [13]-[15]. The results obtained with the assumption that there are other variables that mediates the relationship between corporate governance and firm value. Moreover, corporate governance has a negative influence on the firm value, for the provision of good corporate governance cannot be applied properly [16].

In addition, other factor need to be considered regarding firm value in Indonesia is the ownership structure. Referring to [17], in 2014, more than 95% of business in Indonesia is ran by family, greater than the percentage in Southeast Asia which is only 60%. On the one hand, family ownership can reduce the agency problem, because management has a special relationship with shareholders, thereby increasing the value of the company [19], [20]. But on the other hand, family ownership can lead to abuses of authority, so that lower the firm value [3], [20], [21].

Another important factor that can not be set aside is cash holdings. Cash allocation has a vital role for the company's performance and the shareholders' interests. There are difference results on the impact of cash holdings on firm value. Cash holdings has negative effect on firm value due to investors' anxiety of misuse of cash by management [7], [22], [23]. However, cash holdings has positive effect on firm value, because it reduce the cost of financing and creating investment opportunities [24]-[26].

Firm value is also affected by profitability. A Company is considered to have a bright future if it has high profitability, so investors will provide high value for the company's stock. According to signalling theory [27], profitability can be used as an information for investors that the company deserved to be invested. There have been few studies on the relationship between corporate governance, ownership structure, cash holding, and profitability. Most of these studies obtain significant results, but there are several studies that opposites. Looking at the significance of the relationship between profitability, dependent variable, and independent variables in this study, the author will use profitability as an intervening variable for the relationship between corporate governance, ownership structure, cash holdings, and firm value.

Lucy Novianti is an undergraduate student of Prasetiya Mulya University, Edutown BSD City, Kavling Edu I No. 1, BSD Raya Barat 1, Serpong, Tangerang, 15339, Indonesia; e-mail: lucynovianti.pranata@yahoo.com.

II. LITERATURE REVIEW

A. Agency Theory

Agency relationship is a contract between a principal or shareholder with an agent or management [28]. Early emergence of agency theory is the separation between the functions of shareholders and management functions. Although there is a separation of functions, essentially shareholders and management have a single purpose, namely to maximize the interests of shareholders by maximizing firm value. However, along with the development of the responsibility and the role of both functions, there is a shift of interest.

There are three types of agency problems that can occur in a company [28]:

• Type 1: The conflict between the shareholders (principals) and management (agent). Problems arise because of the differences in interests between the two sides.

• Type 2: The conflict between the majority shareholder (the agent) and the minority shareholders (principals). Problems arise because of the imbalance of power or authority to determine corporate's policies.

• Type 3: The conflict between shareholders and management (agent) with a third party (the principal), for example, creditors, government, and auditors. Problems arise because of the requirements that must be implemented by the company.

Implementation of corporate governance will incure costs for the company. The costs incurred is called agency cost and divided into three categories [28]:

• Monitoring costs: the costs incurred by the company to monitor agent's performance and provide assurance that the company will be managed in accordance with the interests of shareholders. Examples of monitoring cost is the cost of internal and external audits.

• Bonding costs: costs incurred to ensure that agent's action will not be detrimental to shareholders, and agents will compensate for the losses incurred. Examples of bonding cost is the cost of management compensation.

• Residual loss: the cost to be borne by the company because of differences of interest between principal and agent, although there have been monitoring and bonding costs.

Hence, to address agency problems, the company can apply corporate governance as a solution. Implementation can be done by: (a) Supervision from the Board of Commissioners (b) Establish an Audit Committee to monitor Board of Directors' performance, and (c) Use the service of a reputable auditor to ensure the interests of shareholders. With the implementation of good corporate governance, management less likely to act on their own interests. Therefore, the confidence level of investor will rise and so does the firm value.

B. Signalling Theory

Signalling theory explaining how the problem of information asymmetry can be reduced by providing a signal in the form of information to external parties [27]. This information includes financial statements which contain a summary of the financial performance of the company, as well as non-financial information such as management's plans in the long term and important events that are or will be experienced by the company. Signalling theory reveals that management will provide information to investors voluntarily to assist in decision making [29]. With the release of such information, managers can minimize information asymmetry occurs. Therefore, the provision of information to external parties is very important to do.

The company's performance can be used as information to give a signal to investors that the company has a good performance. When companies have high profitability, investors will be interested in buying the company's stock, so it will increase the firm value. In addition, the availability of cash holdings may also be a signal to investors that the company can pay dividends, so that investors' expectations are higher, which will increase the firm's value. It was concluded that, the possibility of the company to obtain additional capital will be increased if management provides good information and transparency. When the performance of the company increased, investors will be more interested to invest in the company. This will have an impact on increasing the firm's value.

C. Pecking Order Theory

A company has an order (the pecking order) in the use of capital [30]. The company will give priority to using internal funding than using external funding. There are several factors that underlie the tendency of a company using internal financing than external funding [31]:

1. The Company has no obligation to pay interest on the loan.
2. Process to obtain investment funds using internal funding faster than using external funding.
3. There is no agreement with the third party in obtaining investment funds.
4. Investment funds could be used in an unlimited period of time.

Thus, companies will have high quantities of cash for investment. It aims to improve the company's performance, which will ultimately increase the firm's value.

D. Free Cash Flow Theory

Free cash flow is the cash flow net of investment costs and non-cash charges (depreciation) [32]. The free cash flow theory is closely linked to agency theory. This theory states that the company which has free cash flow in high amounts will be encouraged to invest in projects that have a negative Net Present Value (NPV). This is done by the management to ensure that the funds available are not used to provide dividends to shareholders. It can result in a decrease in the company's performance, and lead to the decrease of firm value.

E. Conceptual Framework

In accordance with signalling theory, high level of profitability can also be an indicator that the company has a good future. Profitability analysis commonly used for investors in making investment decisions, due to the close connection between these two aspects. It can be said that the

company would try to achieve the main objective of establishment of the company, which is to increase firm's value, by having a high level of profitability. The whole policy of the company will be on efficiency and effectiveness to get the highest profit. Therefore, the first hypotesis is profitability has positive effect on firm value.

According to agency theory, the segregation duties may lead to information asymmetry and agency problems. It has a negative impact on firm value, because the policies implemented by the company will benefit the agents. With the implementation of good corporate governance, there will be an alignment of interest for both parties. It will get a great respond from investor, then the firm value will increase. Moreover, the agent can work effectively and efficiently, which will lead to the enhancement of company's performance. In accordance with the signalling theory, with the increased performance of the company, the firm's value will increase. Therefore, the second and third hypotesis are corporate governance has positive effect on firm value either directly or through profitability.

Family-owned company tend to take personal benefits and ignore the interests of shareholders as a whole. The company will give priority to the welfare of the family compared to thinking about the company's performance, so there will be a conflict between the majority and minority shareholders. This will reduce the company's performance and the level of investor's confidence, so it will decrease the firm's value. According to agency theory, family-owned company will have agency problem type two. It will increase the agency cost and lower the profitability. In addition, company tend to choose their own family to run the business than others outside their family whom have better skills and experiences. Therefore, the fourth and fifth hypotesis are ownership structure has negative effect on firm value either directly or through profitability.

In accordance with the signalling theory, companies with a high level of cash holdings will have a good assessment from investor. The company will be considered able to pay dividends and pay loans. With the high level of investor's confidence, the firm's value will rise. Companies that have large amounts of cash will have better performance, compared with companies with little amounts of cash. This is consistent with the pecking order theory, which is the company's policy to use the cash for investment, compared to using external financing. Internal funding can reduce investment costs, thereby increasing profitability, which will have an impact on the increasing of firm's value. Therefore, the sixth and seventh hypotesis are cash holdings has positive effect on firm value either directly or through profitability.

Based on the previous literature review and earlier findings, hereby the conceptual framework for this study:

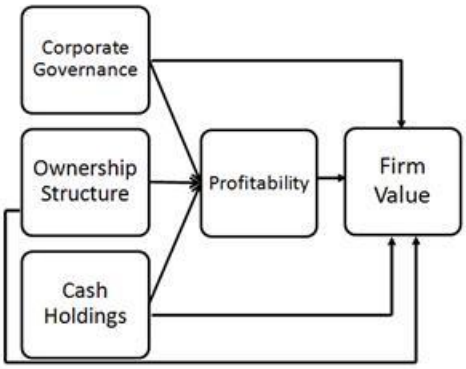

Figure 1 Conceptual Framework

III. DATA AND METHODOLOGY

The population in this study is non-financial companies listed on the Indonesia Stock Exchange. The sample obtained is 176 companies each year, with a 9-year study period, so the total of observation is 1,584 data.

TABLE I
SAMPLE SELECTION

Indicator	Total
Companies listed on IDX in 2014	511
Financial companies listed on IDX in 2014	(86)
Companies that have not been registered in the IDX in 2006	(177)
Delisted companies	(4)
Companies with incomplete information	(65)
Companies with no sales	(3)
Total sample	176

The independent variables in this study are corporate governance, ownership structure, and cash holdings with variety of proxy to represent each variable. Corporate governance is proxied by the size of the Board of Directors, Independent Commisioner, Board meeting, Audit Committee, and audit quality. Ownership structure is proxied by family owned and non-family. Cash holdings is proxied by cash flow and free cash flow. The intervening variable is Return on Assets. The dependent variable is Tobin's Q. The control variables used in this study are growth, leverage, debt to assets, and dividend payout ratio.

TABLE II
OPERATIONAL DEFINITION OF VARIABLES

Variable	Operational Definition
Independent (DD) size of Board of Directors	The number of members of the Board of Directors
Independent (KI) Independent Commisioner	The ratio of Independent Commissioners to the number of members of Board of Commissioners
Independent (RD) Board Meeting	The number of Board meetings
Independent (KOA) Audit Committee	The number of members of the Audit Committee
Independent (KUA) Audit Quality	Classifying the audit firm used by the company, dummy variable 1 for the big four and dummy variable 0 for the non big four
Independent (SK) Ownership Structure	Classifying the ownership structure of the company, dummy variable 1 for owned by family and dummy variable 0 for owned by non-family

Independent (CF) Cash Flow	Cash and cash equivalents at the end of the year divided by total assets
Independent (FCF) Free Cash Flow	Free cash flow in the previous year divided by the previous year's sales
Intervening (ROA) Return on Assets	The ratio of net income to total assets
Control (GR) growth	Sales growth
Control (LEV) Leverage	Liability divided by equity
Control (DAR) Debt to Assets	Liability divided by total assets
Control (DPR) Dividend Payout Ratio	Dividend divided by net income
Dependent (Q) Firm Value	Tobin's Q (market value divided by book value)

Research model that will be used in this study are:

$$Q_{it} = \alpha_1 + \beta_1 DD_{it} + \beta_2 KI_{it} + \beta_3 RD_{it} + \beta_4 KOA_{it} + \beta_5 D\_KUA_{it} + \beta_6 D\_SK_{it} + \beta_7 CF_{it} + \beta_8 FCF_{it-1} + \beta_9 ROA_{it} + \beta_{10} GR_{it} + \beta_{11} LEV_{it} + \beta_{12} DAR_{it} + \beta_{13} DPR_{it} + \epsilon_{1it}$$

$$ROA_{it} = \alpha_2 + \beta_{14} DD_{it} + \beta_{15} KI_{it} + \beta_{16} RD_{it} + \beta_{17} KOA_{it} + \beta_{18} D\_KUA_{it} + \beta_{19} D\_SK_{it} + \beta_{20} CF_{it} + \beta_{21} FCF_{it-1} + \beta_{22} GR_{it} + \beta_{23} LEV_{it} + \beta_{24} DAR_{it} + \beta_{25} DPR_{it} + \epsilon_{2it}$$

IV. EMPIRICAL RESULTS

Analysis begins with a discussion of descriptive statistics that provide an overview of each variable. Then, classical assumption test to ensure the absence of problems for normality, multicollinearity, heteroscedasticity, and autocorrelation. After passing the classic assumptions test, this study continued by choosing the most appropriate models for the research. Lastly, this study run the hypothesis test and mediation test using Kenny Baron method [33].

A. Descriptive Analysis

Q or firm value is proxied by Tobin's Q. The minimum value of data q is 0.14, with a maximum value of 5.16. The standard deviation of q is 1.02. The average value of q is 1.48, which indicates that the companies in general have greater market value than the book value. Thus, it can be said that during the study period, investors have high confidence in the company by rating the stock higher than the book value.

Roa is a proxy for profitability. The minimum value of roa is -0.32, which indicates that there are companies that suffered losses, while the maximum value of roa is 0.43, which means the company can generate a net profit of Rp 43 per Rp 1 invested in assets. Standard deviation of roa is 0.10. The average value of roa is 0.06. The positive value indicates that during the study period, companies in general managed to get profit.

Dd is the first of five proxy used on corporate governance variables. Average data of dd is 4.82, which means companies in general has 4 or 5 members in Board of Directors. The standard deviation of the data is 1.98. The minimal amount of size of the Board of Directors is 2 members, while the maximum amount of data of the size of Board of Directors is 15 members.The complete results are in the table III.

TABLE III
DESCRIPTIVE ANALYSIS

Variable	Obs	Mean	Std. Dev.	Min	Max
q	1,584	1.484084	1.018791	0.1421	5.16242
roa	1,584	0.0588059	0.1018136	-0.31805	0.43484
dd	1,584	4.815025	1.981086	2	15
ki	1,584	0.4088767	0.1069323	0.2	1
rd	1,584	18.49306	14.37407	1	82
koa	1,584	0.536057	3.109848	2	7
kua	1,584	0.4337121	0.4957429	0	1
sk	1,584	0.6281566	0.4834495	0	1
cf	1,584	0.0974501	0.10428	0.00015	0.72353
fcf	1,584	0.0009264	0.226254	-0.89324	0.87312
lev	1,584	1.25546	1.609803	-5.20216	7.71574
gr	1,584	0.1495281	0.2977437	-0.9104	1.23426
dar	1,584	0.5112973	0.2722504	0.00247	1.82549
dpr	1,584	0.2161826	0.377326	-1.35597	1.82279

B. Classic Assumption Test

Data is said to pass the test of normality if it has Skewness between -3 and 3 and has a kurtosis below 10 [34].

TABLE IV
NORMALITY TEST

Variable	Skewness	Kurtosis
q	2,037641	7,156811
roa	0,6281348	7,059775
dd	1,022793	4,324568
ki	2,367009	9,167814
rd	1,232584	3,455067
koa	1,918081	7,522836
kua	0,2675129	1,071563
sk	-0,530343	1,281264
cf	1,859567	7,241148
fcf	-1,211789	8,567654
gr	1,047448	6,77224
lev	0,9326598	9,326994
dar	1,688584	9,524648
dpr	1,884041	9,297521

Thus, it can be said that all variables have a normal distribution, so it is considered to pass the test for normality.

A regression model can be said to have no symptoms of multicollinearity when the VIF is smaller than 10 and 1 / VIF is greater than 0.01 [34].

TABLE V
MULTICOLLINEARITY TEST 1

Variable	VIF	1/VIF
koa	9.73	0.102750
dd	7.80	0.128140
dar	4.90	0.204190
Rd	2.74	0.364412
kua	2.31	0.432843
Cf	2.31	0.432843
Ki	2.30	0.434971
Sk	2.30	0.434971
roa	2.04	0.490807
lev	1.80	0.554558
dpr	1.54	0.648161
Gr	1.37	0.727743
fcf	1.16	0.860267
Mean	3.25	

TABLE VI
MULTICOLLINEARITY TEST 2

Variable	VIF	1/VIF
koa	9.65	0.103585
dd	7.68	0.130133
dar	4.54	0.220194
rd	2.74	0.364413
sk	2.29	0.437415
Ki	2.28	0.438782
kua	2.27	0.439695
Cf	2.16	0.462371
lev	1.80	0.554676
dpr	1.52	0.658681
Gr	1.29	0.774432
fcf	1.11	0.904637
Mean VIF	3.28	

Thus, it can be said that both the regression model free from multicollinearity, so it can pass multicollinearity test.

The regression model is said to be free of autocorrelation if it has a probability of above 0.05 [34].

TABLE VII
AUTOCORRELATION TEST

Model 1		Model 2	
F (1, 175)	30.835	F (1, 175)	5.191
Prob>F	0.0000	Prob>F	0.0239

Based on the results of autocorrelation test, it can be said that both the regression model has autocorrelation problem. However, after a treatment from Stata program, the regression model can pass autocorrelation test.

The regression model is said to be free of heteroscedasticity if it has a probability of above 0.05 [34].

TABLE VIII
HETEROSCEDASTICITY TEST

Model 1		Model 2	
Chi2 (176)	1,0e+06	Chi2 (176)	1,6e+05
Prob>chi2	0,0000	Prob>chi2	0,0000

Based on the results of heteroscedasticity test, it can be said that both the regression model has heteroscedasticity problem. However, after a treatment from Stata program, the regression model can pass heteroscedasticity test.

C. Research Model Test

There are three tests to determine the model of research, namely Chow test, LM test and Hausman test.

TABLE IX
RESEARCH MODEL TEST

Test	Result	Method
Chow	Prob > F = 0,0000	FEM
LM	Prob > chibar2 = 0,0000	REM
Hausman	Prob > chi2 = 0,0000	FEM

Therefore, the research model used for regression model in this study is the Fixed Effects Method.

D. Hypotesis Test

TABLE X
T TEST 1

q	Coef.	Drisc/Kraay Std. Err.	t	P>|t|
roa	2,481554	0,4887205	5,08	0,000***
dd	-0,022686	0,0291013	-0,78	0,437
ki	0,029791	0,3749814	0,08	0,937
rd	-0,008039	0,0013698	-5,87	0,000***
koa	0,023514	0,0081908	2,87	0,005***
kua	0,153308	0,0649643	2,36	0,019***
sk	-0,034378	0,1495704	-0,23	0,818
cf	0,93771	0,2976859	3,15	0,002***
fcf	-0,130804	0,0787854	-1,66	0,099**
gr	-0,074809	0,0755812	-0,99	0,324
lev	-0,062844	0,0154852	-4,06	0,000***
dar	0,929108	0,204966	4,53	0,000***
dpr	0,101089	0,0318091	3,18	0,002***
_cons	0,823544	0,1993155	4,13	0,000***

Exp: * α = 10%; ** α = 5%; *** α = 1%

Based on the t test, the regression equation model 1 is as follows:

$$Q_{it} = 0{,}82 - 0{,}02DD_{it} + 0{,}03\,KI_{it} - 0{,}01RD_{it} + 0{,}02KOA_{it} + 0{,}15D_{KUA_{it}} - 0{,}03D_{SK_{it}} + 0{,}94CF_{it} - 0{,}13FCF_{it-1} + 2{,}48ROA_{it} - 0{,}08GR_{it} - 0{,}06LEV_{it} + 0{,}93DAR_{it} + 0{,}10DPR_{it} + \epsilon_{1it}$$

TABLE XI
T TEST 2

roa	coef.	drisc/kraay std. err.	t	p>|t|
dd	0.0001297	.0025518	0.05	0.960
ki	-0.0046998	.0343804	-0.14	0.891
Rd	-0.0007022	.000233	-3.01	0.003***
Koa	0.0003034	.0003237	0.94	0.350
kua	0.0017363	.006468	0.27	0.789
sk	-0.0063403	.0166401	-0.38	0.704
ch	0.214918	.0293024	7.33	0.000***
fcf	0.0433873	.0193209	2.25	0.026***
gr	0.0600222	.0145431	4.13	0.000***
lev	0.0012947	.0020197	0.64	0.522
dar	-0.1777096	.0192149	-9.25	0.000***
dpr	-0.0093952	.0036022	-2.61	0.010***
_cons	0.133152	.0105885	12.58	0.000***

Exp: * α = 10%; ** α = 5%; *** α = 1%

Based on the t test, the regression equation model 2 is as follows:

$$ROA_{it} = 0.13 + 0.0001DD_{it} - 0.005KI_{it} - 0.001RD_{it} + 0.0003KOA_{it} + 0.002D\_KUA_{it} - 0.01D\_SK_{it} + 0.22CF_{it} + 0.04FCF_{it-1} + 0.06GR_{it} + 0.001LEV_{it} - 0.18DAR_{it} - 0.001DPR_{it} + \epsilon_{2it}$$

Based on F test, with the result of 0.00 on probability, it can be concluded that all independent variables have significant effect on Tobin's Q and ROA. Meanwhile, based on the test R^2, the coefficient of determination research model 1 is 11.28%. Thus, all independent variables can explain Tobin's Q amounted to 11.28%. Furthermore, based on the test R^2, the coefficient of determination research model 2 is 24.50%. Therefore, all independent variables can explain ROA amounted to 24.50%.

E. Mediation Test

Mediation test conducted by a four-step test of Baron and Kenny [33].

TABLE XII
MEDIATION TEST

Independent to Dependent		Independent to Intervening		Independent & Intervening to Dependent		Rresult	
q	P>|t|	roa	P>|t|	q	P>|t|	Direct Effect	Mediating Effect
				roa	0,000	√	
dd	0,464	dd	0,960	dd	0,437	x	x
ki	0,965	ki	0,891	ki	0,937	x	x
rd	0,000	rd	0,003	rd	0,000	√	√
koa	0,007	koa	0,350	koa	0,005	√	x
kua	0,034	kua	0,789	kua	0,019	√	x
sk	0,745	sk	0,704	sk	0,818	x	x
cf	0,001	cf	0,000	cf	0,002	√	√
fcf	0,724	fcf	0,026	fcf	0,099	√	x
lev	0,000	lev	0,522	lev	0,000	√	x
gr	0,355	gr	0,000	gr	0,324	x	x
dar	0,000	dar	0,000	dar	0,000	√	√
dpr	0,036	dpr	0,010	dpr	0,002	√	√
_cons	0,000	_cons	0,000	_cons	0,000		

Based on the mediation test, it can be seen that rd and cf can be mediated by profitability. Variable roa has partial mediation effect, since cf and rd still have significant direct effect on q.

Profitability has positive effect on firm value. The result is consistent with research conducted referring to [14]-[16], [35], [36]. Investors as outsiders have little knowledge about the company's situation. One indicator used is the financial performance. When profitability is high, investors will have high expectations of the continuity of the company, because they can provide benefits in the form of dividends. Thus, firm value would rise as investor optimism. The result also corresponds to signaling theory, which states that the company will give a signal in the form of the company's performance. Profitability is one of management's efforts to maximize the value of the company. The company's profitability can be used as information to give a signal to investors that the company is eligible to receive investment.

The size of the Board of Directors has insignificant negative effect on firm value. The result is consistent referring to [3], [38]. In addition, the relationship between the size of the Board of Directors and firm value cannot be mediated through profitability, because there are other factors that underpin the performance of the Board of Directors, such as the supervision carried out by other committees. According to the agency theory, the company will be able to maximize the firm's value if there is a good system of internal and external control, so that the interests of agents and principals can be aligned. Thus, the act of enlarging the number of the Board of Directors without any monitoring will not significantly influence firm value and tend to lower firm performance because it cannot provide effective and efficient decisions.

Independent Commissioner is insignificant positive on firm value. The result is consistent referring to [3]. In addition, the relationship between Independent Commissioner and firm value cannot be mediated through profitability. The result is consistent referring to [16]. The result of the study is not in accordance with agency theory which states that the agency problem can be resolved by internal control. This happens because of regulation that must be obeyed by the company, which is to have Independent Commissioner composition of at least 30% of the number of Board of Commissioners. The regulation led to a tendency for companies to only has Independent Commissioner with the intention for compliance, because less than 50% Independent Commissioners has educational background or work experience in economic or business [38]. Thus, it cannot impact firm value significantly.

Number of board meeting has negative effect on firm value. The result is consistent referring to [39]. In addition, the relationship between the numbers of board meeting can be mediated through profitability. Companies with a high number of board meetings will be considered to have a lot of problems by investors. In addition, the board meeting could be costly. When the cost of board meeting cannot exceed the benefit obtained, profitability will decline due to non-operational costs, and then the firm value will also decline.

The size of Audit Committee has positive effect on firm value. The result is consistent referring to [8], [40]. The result is in accordance with agency theory which states that the agency problem can be minimized with internal control. Audit Committee can contribute in aligning the interests of the principal and agents, thereby increasing investor confidence, and lead to the increasing of firm value. However, the relationship between the size of Audit Committee with firm value cannot be mediated through profitability. The result is consistent referring to [16]. Audit Committee can not significantly improve the company's performance because it takes coordination with other councils in implementing company policy. Thus, it takes cooperation among company's member to improve the profitability of the company.

Audit quality has positive effect on firm value. The result is consistent referring to [3]. The result corresponds to agency theory which states that external control can mineralizes agency problem. People assume that the Big 4 has better quality than non-Big 4. Audit quality reflects the credibility of financial statements. Public and investors will trust the information provided, so that the firm value will increase. However, the relationship between audit quality and firm value cannot be mediated through profitability. It is associated with major cons in using the services of the Big 4, which is a high audit fee. By having a high audit fees, the company's profitability may decline. Thus, while the company received good response from the public with a use of Big 4 accounting firm services, the company may has difficulty in balancing the benefits received and the costs for using the services of the external auditor.

Ownership structure has insignificant negative effect on firm value. The result of the study consistent referring to [41]. In addition, the relationship between ownership structure with firm value cannot be mediated through profitability. In family ownership structure, shareholders will seek close relatives to gain an important position in the company, rather than more competent workers with no relative relationship. This will reduce the company's performance, which further lowers the value of the company. In addition, the company will prioritize family welfare than the interests of all shareholders, so there

will be a conflict between the majority and minority shareholders. This policy will undermine investor confidence in the company, so it will decrease the firm value. However, company with family ownership structure has a long-term orientation and good internal control because there is a family relation between management and shareholders. Thus, the ownership structure cannot significantly affect the profitability and value firm value because there are many factors involved.

Cash flow has positive effect on firm value. The result is consistent referring to [2], [6]. The result of the study is in accordance with signaling theory, which states that summary good financial performance will get a good assessment from investors. The company will be considered to be able to make an investment in the future, pay dividends to shareholders, and pay loans. With the high level of investor confidence, firm value will increase. In addition, the relationship between cash flow and firm value can be mediated through profitability. Companies that have large amount of cash will have better performance, compared with companies with little cash amount. This is consistent with the pecking order theory, which is the company's policy to use internal financing for investment than external financing. Internal funding can reduce investment costs, thereby increasing profitability, which will have an impact on increasing the firm's value.

Free cash flow has negative effect on firm value. The result is consistent referring to [22], [23]. This result is consistent with the free cash flow theory, which, when the company has high amount of free cash flow, management will have the intention to use the funds as investment, and if there is no profitable projects, management will invest in projects that are less profitable. This decision was made so that the asset owned by the company is not used as dividend. As a result, investor's confidence level will decline, then lead to the fall of firm value.

However, the relationship between free cash flow and firm value cannot be mediated through profitability. This occurs because not all investments made have a negative NPV, so the company will still benefit, although not to the fullest. Thus, the company did not experience a significant decline in profitability. In addition, the most of the sample are in industries with large capital expenditure needs, so there is another explanation that free cash flow is low because the company is expanding. This causes the relationship between free cash flow, profitability, and value of the company is insignificant.

V. CONCLUSION

This study aimed to analyze the direct effect of corporate governance, ownership structure, cash holdings, and the profitability on firm value, as well as the indirect effect of corporate governance, ownership structure, and cash holdings on firm value mediated by profitability. Based on the analysis and discussion, it can be concluded that profitability, Audit Committee, audit quality, and cash flow have positive effects on firm value. Meanwhile, board meeting and free cash flow have negative impact on firm value. In addition, size of Board of Directors, Independent Commissioner, and ownership structure do not have statistically significant influence on firm value. Finally, the function of profitability as an intervening variable can only be done on the impact of board meeting and cash flow on firm value.

Considering that there are several limitations to this study, further research may consider the following matters (1) Extend the period of study so that the results can be more representative. (2) Use different proxy of firm value, such as market capitalization and share price. (3) Use different proxy of profitability, such as ROE, net profit margin, and gross profit margin. (4) Add proxies of ownership structure, such as foreign, state, institutional and managerial ownership.

Based on the results, there are several things that can be used as a reference by the management in decision making. First, management should not enlarge the size of the Board of Directors in the absence of internal and external controls. Second, management should do a review about the election of members of the Independent Commissioner and Audit Committee, to ensure that the board members have sufficient competence and not only held the position to meet the requirements of the Act. Third, management should consider the costs and benefits in holding board meeting. Fourth, company may use auditor services that suitable with the company's financial condition. Fifth, management should have sufficient amount of cash to support the operation and investment needs. Sixth, company should strive to have a high level of profitability to get a good assessment from the investor.

In addition, there are some results that can be used as additional information for investors. First, corporate governance cannot be judged based on certain aspects, but as a whole. Thus, in assessing the feasibility of an investment, investors should look at the overall implementation of corporate governance adopted by the company. Second, the ability to manage and availability of cash flow can be used as an indication that the company deserved to be invested. Furthermore, there is a result that can be used as information for regulators. Although ownership structure has insignificant effect, but there is a tendency of negative influences. Thus, regulators should encourage the implementation of good corporate governance in the company and make regulations that support the enforcement of good corporate governance, particularly for publicly listed companies.

REFERENCES

[1] Maurice, S. & Thomas, C. (2016). Managerial Economics. United States: McGraw-Hill Education.

[2] Isshaq, Z., Bokpin, G.A. & Onumah, J.M. (2009). Corporate Governance, Ownership Structure, Cash Holdings, and Firm Value on The Ghana Stock Exchange, The Journal of Risk Finance, 10, 488-499.

[3] Putri, R. (2011). Analisis Pengaruh Corporate Governance, Struktur Kepemilikan, dan Cash Holdings terhadap Nilai Perusahaan.

[4] Lee, C. & Lee, K. (2010). Cash Holdings, Corporate Governance Structure and Firm Valuation.

[5] Ameer, R. (2012). Impact of Cash Holdings and Ownership Concentration on Firm Valuation, Review of Accounting and Finance, 11, 448-467.

[6] Loncan, T. & Caldeira, J. (2013). Capital Structure, Cash Holdings and Firm Value: A Study of Brazilian Listed Firms. Retrieved from http://dx.doi.org/10.2139/ssrn .232 9346

[7] Susanti, R. (2010). Analisis Faktor-Faktor yang Berpengaruh terhadap Nilai Perusahaan.
[8] Kyereboah-Coleman, A. (2007). Relationship Between Corporate Governance and Firm Performance.
[9] Mohanty, S. (2014). Corporate Governance As A Value Driver for Firm Performance: Evidence from India, Corporate Governance, 14, 265–280.
[10] Hussainey, S. (2014). Corporate Governance, Analyst Following and Firm Value, Corporate Governance, 14, 453-466.
[11] Suhartanti, T. (2015). Pengaruh Corporate Governance Terhadap Nilai Perusahaan dengan Kinerja Keuangan Sebagai Variabel Moderating. Journal of Accounting Research, 4.
[12] Siddiqui, S. (2015). The Association Between Corporate Governance and Firm Performance – A Meta-Analysis, International Journal of Accounting and Information Management, 23, 218-237.
[13] Ghazali, N. (2010). Ownership Structure, Corporate Governance and Corporate Performance in Malaysia, International Journal of Commerce and Management, 20, 109-119.
[14] Ratih, S. (2011). Pengaruh Good Corporate Governance Terhadap Nilai Perusahaan dengan Kinerja Keuangan Sebagai Variabel Intervening, Journal of Accounting Research, 5.
[15] Haryono, U. & Paminto, A. (2015). Corporate Governance and Firm Value: The Mediating Effect of Financial Performance and Firm Risk, European Journal of Business and Management, 7.
[16] Julianti, D. (2015). Pengaruh Mekanisme Good Corporate Governance Terhadap Nilai Perusahaan dengan Profitabilitas Sebagai Variabel Intervening.
[17] Duta, D. (2014). "PwC: 95 Persen Perusahaan Indonesia adalah Bisnis Keluarga", CNN Indonesia Online.
[18] Villalonga, B. & Amit, R. (2004). How Do Family Ownership, Contol and Management Affect Firm Value?, Journal of Financial Economics.
[19] Baron, R. & Kenny, D. (1986). The Moderator-Mediator Variable Distinction in Social Psychological Research: Conceptual, Strategic, and Statistical Considerations, Journal of Personality and Social Psychology, 51, 1173-1182.
[20] Wiranata, Y. A, & Nugrahanti, Y. W. (2013). Pengaruh Struktur Kepemilikan Terhadap Profitabilitas Perusahaan Manufaktur di Indonesia, Journal of Accounting and Finance, 15, 15-26.
[21] Cucculelli, M. & Micucci, G. (2008). Family Succession and Firm Performance: Evidence from Italian Family Firms. Bank of Italy Temi di Discussione (Working Paper), 680.
[22] Minton, B., & Schrand, C. (1999). The Impact of Cash Flow Volatility on Discretionary Investment and The Costs of Debt and Equity Financing, Journal of Financial Economics, 54, 423-460.
[23] Chung, R., Firth, M. & Kim, J. (2005). Earnings Management, Surplus Free Cash Flow, and External Monitoring, Journal of Business Research, 58, 766-776.
[24] Gregory, A. & Wang, Y. (2010). Cash Acquires: Free Cash Flow, Shareholder Monitoring, and Shareholder Returns, Journal of Finance and Investment, 10.
[25] Wang, G. (2010). The Impact of Free Cash Flows and Agency Costs on Firm Performance, Journal of Service Science & Management.
[26] Vogt, S. & Vu, J. (2000). Free Cash Flow and Long-Run Firm Value: Evidence From The Value Line Investment Survey, Journal of Managerial Issues, 12, 188-207.
[27] Morris, R. (1987). Signalling, Agency Theory and Accounting Policy Choice, Journal of Acconting and Business Research, 18.
[28] Jensen, M. & Meckling, W. (1976). Theory of The Firm, Journal of Financial Economics, 3, 305-360.
[29] Holthausen, R. (1990). Accounting Method Choice: Opportunistic Behavior, Efficient Contracting and Information Perspectives, Journal of Accounting and Economics, 207-218.
[30] Donaldson, G. (1961). Corporate Debt Capacity: A Study of Corporate Debt Policy and The Determinants of Corporate Debt Capacity. Boston: Harvard University.
[31] Brealey, R., Myers, S., & Marcus, A. (2014). Fundamentals of Corporate Finance. New York: The McGrawHill-Irwin.
[32] Jensen, M. (1986). Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers, The American Economic Review, 76, 323-329.
[33] Baron, R. & Kenny, D. (1986). The Moderator-Mediator Variable Distinction in Social Psychological Research: Conceptual, Strategic, and Statistical Considerations, Journal of Personality and Social Psychology, 51, 1173-1182.
[34] Gujarati, D. & Porter, D. (2009). Basic Econometrics. New York:Mcgraw-Hill.
[35] Nofrita, R. (2013). Pengaruh Profitabilitas terhadap Nilai Perusahaan dengan Kebijakan Deviden sebagai Variabel Intervening.
[36] Deriyarso, I. (2014). Pengaruh Profitabilitas terhadap Nilai Perusahaan dengan Corporate Social Responsibility sebagai Variabel Moderating.
[37] Cheema, K. & Din, M. (2013). Impact of Corporate Governance on Performance of Firms, Journal of Business and Management Sciences, 1, 44-46.
[38] Roma, D. (2012). Pengaruh Kompetensi Dewan Komisaris, Proporsi Dewan Komisaris Independen, dan Frekuensi Rapat Dewan Komisaris terhadap Nilai Perusahaan.
[39] Vafeas, N. (1999). Board Meeting Frequency and Firm Performance, Journal of Financial Economics, 53, 113-142.
[40] Sukmono, S. & Yadiati, W. (2016). Effect of Board of Commissioners and Audit Committee on The Firm Value with Mediating Effect Financial Reporting Quality, Research Journal of Finance and Accounting, 7.
[41] Febhiant, C. (2013). Pengaruh Corporate Governance dan Kepemilikan Keluarga Terhadap Nilai Perusahaan.