

DOES BOARD OF DIRECTORS DIVERSITY AFFECT COMPANY VALUE? A STUDY OF MANUFACTURING COMPANIES IN INDONESIA

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Abstract

This study aims to examine the effect of gender diversity, age and educational background of the board of directors on firm value in manufacturing companies. The research method used is descriptive analysis and verification. The population of this study are manufacturing companies listed on the Indonesia Stock Exchange for the period 2019-2020 totaling 206 companies. The sample research method used purposive sampling technique with a total sample of 38 companies that met the criteria. Data analysis was performed using panel data linear regression. The results of the study show that together the diversity of gender, age and educational background of the board of directors has a significant effect on firm value. Gender diversity and educational background of the board of directors have no significant effect on firm value, indicating that whether or not there is much gender diversity and diversity of educational background of the board of directors in the firm does not affect firm value. While the age diversity of the board of directors has a significant effect on firm value, indicating that the variable of age of the board of directors in the company is able to increase firm value.

Keywords: Diversity, Gender, Age, Educational Background, Company Values

INTRODUCTION

Nowadays, assessing a company is not solely based on the figures presented in its financial statements, but also through its firm value. In order to remain competitive in today's globalized market, companies must set long-term goals, one of which is to enhance their firm value.

Firm value can maximize shareholders' wealth if the company's stock price continues to increase. According to Sartono (2004), a higher firm value indicates greater prosperity for the owners. In addition to the relationship between corporate governance and firm value, one prominent issue within corporate governance is the composition of the board of directors (Kusumastuti et al., 2007).

A survey conducted by McKinsey & Co., as cited in Pakaryaningsih (2006), shows that corporate governance has become a primary concern for investors, especially in emerging markets. Investors tend to avoid companies with poor corporate governance practices. The implementation of good corporate governance can be reflected in firm value, as indicated by the company's stock price. According to Black et al. (2002), who conducted research in South Korea, there are two possible explanations for the relationship between corporate governance practices and firm value: signaling and endogeneity. In the signaling perspective, good corporate governance practices enhance firm value because they send positive signals to the market. On the other hand, endogeneity suggests that companies with high market value—regardless of the reason—tend to adopt better corporate governance practices.

Beyond the relationship between corporate governance and firm value, another related issue is the composition of the board. One key element in achieving sound corporate governance is to promote board diversity. This includes diversity in educational background, gender, race, age, and affiliation groups, which is believed to create a more heterogeneous board of commissioners and directors. Greater diversity among board members may lead to increased potential for conflict;

however, such differences can also serve as a strength by providing a range of perspectives and alternative solutions to increasingly complex problems (ACCA, 2015). Furthermore, diversity in the boardroom provides unique characteristics for the company, which can lead to added value (Kusumastuti et al., 2007).

One aspect of board diversity that has gained much attention is gender equality. Gender diversity remains a compelling and ongoing topic of discussion. A study conducted by the Center of Governance, Institutions, and Organizations (CGIO) at the National University of Singapore Business School (NUS) reveals that out of 424 companies listed on the Indonesia Stock Exchange (IDX), only 40% had female members on their boards of directors or commissioners. Furthermore, the study found that among the 3,736 total board members in publicly listed companies, only 11.6% were women (Deliman, 2012). Compared to more developed countries, Indonesia ranks relatively low. In European countries, on average, 17% of senior corporate positions are held by women. Meanwhile, in the United States and Australia, the figures stand at 16.1% and 13.8%, respectively (Tempo, 2012).

The presence of women on boards of directors or commissioners has become a significant topic of discussion, as numerous studies have shown that women possess leadership styles that differ from men and can significantly impact the overall performance of the company. Research findings also suggest that boards with female members tend to be more stakeholder-oriented, demonstrate stronger collaboration and teamwork, and are better at building consensus—qualities that contribute to more effective decision-making (McQueen, 2012). Women are also considered “tough,” as they often face numerous challenges before reaching board-level positions. As such, they tend to gain significant respect from their peers once they achieve such roles (Krishnan and Park, 2005).

Research in developed countries has demonstrated that a higher proportion of women on corporate boards has a positive impact on firm performance. However, this perception may not fully apply in Indonesia, where many listed companies are family-owned. In such cases, female board members are often appointed due to family ties with controlling shareholders rather than their expertise or professional experience (Darmadi, 2011).

In Indonesia, approximately 80% of board members are aged 40 years or older. This indicates a preference for more mature individuals in board positions. According to Barker and Mueller (2002), older board members are more likely to have extensive experience and practice, which is closely related to skill-based competencies (Reed and Defillippi, 1990).

Levinson and Peskin (1981), as cited in Santrock (1995), suggest that individuals aged 34–50 are the most healthy, stable, self-controlled, and responsible. By the time they reach 40–50 years of age, individuals are likely to have advanced as far as they can in their careers and to have reached a stable position. Thus, age is often associated with wisdom in decision-making within the board.

In the selection process for board members, companies must adhere to rules and requirements concerning the candidate's integrity, education, competence, and reputation. Educational background is an essential qualification for every individual (Wijaya and Suprasto, 2015). Although a business-related education is not a strict prerequisite for entering the corporate world (Kusumastuti et al., 2007), it is generally accepted that board members with a background in economics or business are at an advantage. They are more likely to understand good business governance practices and contribute effectively to corporate leadership.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

This study seeks to explain the relationships among the research variables through three fundamental theories: agency theory, resource dependence theory, and signaling theory.

Signaling Theory

Signaling theory pertains to the transmission of either positive or negative signals by corporate management to the capital market. The signals conveyed represent information regarding the

management's efforts to fulfill the desires of shareholders (Jama'an, 2008). Companies provide and publish information about their performance to the capital market with the intention of reducing information asymmetry, while also expecting the market to interpret such disclosures as either good or bad signals (Hartono, 2005).

Signals sent to the public by the capital market are expected to influence stock market behavior, especially company stock prices, which are strongly associated with firm value. If the company provides a positive signal to the market, it may lead to an increase in stock price, thereby enhancing firm value. Conversely, negative signals may result in a decline in stock price and firm value. Based on signaling theory, the presence of women on boards, varied educational backgrounds, and the age diversity of board members can be seen as positive signals, suggesting that the company has implemented good corporate governance practices (Wijaya and Suprasto, 2015).

Resource Dependence Theory

Resource dependence theory posits that resources are critical elements necessary for a company's development and sustainability. These resources significantly influence company decisions and actions, whether directly related to decision-making or not. When resources are obtained from the external environment, companies can reduce their dependence on external conditions. Differences in organizational behavior can be traced back to management decisions that are shaped by both external and internal agents controlling these critical resources.

The theory argues that to survive, companies must obtain competent resources. This aligns with arguments from several scholars who assert that organizations are externally dependent on resources (Pfeffer and Salancik, 1978).

Agency Theory

According to agency theory, one of the primary responsibilities of the board of commissioners is to monitor executive management's actions in order to ensure efficiency and protect stakeholder interests (Carter et al., 2003). Meanwhile, Jensen and Meckling, as cited in Sutedi (2006), define an agency relationship as a contract in which one or more principals (owners) employ another party (agent) to perform services on their behalf by delegating decision-making authority.

Agency theory, often used to explain corporate governance structures, has become a foundational approach in understanding the link between board characteristics and firm value (Carter et al., 2003). In Indonesia, regulations concerning board governance are an effort by the government, as the regulator, to improve the quality of corporate governance. The purpose of separating management from ownership is to ensure that owners gain maximum benefits through cost efficiency, with professional managers running the company (Sutedi, 2011).

The Presence of Women on the Board of Directors

The presence of women in the workforce—often referred to as career women—remains a relatively uncommon phenomenon. Women are often perceived as gentle, a trait that is negatively connoted in professional environments, whereas men are viewed as strong and assertive, which is seen as positive (Nelson and Julie, 1992, in Hartanto and Kusuma, 2001). However, further research has shown that women possess favorable psychological traits and tend to exhibit positive stress management. Studies on gender and ethics have yielded mixed results. Moral considerations and ethical reasoning differ between men and women, and gender appears to influence ethical compliance during decision-making processes.

Board diversity has become an intriguing subject in the context of corporate governance in Indonesia due to the prevailing notion that men are more suitable for senior corporate positions. The underrepresentation of women in top-level roles may stem from differing perceptions regarding the causes of success. Men's success is often attributed to high competence (such as talent or intelligence), while women's success is more frequently linked to luck (Deaux and Ernswiller, as cited in Crawford, 2006). However, in contexts where luck is less relevant, women's success is often

credited to hard work. Conversely, failures experienced by women tend to be attributed to a lack of ability, while failures among men are usually attributed to bad luck or exceptional circumstances, such as difficult tasks (Cash et al.; Etaugh and Brown, in Crawford, 2006).

Based on the above discussion, the first hypothesis is proposed as follows:

H1: Gender diversity on the board of directors has a positive effect on firm value.

Age Diversity on the Board of Directors

According to Hurlock (1999), adulthood can be divided into three stages: early adulthood (ages 18–40), middle adulthood (ages 40–60), and late adulthood (ages 60 and above). At age 40, individuals typically reach their career peaks. Middle adulthood is characterized by a decline in physical abilities and an increase in responsibilities. It is also a period during which individuals achieve and maintain satisfaction in their careers (Santrock, 1995). Levinson and Peskin (1981), as cited by Santrock (1995) and Kusumastuti et al. (2007), note that individuals aged 34–50 are generally the healthiest, calmest, most self-controlled, and most responsible. By the age of 40–45, most people have reached a stable and mature stage in their careers—hence the saying, "life begins at 40."

In late adulthood, the ability to process and retrieve information tends to decline, prompting individuals to prepare for retirement. However, Brandstadter and Renner (in Santrock, 1995) argue that wisdom increases with age. Thus, aging is associated with greater wisdom and judgment.

If correlated with performance, individuals in middle adulthood are likely to be at a stage where they focus more on maintaining career satisfaction than on changing employers. This suggests that age can influence a director's performance and, consequently, the company's value. Therefore, the second hypothesis is proposed as follows:

H2: Age diversity on the board of directors influences firm value.

Educational Background of the Board of Directors

The educational background of board members influences their knowledge and understanding. Although it is not mandatory for individuals entering the business world to have a business-related education, it is preferable for board members to have academic backgrounds in business or economics. Such knowledge equips them with a better ability to manage and make informed business decisions, which in turn, may influence the company's value.

Bray and Howard, along with Golan (as cited in Santrock, 1995), argue that a university education plays a significant role in career advancement, with higher educational attainment leading to faster and higher career trajectories. However, Nurudin (2004) notes that a study by Harvard University in the United States revealed that success is not solely determined by knowledge (educational background) or technical skills (hard skills), but largely by interpersonal and self-management skills (soft skills). The study found that hard skills account for only about 20% of success, while soft skills account for the remaining 80%. Hard skills refer to tangible, immediate outcomes, whereas soft skills are intangible and long-term in nature, involving interactions with others.

Research by Atahau and Supatmi (2011) and Kusumastuti et al. (2007) found that board members' educational backgrounds do not significantly influence corporate performance. These findings suggest that not all board members need to have economics-related academic backgrounds; rather, their soft skills are more critical in determining corporate success.

Accordingly, the third hypothesis is proposed as follows:

H3: Educational background diversity among board members has an effect on firm value.

RESEARCH METHODS

The type of data used in this study is quantitative data derived from the financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2019–2020.

Manufacturing companies were selected as the focus of this research due to the complexity of their operational activities, which involve transforming raw materials into finished goods. The sampling technique employed in this study is purposive sampling, based on specific predetermined criteria.

Table 1 presents the sample selection process used in the study.

Table 1. Research Sample

Description	Number of Companies
Total number of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2019–2020	206
Number of companies excluded due to incomplete annual reports and board of directors' data not meeting the sample criteria	176
Number of companies that met the sample criteria	38

Operationalization of Variables

Gender Diversity

The presence of women in the workforce—often referred to as career women—is still regarded as uncommon in many organizational contexts. Women are frequently perceived as gentle and nurturing, traits that may carry negative connotations in the workplace, whereas men are perceived as strong and assertive, which are generally seen in a more positive light (Nelson and Julie, 1992, as cited in Hartanto and Kusuma, 2001). In this study, gender diversity is measured using the following formula:

$$GD = \frac{\text{Number of Female Board Members}}{\text{Total Number of Board Members}}$$

Age Diversity

According to Hurlock (1999), adulthood can be categorized into three stages: early adulthood (ages 18–40), middle adulthood (ages 40–60), and late adulthood (age 60 until death). At around age 40, individuals typically reach the peak of their career development. Middle adulthood is characterized by a decline in physical ability and an increase in responsibilities, but it is also the phase during which individuals often achieve and maintain career satisfaction (Santrock, 1995).

Age diversity is measured using the following formula:

$$AD = \frac{\text{Number of Board Members Aged } \leq 50}{\text{Total Number of Board Members}}$$

Educational Background Diversity

Nurudin (2004) cites research from Harvard University showing that success is not solely determined by knowledge (educational background) and technical skills (hard skills), but also by the ability to manage oneself and interact with others (soft skills). The study indicates that hard skills account for only about 20% of a person's success, while the remaining 80% is attributed to soft skills. Hard skills are understood as capabilities that yield visible and immediate results, whereas soft skills are intangible and more subtle, often involving interpersonal interactions. Educational background diversity is measured using the following formula:

$$EBD = \frac{\text{Number of Board Members with ed Background in Economics or Business}}{\text{Total Number of Board Members}}$$

Firm Value

Firm value is a fundamental metric in business valuation, financial modeling, accounting, portfolio analysis, and related fields. Measuring firm value is important to enable comparisons between companies with differing capital structures. Several ratios can be used to measure a firm's market value; among them, Tobin's Q is widely used. In this study, firm value is measured using the following formula:

$$\text{Tobin's } Q = \frac{MVS + D}{TA}$$

Where:

MVS = Market Value of Equity, calculated by multiplying the number of outstanding shares by the closing stock price.
 D = Total Debt
 TA = Total Assets

Regression Equation

To test the proposed hypotheses, the following regression model is formulated:

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

Where:

Y represents firm value,
 X₁ represents gender diversity of the board of directors,
 X₂ represents age diversity of the board of directors,
 X₃ represents educational background diversity of the board of directors,
 α is the intercept,
 β₁, β₂, β₃ are the regression coefficients for the independent variables,
 μ is the error term.

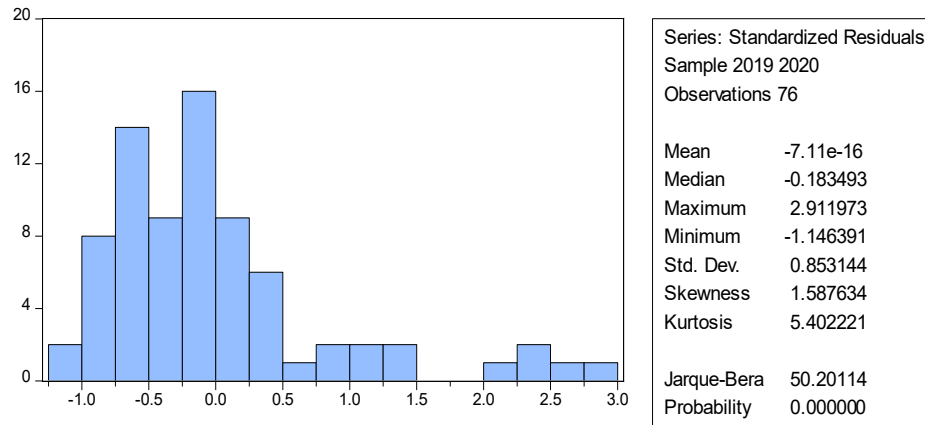
RESULTS AND DISCUSSION

Classical Assumption Tests

Classical assumption testing is conducted to ensure the validity and reliability of the regression model. A model is considered appropriate if the residuals are normally distributed, there is no multicollinearity, no autocorrelation, and no heteroskedasticity. The testing procedures are as follows:

Normality Test

The normality test is performed to examine whether the distribution of the data follows a normal distribution. A normally distributed dataset is essential for the reliability of parametric statistical analyses. The following is the result of the normality test:



Picture 1: Normality Test

Based on Figure 1, the Jarque-Bera statistic is 50.20114, which is significant at the 0.05 level, with a probability value of 0.000000. This indicates that the residuals are not normally distributed.

Multicollinearity, Heteroskedasticity Test

Table 2. Multicollinearity Test Results

	X1	X2	X3
X1	1.000000	0.232868	-0.097723
X2	0.232868	1.000000	0.071303
X3	-0.097723	0.071303	1.000000
Prob	0.2732	0.0000	0.1373

As shown in Table 2, the correlation coefficients between independent variables are all less than 0.80. This suggests that **there is no multicollinearity** in the regression model. Table 2 also shows that the significance values for variables X1 and X3 are greater than 0.05, while for variable X2 it is less than 0.05. This indicates the presence of heteroskedasticity in the model, particularly with respect to variable X2.

Panel Data Regression Analysis

In this study, panel data regression analysis was conducted to examine the effect of gender diversity, age diversity, and educational background diversity of board members on firm value. The dataset consists of 38 companies observed over two annual periods, from 2019 to 2020. The estimation of the panel data regression parameters was carried out using three model specifications: the **Common Effect Model (CEM)**, the **Fixed Effect Model (FEM)**, and the **Random Effect Model (REM)**.

Table 4. Chow and Hausman Test Results

Statistic	Value
Cross-section F	5.753885
Probability	0.0000
Chi-Square Cross-section Random	3.391093
Probability	0.3352

Based on Table 4, the Cross-section F statistic is 5.753885 with a p-value of 0.0000. Since the p-value is less than the significance level of 0.05, the null hypothesis (H_0) is rejected and the alternative hypothesis (H_1) is accepted. This implies that the Fixed Effect Model is more appropriate than the Common Effect Model. Table 4 also shows that the Chi-Square statistic is 3.391093 with a p-value of 0.3352. Since the p-value is greater than 0.05, the null hypothesis (H_0) is accepted. This indicates that the Random Effect Model is more appropriate than the Fixed Effect Model. In this study, the Lagrange Multiplier (LM) test was not conducted, as the Chow and Hausman tests had already established that the most appropriate model is the Random Effect Model. The LM test is typically used when the Chow test favors the Common Effect Model while the Hausman test favors the Random Effect Model. Given the results of the prior tests, the LM test is not necessary.

Hypothesis Testing

Table 5. t-Test Results

Variable	Coefficient	t-Statistic	p-Value	Significance
Constant (C)	0.842977	3.625618	0.0005	Significant
X1	0.626245	0.773127	0.4420	Not Significant
X2	1.353585	2.685105	0.0090	Significant
X3	-0.029185	-0.185784	0.8531	Not Significant

The t-statistic value of 0.773127 is relatively low, and the corresponding p-value of 0.4420 is greater than the conventional significance level of 0.05. This indicates that the variable gender diversity on the board does not have a statistically significant impact on firm value.

Therefore, we fail to reject the null hypothesis (H_0) and reject the alternative hypothesis (H_1) which stated that gender diversity has a significant effect on firm value. In statistical terms, the result implies that. There is no significant partial effect of board gender diversity on firm value at the 5% significance level.

Although the regression coefficient is positive (0.626245), suggesting a theoretically favorable association between gender diversity and firm value, this positive effect is not statistically supported by the empirical evidence. The insignificant result suggests that variations in the proportion of women on corporate boards do not significantly explain changes in firm value across the sample studie.

The t-statistic value of 2.685105 and a p-value of 0.0090, which is lower than the conventional 5% significance level (0.05), indicate that the effect of board age diversity on firm value is statistically significant. Since the p-value ($0.0090 < \alpha$ (0.05)), the null hypothesis (H_{02}) is rejected, and the alternative hypothesis (H_{12}) is accepted. This leads to the conclusion that There is a significant and positive partial effect of board age diversity on firm value. The finding aligns with theoretical perspectives on diversity and corporate governance, particularly the resource-based view and upper echelon theory, which posit that heterogeneous boards can enhance decision-making through a broader range of experiences, cognitive perspectives, and generational viewpoints.

The t-statistic of -0.185784 is very close to zero, and the p-value of 0.8531 is far greater than the 5% significance threshold ($\alpha = 0.05$). This statistical evidence indicates that the influence of educational background diversity among board members on firm value is not significant. Accordingly, the null hypothesis (H_{03}) cannot be rejected, and the alternative hypothesis (H_{13}) is rejected. Thus, the study finds that There is no significant partial effect of board members' educational background diversity—specifically in economics and business—on firm value. This result suggests that differences in educational background—particularly between those with economic/business education and those with other academic fields—do not significantly influence corporate valuation. There are several plausible explanations for this outcome

CONCLUSION

our research provides conclusions—specifically in terms of gender, age, and educational background—on firm value in manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2019–2020 period. During the observation period, board diversity in terms of gender composition, age distribution, and educational background, along with firm value, experienced fluctuating yet generally increasing trends. These changes are largely attributed to board reshuffles and director replacements initiated by the companies. This dynamic reflects the increasing awareness and responsiveness of firms to incorporate more diverse leadership structures, although implementation varied across companies.

The empirical analysis revealed that gender diversity on the board of directors does not have a significant effect on firm value. Despite the theoretical expectation that gender-diverse boards may enhance decision-making and oversight functions, the statistical evidence in this context does not support such a relationship. This result may be due to limited representation of women on boards or tokenistic appointments that do not meaningfully influence governance or strategic outcomes.

In contrast, age diversity among board members has a statistically significant and positive effect on firm value. This finding suggests that a heterogeneous age composition can enrich boardroom discussions with a balance of experience and innovation, thereby contributing to more effective governance and better corporate performance. It supports the notion that generational diversity on boards offers complementary perspectives, which may be particularly valuable in navigating complex business environments.

The study also found that diversity in educational background—particularly among directors with and without economics or business-related degrees—does not significantly affect firm value. This indicates that academic diversity, while important from a human capital perspective, may not directly influence firm valuation unless aligned with functional board roles, professional experience, or industry knowledge. It also highlights the possibility that practical expertise may outweigh formal educational credentials in board-level decision-making.

When analyzed simultaneously, the combination of gender diversity, age diversity, and educational background diversity collectively has a significant effect on firm value. This finding supports the idea that multidimensional diversity, rather than individual diversity attributes in isolation, is more influential in shaping strategic outcomes and enhancing firm value. The interaction and complementary nature of different diversity types may create a synergistic effect that improves board effectiveness, stakeholder engagement, and corporate governance quality.

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