Corporate Governance of Firm Performance in the Non-Financial Sector for the 2017–2021 Period

Jessica Purnomo Khoe, Bertha Silvia Sutejo(✉), and Werner Ria Murhadi

University of Surabaya, Surabaya, Indonesia
bertha@staff.ubaya.ac.id

Abstract. This study aims to analyze the influence of corporate governance factors on firm performance in non-financial sector companies listed on the Indonesia Stock Exchange (IDX) for 2017–2021. The independent variables in this study are Board Size, Board Independence, and Female Directorship. The control variables are Firm Size and Leverage, while the dependent variables used in this study are Return on Assets (ROA) and Tobin's Q (TBQ). This study uses multiple linear regression analysis with the number of samples that meet the characteristics of 433 companies. The results of this study on ROA show that Board Size is the only significant variable. In contrast, the study's results on TBQ show that Board Size has a significant positive effect and Board Independence has a significant negative effect.

Keywords: Board Size · Board Independence · Female Directorship · Firm Performance

1 Introduction

The interests of shareholders can be protected by sound corporate governance. It is anticipated that businesses with sound governance will be able to reduce investment risk and improve financial performance [1]. Companies that emphasize sound corporate governance can increase value for shareholders by lowering their cost of capital or producing more cash flow [2–5]. On the other hand, a corporation with a poor governance structure creates money over the long run but does not guarantee shareholder returns. The executive's management cannot be held accountable under the corporate governance system [2, 4, 5].

The number of board members employed by a corporation determines the size of the board of commissioners. According to agency theory, a positive relationship exists between board size and corporate performance. The more supervisory commissioners there are, the better. This will stop managers from acting in their best interests [6, 7] Detthamrong et al. assert that a large board tends to have better access to resources than one with a small number of commissioners. H1: The size of the board of commissioners affects business performance favorably.

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The board of directors' requirements must be met by independent commissioners who are not the company's largest shareholder or group of shareholders or executives [8]. According to agency theory, independent commissioners have a favorable impact on firm performance. They will be more impartial if they have an autonomous position [9]. The corporation's effectiveness can be improved by having a skilled independent commissioner on the board. The commissioners will act objectively and be able to safeguard all firm stakeholders as the number of independent commissioners rises [1]. H2: The performance of a corporation is positively impacted by independent commissioners. Women are still underrepresented on the executive team and the board of commissioners. External pressure from shareholders, social organizations, and decision-makers causes the corporation to feel pressure to appoint women to the board of commissioners [10]. According to agency theory, gender diversity improves company performance. A team's experience, knowledge, and human resources can all be increased by gender diversity [11]. Gender diversity may cause businesses to exercise greater caution and control when undertaking riskier expansions. More tightly regulated companies can attain better profitability results [9]. H3: The performance of companies benefits from having female commissioners.

2 Research Method

This study is categorized as a basic research that tests the influence of the independent variables: the size of the board of commissioners, independent commissioners, and female commissioners, on the dependent variable: company performance (ROA and Tobin's Q). Firm Size and Leverage are the control variables in this study. The objects in this study are non-financial sector companies listed on the Indonesia Stock Exchange for the 2017–2021 period. There are 660 companies listed on the Indonesia Stock Exchange, and the companies that meet the target population criteria are 433. However, there were 26 outlier data, so the number of companies used in this study became 407 companies. The criteria in question are that the issuer has never experienced delisting and relisting on the Indonesia Stock Exchange (IDX) in 2017–2021. The company publishes audited financial reports every year from 2017–2021.

3 Results and Discussion

Table 1 shows the ROA regression results. Table 2 shows the TBQ regression results.

The coefficient value of the board of commissioners size variable is 0.005, and the probability has a value of 0.037. It means that the board of commissioner's size variable significantly positively affects ROA. The larger the board of commissioner, the higher the ROA. H1 is accepted.

These findings are consistent with [12] Hassan & Halbouni's assertion that board size can significantly influence accounting-based performance measures. This is also consistent with [7] Detthamrong et al. and [13] Assenga et al., who claimed that, according to resource dependence, larger boards tend to have better access to resources like capital and expertise from the outside world than smaller ones. The board of commissioners' diversity of knowledge and experience will make it possible for the learning process and

Table 1. ROA regression analysis result.

Variables	Coefficient	Prob.
C	−0.201	0.004
UDK	0.005	0.037
KOMIND	0.013	0.604
WOMAN	0.001	0.824
SIZE	0.007	0.003
LEV	−0.047	0.000
Adjusted R-squared	0.032	
F-sta	14.662	
Prob. (F-statistic)		0.000

decision-making to be carried out more carefully, improving the company's performance [7].

The probability has a coefficient value of 0.6042, and the independent commissioner variable is 0.013436. This indicates that the independent commissioner variable significantly favorably influences ROA. H2 is rejected, the findings of research with negligible ROA. The existence of independent commissioners has no impact on performance since certain commissioners are not totally independent because not all decisions about the selection and appointment of independent boards are made transparently [9]. The coefficient value of the female commissioner variable is 0.001018 and the probability has a value of 0.8240. It means that the female commissioner variable has a significant positive influence on ROA. The more the number of female commissioners, the less it will affect ROA. H3 reject. The presence of women could not effectively improve company performance by measuring using ROA. It is due to two reasons: the existence of women to complete the corporate governance role so that women are not involved in making decisions related to finance, and the laws governing gender diversity are still limited. Women are aggressive, emotional, insecure, and risk-averse, so women's presence in a company is only to revise the company's non-financial policies [9].

The coefficient value of the board of commissioners size variable is 0.087701, and the probability has a value of 0.0355. It means that the board of commissioners size variable significantly positively affects TBQ. H1 is accepted. The larger size of the board of commissioners will improve monitoring so that it is of higher quality, the independence of the board of commissioners will also increase, and prevent the actions of the board of directors who are more concerned with personal goals [14]. A giant board of commissioners size could improve company performance because various opportunities will arise with diverse backgrounds, such as skills, gender, expertise, experience, and nationality.

The coefficient value of the independent commissioner variable, namely-0.965986, and the probability has a value of 0.0071. It means that the independent commissioner

Table 2. TBQ regression analysis results

Variables	Coefficient	Prob.
C	15.592	0.000
UDK	0.087	0.035
KOMIND	−0.965	0.007
WOMAN	0.010	0.891
SIZE	−0,510	0.000
LEV	1.239	0.000
Adjusted R-squared	0.617	
F-stat	9.000	
Prob. (F-statistic)		0.000

variable significantly negatively affects TBQ. H2 accepted. Control carried out by independent commissioners needed to implement effectively, resulting in decreased company performance. Knowledge and experience related to company goals that an independent commissioner does not own also increases the burden on the company rather than the benefits obtained by having an independent commissioner [9]. Independent commissioners could be too busy with their businesses and only have limited knowledge about other companies' businesses. The limited information possessed by independent commissioners caused mistakes when making decisions [15].

The coefficient value of the female commissioner variable is 0.010978, and the probability has a value of 0.8917. H3 reject. The presence of women on the board does not affect market returns to shareholders [16]. A limited number of female commissioners resulted in the presence of women on the board of commissioners being unable to impact company value [17].

The control variable (firm size and leverage) probability is 0.0000. It means that the firm size and leverage significantly affect TBQ.

4 Conclusion

The F test for ROA used in this study resulted in an F-statistics value of 14.66251 and a probability value of 0.000000. It denotes that throughout 2017–2021, the control factors (SIZE and LEV) and independent variables (UDK, KOMIND, and WOMEN) greatly impact ROA in non–financial sector companies listed on the IDX. The TBQ F-test generates an F-statistics value of 9.000896 and a probability value of 0.000000. This indicates that over the 2017–2021 timeframe, the control variables SIZE and LEV and the independent variables UDK, KOMIND, and WOMEN concurrently significantly affect TBQ in non–financial sector companies listed on the IDX.

The t-test results for ROA and TBQ indicate that H1 is accepted. The Independent Commissioner (KOMIND) variable's lack of significance, as revealed by the results of the t-test on ROA, suggests that H2 should be rejected. In contrast, the Independent

Commissioner (KOMIND) variable is significantly negative in the TBQ t-test findings, showing that H2 is accepted. According to the t-test results on ROA and TBQ, the Female Commissioner (Women) variable is unimportant, indicating that H1 is rejected.

Investors should put their money into businesses with a sizable board of directors since there will be more oversight to stop directors from acting in their self-interest. It is advised that businesses implement elements of corporate governance. The business should have a sizable board of commissioners because it will result in a board of commissioners with diverse expertise and experience, improving learning and decision-making. Performance at the organization will consequently improve.

Investors should place their money in businesses with a sizable board of directors because there will be tighter control over the directors' conduct to stop them from acting in their own best interests. Businesses should use aspects of corporate governance. The business should have a sizable board of commissioners since a diverse group of experts, and experience will help the board of commissioners make better decisions and facilitate learning. As a result, the business will perform better.

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