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The Influence of Board of Commissioners and Audit Committee Effectiveness on Institutional Investors Interest in Family Firms

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ABSTRACT

The objective of this research is to analyze how the board of commissioners and audit committee effectiveness as the mechanisms for corporate governance, influence the institutional investor's interest in such firms. Furthermore, this study examines whether the family ownership would influence those associations. Board of commissioners and audit committee effectiveness are measured using a score developed by Hermawan (2009). Hypothesis testing is carried out using logistic regression models with 643 observations (firm-year) from companies listed in Indonesia Stock Exchange during the period of 2009 to 2011. The empirical result finds that institutional investors are more probable to have an interest to invest in companies with more effective board of commissioners and audit committee. However, family ownership appears to weaken the influence of the board of commissioners effectiveness, but also strengthen the influence of audit committee effectiveness.

Keywords: board of commissioners effectiveness, audit committee effectiveness, family ownership, institutional investor.