

The Effect of Corporate Governance and Ownership Structure on Company Performance

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Keywords: Institutional ownership; ownership concentration; independent directors; board size; board meetings; ROA; Tobin's Q

EXTENDED ABSTRACT

This study examines the effect of corporate governance and ownership structure on the performance of non-financial sector companies on the Indonesia Stock Exchange.

We address six research questions:

RQ1: Does institutional ownership positively affect firm performance?

RQ2: Does ownership concentration hurt firm performance?

RQ3: Does institutional ownership have a positive effect on company performance?

RQ4: Does the presence of independent commissioners have a positive effect on firm performance?

RQ5: Does the frequency of commissioners' meetings positively affect company performance?

RQ6: Does the size of the board of commissioners have a positive effect on company performance?

This research is intended to bridge the differences in the results of various researchers above regarding the effect of corporate governance and ownership structure on company performance. Inconsistent results and different governance characteristics in each country are interesting to study. Weak law enforcement conditions will also have an impact on investor protection. The existence of good governance is expected to reduce conflicts of interest that can harm the company.

This study uses a sample of non-financial companies listed on the Indonesia Stock Exchange with 1105 observations. This study uses 12 variables consisting of 5 independent variables, two dependent variables, and five control variables. The dependent variable used in this study is company performance as measured using ROA and Tobin's Q. For independent variables in the form of institutional ownership using the measurement of the number of share ownership owned by the company's legal entities, both foreign and domestic. Ownership concentration is measured using the number of large shareholders or more than 5% of the outstanding shares. Meanwhile, independent commissioners are measured by the percentage of commissioners who are not affiliated or have a relationship with the company or other board members. Board of Commissioners meetings are measured by the number of Board of Commissioners meetings held in 1 fiscal year. Moreover, the size of the Board of Commissioners is measured by the number of members of the Board of Commissioners, either internal or external to the company. The control variables used in this study are growth, company size, company age, and debt. Company growth is measured using the percentage increase in company revenue over time. Company size is measured based on the natural logarithm of the total assets owned. Company

age is measured by the years the company has been in business. Debt is measured using a debt ratio that reflects the extent to which a company's assets are financed using debt.

The following table are the results of the multiple linear equation regression test.

Table 1. Regression Test Results

Variabel	RoA		Tobin's Q	
	Coefficient	t-statistic	Coefficient	t-statistic
C	0.434	3.329	18.954	19.67
Institutional Ownership	0.009	0.856	-0.003	-0.08
Ownership Concentration	-0.055	-4.179***	0.037	0.76
Indepedent Commissioners	-0.013	-0.974	-0.276	-5.56***
Commissioners Meetings	-0.001	-1.402	-0.006	-3.69***
Commissioners Size	0.001	2.876***	0.062	26.194***
Growth	0.014	4.112***	0.005	0.717
Firm Size	-0.004	-0.923	-0.602	-17.583***
Firm Age	-0.006	-6.647***	-0.017	-13.985***
Debt Ratio	0.037	2.351**	1.126	12.210***
R-squared	0.899719		0.959251	
Adjusted R-squared	0.873474		0.948587	
S.E. of regression	0.059854		0.505018	
F-statistic	34.281540		89.947940	
Prob(F-statistic)	0.000000		0.000000	

Note: * significant at 10%; ** significant at 5%; *** significant at 1%

Based on the results of the research that has been done, it can be concluded that there are differences in the test results on ROA and Tobin's Q. This is because ROA is more directed to the internal company (accounting-based). At the same time, Tobin's Q depends on investor perception (market-based). It was found that institutional ownership has an insignificant positive effect on ROA while an insignificant negative effect on Tobin's Q. The ownership concentration variable has a significant negative effect based on ROA but an insignificantly positive on Tobin's Q. The independent commissioner variable has an insignificant negative effect on ROA. However, independent commissioners have a significant adverse effect on company performance based on Tobin's Q. The same thing is found in the board of commissioners meeting variable, where the board of commissioners meeting has an insignificant negative effect on company performance based on ROA while being significant negative on firm value (Tobin's Q). Then, the board of commissioners size variable has a significant positive effect on company performance, both accounting-based and market-based. Meanwhile, the control variable, namely growth, has a significant positive effect on ROA but an insignificant positive effect on TQ. The company size variable has an insignificant negative effect on ROA but a significant adverse effect on Tobin's Q. The company age variable negatively influences both performance variables (ROA and Tobin's Q). The debt variable has a significant positive effect on company performance based on ROA and Tobin's Q.

The research results provide practical implications, institutional ownership has an insignificant effect on company performance. The institutional shareholders cannot directly influence operational decisions in management's hands, so the institution acts only as a supervisory function. Ownership concentration has a significant negative effect on company performance based on ROA. This negative effect happens because controlling shareholders tend to

maximize their wealth through affiliate transactions and transfer pricing. However, ownership concentration has an insignificant effect on company performance based on Tobin's Q. This can be explained because public investors do not maximize their wealth through affiliate transactions or transfer pricing. This condition can be explained because public investors do not care about the company's controllers as long as the change or change of controllers is in line with the interests of shareholders. Independent commissioners have an insignificant effect on company performance based on ROA. However, independent commissioners significantly adversely affect company performance based on Tobin's Q. This result can be explained because independent commissioners are only appointed to fulfill applicable regulations, so their appointment is only symbolic, causing supervision to be ineffective. The Board of Commissioners meeting has an insignificant effect on company performance based on ROA. In carrying out their functions as supervisors and advisors, commissioners do not have the authority of directors. So that their function does not directly impact the company's operational decisions and financial performance, however, Board of Commissioners meetings have a significant adverse effect on company performance based on Tobin's Q. High frequency of Board of Commissioners meetings will signal to investors about problems or poor performance of the company, which can be seen from the decline in stock prices. The size of the Board of commissioners has a significant positive effect on company performance based on ROA. This positive effect is because a giant board can accommodate more commissioners from various backgrounds, thus increasing expertise and knowledge in various fields. The size of the Board of Commissioners also has a significant positive effect on company performance based on Tobin's Q. This is because a large board size can provide easier access to funding so that the market gives more value to the company.

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