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Board Structure and Ownership Structure on Performance: Evidence from Indonesia

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ABSTRACT
This research aim to analyze factor which affect firm performance (ROA, Tobin's Q, and EVA). Independent Variable such as board size, board independence, institutional ownership, foreign ownership. This research uses quantitative approach by using multiple linear regression model. The sample of this research is all non-financial and banking sector company that listed in IDX for period of 2014-2023. The result of this research is institutional ownership, firm size, firm age has a significant effect for firm performance. On the other hand, board size, board independence, and foreign ownership have an insignificant effect for ROA but have a significant effect for Tobin's Q and EVA. Meanwhile, leverage have an insignificant effect for EVA but have a significant effect for ROA and Tobin's Q. An effective board structure and balanced ownership diversification can improve company performance. A competent board can provide sound strategic direction, while diversified ownership can reduce conflicts of interest and increase accountability. In addition, integration between corporate governance theory and practice can be an important contribution to understanding the more complex dynamics between board structure, ownership structure and corporate performance in Indonesia.

Keywords: *board size, board independence, institutional ownership, foreign ownership, firm performance*

1. INTRODUCTION

Within a Company, the optimal board size may vary depending on the size and complexity of the company. A board that is too large may have difficulty making decisions, while a board that is too small may lack representation of the interests of all stakeholders (Murhadi, Azaria, and Sutedjo 2021). On the other hand, the relationship between shareholders and management may be more paternalistic compared to other countries, which may influence board dynamics.

The configuration of the board structure and ownership structure are key elements in corporate governance that influence company performance and sustainability. Research on the relationship between board structure, ownership structure and company performance has high relevance for various reasons (Arora 2021; Safiullah 2021). First, an effective board structure can provide strategic direction and good oversight of management, which is essential to achieving the company's long-term goals. Second, the right ownership structure can influence investment decisions, business strategy, and the level of risk taken by the company. Diversified ownership can reduce conflicts of interest and promote decisions taken based on the long-term interests of all stakeholders, not just the majority shareholder. Third, in the context of globalization and capital market integration, investors are increasingly demanding transparency, accountability and good corporate governance as indicators of trust and investment worthiness. Therefore, a deep understanding of how board structure and ownership structure affect company performance is crucial for improving good governance, reducing risk, and increasing company value in the long term (Safiullah et al. 2022). The aim of this research is to analyze board structure and ownership structure on company performance, both financial and non-financial, in Indonesia.

The structure of this paper includes chapter 1 reviewing the introduction and background of the research, chapter 2 literature review, chapter 3 method, chapter 4 results and discussion, and finally the conclusion.

2. LITERATURE REVIEW

The implementation of Good Corporate Governance (GCG) is important when a company wants to maintain and improve the continuity of a healthy and competitive business in the long term (sustainable). The proposition that the size of the board of commissioners negatively impacts company performance warrants careful consideration and logical analysis. A larger board of commissioners may introduce challenges related to decision-making efficiency and coordination (Bhatt and Bhattacharya 2015). With a larger number of members, communication channels might become more complex, potentially leading to slower decision-making processes and a lack of focus. Moreover, a larger board could imply a higher degree of bureaucracy, which may hinder agility and responsiveness to market changes. Additionally, it's plausible that larger boards might struggle with achieving consensus, as diverging viewpoints and interests may emerge more frequently. These dynamics could ultimately impede the board's ability to provide effective oversight and strategic guidance to the management team, thereby compromising company performance (Uyar et al. 2022). Hence, a thoughtful examination of the size of the board of commissioners and its implications on decision-making dynamics and corporate governance practices is essential for understanding its potential negative effects on company performance.

H1: The size of the board of commissioners has a negative effect on company performance.

The assertion that independent commissioners positively influence company performance is grounded in logical reasoning and empirical evidence. Independent commissioners bring diverse expertise and perspectives to the boardroom, enhancing the quality of decision-making processes. Their autonomy from management ensures unbiased oversight, fostering transparency and accountability within the organization. By scrutinizing management actions and strategic initiatives, independent commissioners mitigate the risk of managerial self-interest and conflicts of interest, thereby safeguarding shareholder value (Abdullah, Ismail, and Nachum 2014). Furthermore, their ability to ask probing questions and challenge conventional wisdom encourages a culture of critical thinking and constructive debate, stimulating innovation and strategic agility. Research has consistently shown that boards with a higher proportion of independent commissioners tend to exhibit stronger governance practices and superior financial performance (Trinugroho, Risfandy, and Ariefianto 2018). Therefore, the presence of independent commissioners not only strengthens corporate governance but also contributes positively to company performance, making it a crucial factor for sustainable business success.

H2: Independent commissioners have a positive influence on company performance.

The argument that institutional ownership exerts a positive effect on company performance is supported by compelling logic and empirical evidence. Institutional investors, such as pension funds, mutual funds, and hedge funds, often possess substantial resources, expertise, and a long-term investment horizon. Their active involvement in a company's ownership structure can provide stability and credibility, signaling confidence to the market and other stakeholders (Brahma, Nwafor, and Boateng 2020). Moreover, institutional investors typically conduct rigorous due diligence and engage in active monitoring of company activities, which can incentivize management to pursue value-maximizing strategies and enhance operational efficiency. Additionally, the presence of institutional investors may improve corporate governance practices by promoting transparency, accountability, and alignment of interests between management and shareholders. Research studies consistently indicate a positive correlation between higher levels of institutional ownership and superior financial performance metrics, such as profitability, stock returns, and long-term growth prospects (Sattar, Biswas, and Roberts 2021). Therefore, institutional ownership not only brings financial resources but also contributes to improved governance and strategic decision-making, ultimately enhancing company performance and shareholder value.

H3: Institutional ownership has a positive effect on company performance.

The assertion that foreign ownership yields a positive impact on company performance is supported by several logical considerations and empirical findings. Foreign investors often bring diverse perspectives, expertise, and access to global networks, which can inject fresh capital, knowledge, and best practices into the company (Bathula 2008; Carter et al. 2007). Their presence in the ownership structure may enhance corporate governance standards, as they typically adhere to stringent regulatory requirements and demand transparency and accountability. Moreover, foreign ownership can reduce the agency costs associated with managerial opportunism, as foreign investors often closely monitor management actions and advocate for shareholder value maximization. Additionally, foreign investors may introduce innovative strategies, technologies, and management practices, thereby stimulating operational efficiency and competitiveness. Research suggests that companies with significant foreign ownership tend to experience greater

access to capital, improved market valuation, and enhanced long-term growth prospects. Therefore, foreign ownership not only provides financial resources but also fosters governance discipline and strategic guidance, ultimately contributing to improved company performance and sustained shareholder value creation (Beiner et al. 2004; Zhou, Owusu-Ansah, and Maggina 2018).

H4: Foreign ownership has a positive effect on company performance.

3. METHOD

The objects used in this research are all non-financial and banking sector companies listed on the Indonesia Stock Exchange which have audited financial reports for 10 consecutive years for the period 2014-2023. The sample used in this research is non-financial and banking sector companies listed on the Indonesia Stock Exchange for the 2014-2023 period that meet the criteria. The following are the criteria used in determining the sample: (1) Companies that publish annual reports and financial reports that have been audited sequentially during the 2014-2023 period. (2) The company's total equity has a positive sign during the 2014-2023 period. Based on these criteria, a research sample of 217 companies was obtained with a total of 1183 data.

This research is included in the type of clause research. Clausal research itself is research conducted to prove the existence of a causal relationship between the variables in the research. In this study, the independent variables (size of the board of commissioners, independent commissioners, institutional ownership, and foreign ownership) and control variables (company size, company age, and leverage) will be tested for their influence on the dependent variable of company performance based on ROA, Tobin's Q and EVA on non-financial and banking sector companies listed on the Indonesia Stock Exchange for the 2014-2023 period. After sorting all financial report data, it is then processed using the Eviews 10 program.

Model 1:

$$ROA_{it} = \alpha - \beta1.BDSIZE_{it} + \beta2.INDBOD_{it} + \beta3.INSTOWN_{it} + \beta4.FOROWN_{it} + \beta5.SIZE_{it} + \beta6.AGE_{it} - \beta7.LEV_{it} \ldots\ldots (1)$$

Model 2:

$$TQ_{it} = \alpha - \beta1.BDSIZE_{it} + \beta2.INDBOD_{it} + \beta3.INSTOWN_{it} + \beta4.FOROWN_{it} + \beta5.SIZE_{it} + \beta6.AGE_{it} - \beta7.LEV_{it} \ldots\ldots (2)$$

Model 3:

$$EVA_{it} = \alpha - \beta1.BDSIZE_{it} + \beta2.INDBOD_{it} + \beta3.INSTOWN_{it} + \beta4.FOROWN_{it} + \beta5.SIZE_{it} + \beta6.AGE_{it} - \beta7.LEV_{it} \ldots\ldots (3)$$

Equation 1, Equation 2, and Equation 3 are the formula used in this study. ROAit is Return on Assets, TQit is Tobin's Q, EVAit is Economic Value Added, BSIZEit is the Size of the Board of Commissioners, INDBODit is Commisaris Independent, INSTOWNit is Institutional Ownership, FOROWNit is Foreign Ownership, SIZEit is Company Size, AGEit is Company Age, and LEVit is Leverage in company i period t.

4. RESULTS AND DISCUSSIONS

Table 1 shows the Regression Test Results (Dependent Tobin's Q, EVA, and ROA). Based on Table 1, it can be seen that the size of the Board of Commissioners does not have a significant effect on ROA. So even though the size of the Board of Commissioners has a positive value, it does not have a significant influence on company performance. This shows that the size of the Board of Commissioners is not a determining factor for a company to be able to improve its performance, but it is seen from how the Board of Commissioners in the company can work effectively in carrying out its responsibilities. This is also in line with research from (Moudud-Ul-Huq et al. 2021) which states that the size of the Board of Commissioners does not have a significant effect on ROA. Independent Commissioners do not have a significant effect on ROA. This can happen because the Independent Commissioner is not truly independent in carrying out his duties, meaning that the Independent Commissioner can still be influenced by several parties. This is in line with the results of research from (Boulanouar, Alqahtani, and Hamdi 2021) which states that independent commissioners do not have a significant effect on company performance. Meanwhile, institutional ownership has a positive and significant effect on ROA. This is supported by research from (Rubio-Misas 2020) which states that institutional ownership has a positive and significant effect on company performance. This is because the higher the value of institutional ownership, this will encourage more optimal supervision so that company performance will increase if company management acts in accordance with previously determined company objectives. The foreign

ownership variable does not have a significant effect on ROA. This can happen because foreign parties only invest in the company, so they have no interest in the company's performance. This is consistent with the results of research from (Nguyen 2018). Meanwhile, this is in line with the results of research conducted by (Bhatt and Bhattacharya 2015) which states that company size has a positive and significant influence on company performance as measured by ROA. This happens because the larger the company size, it shows that the company is experiencing development and can provide a more certain rate of return to investors and will attract investors to invest their capital in the company (Martens et al. 2021).

Table 1. Regression Test Results

Dependent	Tobins-Q			EVA			ROA		
Variable	Coefficient	t-Statistics	Prob.	Coefficient	t-Statistics	Prob.	Coefficient	t-Statistics	Prob.
C	9,77	12,613	0,00	-0.122	-3,197	0,000	-0.127	-2,832	0.031
BSIZE	0.03***	6,151	0,00	-0.031	-9,816	0,000	0,00	0.060	0.752
INDBOD	-0.482	-6,670	0,00	-0.014	-5,222	0,000	-0.003	-0.348	0.728
INSTOWN	-0.214	-2,330	0.00	-0.058	-2,173	0,000	0.01***	4,714	0,000
FOROWN	0.12***	4,170	0,00	0.13***	5,406	0,000	-0.004	-0.214	0.570
SIZE	-0.128	-11,434	0,00	0.01***	10,357	0,000	0.05***	2,571	0.007
AGE	-0.031	-2,725	0.04	-0.010	-13,519	0,000	-0.002	-1,997	0.046
LEV	0.53***	12,350	0,00	-0.003	-0.717	0.315	-0.140	-	0,000
R-squared	0.793			0.922			0.913		
Adjusted R-	0.759			0.879			0.901		
Prob(F-	0.000000***			0.000000***			0.000000***		

Notes: *Significance 10%, ** Significance at 5%; ***Significance at 1%

The size of the Board of Commissioners has a positive and significant influence on Tobin's Q. This is in line with the findings of (Ur Rehman, Aslam, and Iqbal 2022) which state that the size of the Board of Commissioners has a positive and significant influence on company performance as measured by Tobin's Q. This happens because there are more the number of Commissioners means they will bring exclusive expertise and a variety of experiences that they have which will have a positive impact on company performance. Independent Commissioners have a negative and significant influence on Tobin's Q. This is consistent with the results of research from (Ramzan, Amin, and Abbas 2021) which found that Independent Commissioners have a negative and significant influence on company performance as measured by Tobin's Q. This is also in line with Stewardship Theory which also stated that independent directors are usually unaware of the strengths and weaknesses of the company so that their presence increases conflict of opinion within government bodies which can slow down the decision-making process. Institutional Ownership has a negative and significant effect on Tobin's Q. Institutional investors do not provide an optimal role to advance their companies because they only rely on company management without providing input to management in managing the company. This can also happen because the institution only invests in the company so that the institution has no interest in the company's performance. Foreign ownership has a positive and significant influence on Tobin's Q. This is consistent with research results from (Nguyen 2018; Rubio-Misas 2020) which state that foreign ownership has a positive and significant impact on Tobin's Q. This can happen because foreign ownership in the company is a party that is considered concerned about improving good corporate governance which will have an impact on increasing company performance. Company size has a negative and significant influence on Tobin's Q. This is consistent with research from (Wijaya et al. 2022) which states that company size has a negative and significant influence on Tobin's Q. This happens because The larger the size of the company, the more complicated the bureaucracy in the company will be, which can give rise to more serious problems such as information asymmetry.

The size of the Board of Commissioners has a negative and significant effect on EVA. In addition, the increasing number of members of the Board of Commissioners can lead to decision making taking longer compared to companies with fewer members of the Board of Commissioners. This is consistent with the results of research from (Handayani et al. 2015; Safiullah 2021) which states that the size of the board of commissioners has a negative and significant effect on company performance based on EVA. Independent Commissioners have a negative and significant effect on EVA. This indicates that the presence of independent commissioners in the company is deemed not to be able to provide a

good and optimal impact, especially in their duties, namely in supervising the company's management. This is consistent with Stewardship Theory which also states that independent directors are usually unaware of the strengths and weaknesses of the company so that their presence increases conflict of opinion which can cause delays in the decision making process. Institutional ownership has a negative and significant effect on EVA. The majority of institutional investors have a tendency to side with management so that they ignore the interests of minority shares. So, this results in when institutional ownership increases it will actually reduce company performance. Foreign ownership has a positive and significant effect on EVA. Companies with a higher value of foreign ownership are considered capable of achieving better financial performance. Foreign ownership is considered to be one way to technologically upgrade companies in developing countries through capital and new technology.

5. CONCLUSION

The result of this research is institutional ownership, firm size, firm age has a significant effect for firm performance. On the other hand, board size, board independence, and foreign ownership have an insignificant effect for ROA but have a significant effect for Tobin's Q and EVA. Meanwhile, leverage have an insignificant effect for EVA but have a significant effect for ROA and Tobin's Q. An effective board structure and balanced ownership diversification can improve company performance. A competent board can provide sound strategic direction, while diversified ownership can reduce conflicts of interest and increase accountability. In addition, integration between corporate governance theory and practice can be an important contribution to understanding the more complex dynamics between board structure, ownership structure and corporate performance in Indonesia.

The study of the configuration of the board structure and ownership structure on company performance brings significant theoretical guarantees, especially in the Indonesian context. The results of this study highlight the complex relationship between these two factors and company performance. The theoretical implications can lead to a deeper understanding of how the interaction between board structure and ownership structure can influence decision-making efficiency, innovation, and corporate strategy. Apart from that, these findings can also provide valuable insights for policy makers and business practitioners in designing more effective and sustainable company strategies. By understanding these dynamics, companies can optimize their potential to achieve better performance in a diverse and dynamic business environment. An in-depth understanding of the configuration of the board of directors and ownership structure and their impact on company performance in Indonesia provides a solid foundation for developing more effective business strategies in the future. By utilizing the empirical evidence found in this research, organizations can take more appropriate steps in building a company structure that is adaptive and responsive to changing market dynamics. This research offers an opportunity to identify successful patterns and best practices in managing corporate structures, which can provide valuable guidance for business leaders and decision makers. With a holistic and evidence-based approach, we can build a strong foundation to increase company competitiveness, create added value for shareholders, and contribute to sustainable economic growth in Indonesia.

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