Corporate Governance Mechanisms and Corporate Performance: The Case on the Kompas 100 Index

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Abstract

Companies that have gone public are required to implement good corporate governance, so that all information about the company can be known by the public. This study aims to examine the effect of corporate governance mechanisms on corporate performance. Corporate performance is measured by return on assets (ROA), while corporate governance mechanisms consist of the size of the board of directors, the size of the board of commissioners and the frequency of board meetings, managerial ownership and institutional ownership. The population in this study focused on companies included in the Kompas 100 index, by taking a sample of 23 companies using purposive sampling. The observation period is five years (2017-2021). Hypothesis testing using multiple regression analysis with a significance level of 0.05. The results of the study show that the size of the board of directors has a positive and significant effect on corporate performance, while the size of the board of commissioners has a significant but negative effect on corporate performance, while the frequency of board meetings has no effect on corporate performance. Other results, managerial ownership has a significant and negative effect on company performance, while institutional ownership has no effect on corporate performance

Keywords: corporate performance; managerial ownership, institutional ownership; board of director; board of commissioner; frequency of board meeting

1. Introduction

The long-term goal of the company is to maximize the value of the company, which is indicated by rising stock prices (Ahmad & Muslim, 2022). Increasing share prices will increase shareholder welfare (Sutrisno, Trisnawati, & Jap, 2023). The task of the company's management is to increase the value of the company, by improving the company's fundamental factors, namely the company's financial performance. This is due to many studies finding that financial performance as measured by profitability has a positive effect on firm value (Wijayaningsih & Yulianto,. 2021; Leman, Suriawinata, & Noormansyah., 2020; and Setyowati, Masitoh, & Siddi, 2020). Thus, company management must focus more on managing company activities in order to be able to improve corporate performance. Profitability as an indicator of corporate performance can be measured by return on assets (Natsir & Yusbardini, 2019; Mir & Shah., 2022; and Hamza, 2017), and some researchers measure it by return on equity (Hirdinis, 2019 and Mehzabin, Shahriar, Hoque, Wanke, & Azad (2022).

Many factors influence corporate performance, including the board structure, in this case the board of directors and board of commissioners. The owner selects the board of directors carefully and with a variety of backgrounds so that the board of directors is able to manage the company well. The more the number of the board of directors the more effective it is in decision making, so that it will be able to improve corporate performance (Yasser, Mamun, & Rodrigs, 2017). Fajarwati & Witiastuti., (2022), Yang & Wang., (2018) and Al-Daoud, Saidin, & Abidin., (2016) found that board size has a significant positive effect on corporate performance. However He (2021), and Basyith, Fauzi, & Idris., (2015) found board size has no effect on corporate performance, even if too many members of the board of directors will actually reduce corporate performance (M. M. Rashid, 2020) and (Adebiyi & Sunday , 2011). Thus, there are still differences in findings and require further research so that the results are more robust.

The organ of the company that functions to exercise general and special oversight of the board of directors is the board of commissioners. Commissioners act on behalf of shareholders as supervisors so that the board of directors works in accordance with the interests of shareholders. Thus, the more members of the board of commissioners the more effective it is in carrying out supervision. This is supported by the results of research from Setiawan, Handiliastawan, & Jafar (2020) and Utama & Utama (2019) which found a positive effect between the number of commissioners and corporate performance. However, there are also research results which find no effect between the number of commissioners and corporate performance (Basyith et al., 2015), even Wulandari (2020) finds the number of commissioners if too many will actually reduce corporate performance.

Every important decision is always discussed in board meetings so that the decisions taken are of high quality. Board meetings are meetings between the board of directors and the board of commissioners to discuss important issues related to the experiences of board members in overcoming various problems (Yang & Wang, 2018). In the board meeting, important and strategic matters relating to the survival of the company are discussed (Buchdadi, Alupui, Dalimunthe, Pamungkas, & Fauziyyah, 2019). Thus, the more the number of board meetings will further improve the quality of decision making which will ultimately increase profitability. The results of research from Fajarwati & Witiastu (2022), Buchdadi et.al 2019), Yang & Wang 2018) show that the number of board meetings has an effect on corporate performance. However, there are several studies that find the number of board meetings has no effect on corporate performance (Hanh, Ting, Kweh, & Hoanh, 2018; and Aryani, Setiawan, & Rahmawati, 2017).

A factor that also influences corporate performance is the ownership structure. In agency theory, where there is a conflict between shareholders who are called principals and managers who are called agents. Agents are chosen by the owner to be able to run the company in order to improve the welfare of shareholders. However, agents often do not work in accordance with the wishes of the owner, resulting in agency conflicts. One mechanism to reduce agency conflict is managerial ownership. If the manager is also a shareholder, then the manager will try to work well in improving corporate performance (Jensen & Mecling, 1976). This is in line with the results of research from Dakhlallh, Rashid, Amalina, Abdullah, & Dakhlallh (2021); Sahrul & Novita (2020); and Amin & Hamdan (2018). However, Basyith et.al (2015) found the effect was

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negative, while Zandi, Singh, Mohamad, & Ehsanullah (2020) and Rasyid & Linda (2019) found managerial ownership had no effect on corporate performance. In addition, institutional ownership is also expected to improve corporate performance. This is because institutional shareholders, who usually have a large portion, are also heard by management, which is expected to improve corporate performance. This is in line with the results of research from Dakhlallh et al (2021), Al-Janadi (2021) and Hossain, Sultan, & Ahmed (2021) who found institutional ownership has a positive effect on corporate performance. However, some researchers found that institutional ownership has a negative effect on corporate performance (Welson & Muhadi, 2020; Rashid, Ahmad, Khan, Rehman, & Hussain (2021); Kokotec, Orsag, & Calopa (2021).

2. Theoretical Review and Hypotheses Development

Agency theory

In the agency theory pioneered by Jensen and Meckling (1976) it was argued that the relationship between shareholders as principals and management as agents does not always go well. Management as the party appointed to manage the company does not always act in the interests of the shareholders. Management is often opportunistic so that it takes advantage of opportunities for its own sake. Therefore, there needs to be a control mechanism for the board of directors so that the decisions taken do not harm shareholders.

Arifin (2005) argues that the management team that is empowered to make decisions related to the company's operations and strategy to maximize the value of the company often does not materialize. Many decisions taken by management actually benefit managers and override shareholders. To overcome this agency problem, a good oversight mechanism is needed in monitoring management. In terms of board structure, the number of commissioners can be used as a control mechanism (Fajarwati & Witiastuti., 2022; and Rashid, Ahmad, Khan, Rehman, & Hussain., (2021). Meanwhile, shareholders can go through the ownership structure, both managerial ownership as well as institutional ownership.

Board of directors and corporate performance

The size of the board of directors is the number of directors in a company. The bigger the company, the more members of the board of directors. The number of boards of directors will be able to bring up ideas and thoughts in developing the company. The thinking of a few people is certainly different from the thinking of many people. The task of the directors is to make strategic decisions in order to develop the company's growth so that it is able to compete in the market. With the increasing number of members of the board of directors, the higher the quality of decision making, the better the company's operations. The results of research from Yasser et al., (2017) who examined companies in Pakistan and Fajarwati & Witiastuti., (2022) in Indonesia found the number of boards of directors has an effect on corporate performance. Likewise, the results of research from Yang & Wang., (2018) in China and Al-Daoud, Saidin, & Abidin., (2016) in Jordan also found board size to have a significant positive effect on corporate performance. Thus the hypothesis proposed is:

H_1: The number of directors has a positive effect on corporate performance

Board of commissioners and corporate performance

According to Basyith et al., (2015), the board of commissioners is an internal organ of a company incorporated as a limited liability company which is assigned by the shareholders to supervise as well as provide advice to the directors so that they always work in accordance with the company's goals that have been set. Thus, the role of the board of commissioners is very strategic because it is a shareholder representative who directly supervises the performance of the board of directors (Wulandari, 2020). This is supported by the results of research from Setiawan, Handiliastawan, & Jafar., (2020) and Utama & Utama., (2019) which found a positive effect between the number of commissioners and corporate performance

H_2: The size of the board of commissioners has a positive effect on corporate performance

Board of directors meeting frequency and corporate performance

To avoid agency problems, the owner controls the opportunistic behavior of management, and appoints a board of commissioners so that decisions made by management are aligned with the interests of the shareholders. In order for the decisions taken by management to be aligned, the board of directors must constantly monitor management activities, one of which is the increasing number of board meetings (Yang & Wang, 2018). The more the number of board meetings held by the board of commissioners and the board of directors, the better the quality of decisions taken by management so as to improve corporate performance. The results of research from Fajarwati & Witiastuti., (2022) and Buchdadi et al., (2019) in Indonesia, and Yang & Wang., (2018) in China found a positive effect between the number of meetings and corporate performance. Therefore, the hypothesis in the study is:

H_3: The number of board meetings has a positive effect on corporate performance

Managerial ownership and corporate performance

Managerial ownership is a shareholder that comes from company managers who actively participate in company decision making. These shares can be owned by the board of directors or the board of commissioners (Zandi, Singh, Mohamad, & Ehsanullah., 2020). Managerial ownership is expected to function as a control tool to direct corporate decision making for the benefit of shareholders. Because managers are also owners, if a loss occurs it will also have an impact on the manager's welfare (Rasyid & Linda., (2019). Therefore managerial ownership can improve corporate performance. The higher managerial ownership, the better the company's operations so that it will improve corporate performance. (Dakhlallh et al., 2021). The results of research from Sahrul & Novita., (2020) in the Indonesian Stock Exchange and Amin & Hamdan., (2018) in Saudi Arabia, also found a positive effect between managerial ownership and corporate performance. filed are:

H_4: Managerial ownership has a positive effect on corporate performance

Institutional ownership and corporate performance

Factors that also play a role so that company management works according to the direction and goals of the company is institutional ownership. Institutional ownership is a portion of share

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ownership by non-bank financial institutions, such as insurance companies, pension funds, and other large institutions that manage investor funds (Rashid, Ahmad, Khan, Rehman, & Hussain., (2021). These institutions manage customer funds for profit and one form of investment is in stocks. They are very interested in their investment, so they always monitor corporate performance. Dakhlallh et al., (2021) who conducted research in Jordan found a significant positive effect between institutional ownership and performance Similarly, the results of Al-Janadi's research (2021) on Middle East and Hossain et al., (2021) Dhaka Stock exchange found a positive effect between institutional ownership on corporate performance.Thus the hypothesis proposed is:

H_5: Institutional ownership has a positive effect on corporate performance.

3. Method

Population and sample

The population in this study are shares of non-financial companies on the Indonesia Stock Exchange and listed on the Kompas 100 Index for 5 years from 2017 to 2021. Samples were taken of 23 companies using a purposive sampling technique.

Research variable

The variables in this study consist of one dependent variable, namely corporate performance as measured by return on assets (ROA), and five independent variables consisting of director size (DIR), commissioner size (COM), frequency of board meetings (MEET), managerial ownership (MOWN), and institution ownership (IOWN) with variable measurements as follows:.

Table 1: Variable and Measurement

No	Variable	Measurement
1	Corporate Performance (CP)	Earning After Tax/Total Asset
2	Director size (DIR)	Number of Board Directors
3	Commissioner size (COM)	Number of Board Commissioners
4	Meeting frequency (MEET)	Number of Board Meeting
5	Managerial Ownership (MOWN)	Share owned by Managers/Total share
6	Institutions Ownership (IOWN)	Share owned by Institutions/Total share

Data Analysis

The analytical tool used to test the hypothesis is multiple regression analysis with a significance level of 0.05, meaning that if the significance value is less than 0.05 the hypothesis is proven. The following is the formulation of the multiple regression equation:

$$CP = \alpha + \beta_1 DIR + \beta_2 COM + \beta_3 MEET + \beta_4 MOWN + \beta_5 IOWN + \varepsilon$$

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Where:

CP = corporate performance

DIR = Total board of directors

COM = Number of commissioners

MEET = number of board meetings

MOWN = managerial ownership

IOWN = institutional ownership

4. Results and Discussion

Descriptive statistics

To provide a complete description of the data for each variable, the following is an overview of the data that has been processed.

Tabele 2: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CP	115	-1.589	9.4666	3.1708	5.3152
DIR	115	3.00	12.00	6.0267	2.8165
COM	115	1.00	6.00	3.3318	2.5089
MEET	115	24.910	44.310	31.1861	18.6133
MOWN	115	6.1232	23.3598	12.25941	14.18486
IOWN	115	12.3235	44.1978	19.02112	13.23686
Valid N (listwise)	115				

Source: Data processed

Based on table 2 above, that corporate performance (ROA) shows an average of 3.17% with a maximum value of 9.47% and a minimum of minus 1.59%. The average number of board of directors (DIR) is 6.03% with a maximum number of 12 members and a minimum of 3 members of the board of directors, while the minimum number of commissioners (COM) is 1 and a maximum of 6 board members with an average of 3.33., while the frequency of board meetings is average -an average of 31 times with a maximum of 44 times and a minimum of 25 times. From the ownership structure, managerial ownership (MOWN) with an average of 12.26%, a maximum of 23.36% and a minimum of 6.12%, while institutional ownership (IOWN) has an average of 19.02% with a maximum value of 44.20% and a minimum 12.32%.

Hypothesis test results

From the sample company data of 115 observations, after being processed with the SPSS version 23.0 program, the following hypothesis test results were obtained:

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Table 3: Hypotheses Test Result

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.005	.098		-.048	.962
DIR	.013	.004	.309	3.219	.002
COM	-.009	.003	-.302	-3.167	.002
MEET	.000	.001	-.042	-.478	.634
MOWN	-.538	.244	-.224	-2.206	.029
IOWN	.049	.077	.064	.641	.523

a. Dependent Variable: ROA

Source: Data processed

Board of directors and corporate performance

Based on the results of multiple regression tests, the board of directors size variable (DIR) has a positive coefficient value of 0.013 with a significance of 0.002, less than 0.05. Thus, it can be concluded that the size of the board of directors (DIR) has a significant and positive effect on corporate performance, meaning that the larger the board of directors size will be able to improve corporate performance. The more members of the board of directors, the more activities the company can carry out in improving its financial performance, because members of the board of directors have specific tasks so they are more focused on their work (Rasyid & Linda, 2019). The board of directors is a management team appointed by shareholders to represent them in managing the company. The management team is empowered to make decisions related to operations and strategies in order to grow the Company. Thus, the more members of the board the better the quality of the policies adopted, so as to be able to improve corporate performance which in the end will be able to increase the value of the Company. These results are supported by research from Fajarwati & Witiastuti (2022) who conducted research in Indonesia, Bekiaris (2021) in Greece; and Yang & Wang., (2018) in China found a positive effect between the number of boards of directors and corporate performance. Likewise, the results of research from A. Rashid et al., (2021) and Yasser et.al., (2017), also found a positive effect between the number of boards of directors and corporate performance.

Board of commissioners and corporate performance

The size of the board of commissioners (COM) has a negative coefficient of 0.009 with a significance of 0.002, less than 0.05. Thus, it can be concluded that the size of the board of commissioners (COM) has a significant but negative effect on company performance, meaning that the larger the size of the board of commissioners will actually reduce corporate performance. This result is not in accordance with the hypothesis which states the number of commissioners has a positive effect on corporate performance. These results indicate that the supervision carried

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out by the board of commissioners is not effective, because members of the board of commissioners often conspire with the board of directors, so that the oversight mechanism does not work properly. Another possibility is that the board of commissioners in the organizational structure is considered only as a complement, so it cannot work optimally, so that the more number of commissioners will only be a waste, which ultimately reduces corporate performance. These results contradict the results of research from Setiawan et al., (2020) and Utama & Utama., (2019) who found the number of commissioners has a positive effect on corporate performance. However, this is supported by research results from Wulandari, (2020) and Basyith et al., (2015) who found a negative effect between board size and corporate performance.

Frequency of board meetings and corporate performance

Most frequency of board meetings (MEET) has a significance value of 0.634 greater than 0.05. Thus, it can be concluded that the frequency of board meetings (MEET) has no effect on corporate performance, meaning that the number of meetings held by the board does not have a direct effect on company performance. These results confirm the finding that the board of commissioners is less effective in supervising, because the number of commissioners has no effect on corporate performance. This result is also possible, because the more the frequency of meetings will increase the cost of meetings, so it becomes less efficient. This result is supported by the results of research from Aryani et al., (2017) which found board meetings had no effect on corporate performance. However, these results contradict the results of research from Fajarwati & Witiastuti., (2022); Buchdadi et al., (2019); and Yang & Wang., (2018) who found a positive effect between the number of meetings and corporate performance.

Managerial ownership and corporate performance

Managerial ownership (MOWN) has a negative coefficient of 0.538 with a significance of 0.029 which is less than 0.05. Thus, it can be concluded that managerial ownership (MOWN) has a significant but negative effect on company performance, meaning that the greater managerial ownership will actually reduce company performance.

This result is not in accordance with the hypothesis which states that managerial ownership has a positive effect on corporate performance. If we look at the descriptive statistics (table 2), where the average managerial ownership is only 12.26%, it is still too small, so it does not support agency theory. If the amount of managerial ownership is very small, it is possible that managers as agents will tend to work for their own interests and not follow the interests of shareholders. These results are in accordance with the findings of Villalonga and Amit (2006) and Basyith et al., (2015), but are not in accordance with agency theory which states that high managerial ownership reduces agency costs so that it can improve corporate performance (Sahrul & Novita., 2020; Amin & Hamdan., 2018).

Institutional ownership and corporate performance

Institutional ownership (IOWN) has a significance value of 0.523 greater than 0.05. Thus, it can be concluded that institutional ownership (IOWN) has no effect on company performance, meaning that the size of institutional ownership has no effect on corporate performance. This result is not in accordance with the hypothesis which states that institutional ownership has a positive effect on corporate performance. According to Shleifer and Vishny (1997), institutional shareholders have a dual role where on the one hand, they will monitor management activities, on the other hand they have a desire to take over minority shareholdings. The higher the institutional ownership, the lower the efficiency of corporate governance because it is owned by institutional shareholders. This result is supported by several researchers who found that institutional ownership is more passive in the oversight mechanism so that it does not affect corporate performance (Rashid, 2020; Yasser et al., 2017; Ogabo et al., 2021; Rasyid & Linda, 2019; and Amin & Hamdan., 2018). These results indicate that institutional shareholders are not serious in carrying out their control function. Other results from Welson & Muhadi., (2020) and Kokotec et al., (2021) actually found a negative effect between institutional ownership on corporate performance.

5. Conlusions

Based on the results of hypothesis testing, it can be concluded that there are two variables whose hypotheses are proven and significantly and positively influence corporate performance, namely the number of directors and managerial ownership. This shows that the more the number of the board of directors the more effective the decisions taken so as to improve corporate performance. There is one variable that has a significant effect but the effect is not in accordance with the hypothesis, namely the number of commissioners has a negative effect on corporate performance, while the variables of institutional ownership and the number of meetings have no effect on corporate performance.

It is hoped that this research can be utilized by company management in order to improve its corporate performance. Of course, this research still has weaknesses because it only uses 2 variables to represent the board structure and two variables to represent the ownership structure. Therefore, it can be developed by further researchers by adding variables that have not been studied.

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