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The Relevance of The Firm Performance Status and Corporate Governance

SERAMBI

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Abstract
This study aims to determine the effect of corporate governance on company performance. In this study, corporate governance uses managerial ownership and institutional ownership as a proxy to measure the influence of corporate governance on company performance. Seven companies are sampled in this study. This study uses eviews and excel for data processing. The results showed that managerial ownership had a significant and insignificant effect on the company's performance, while institutional ownership had a significant and significant effect on the company's performance.

Paper type
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Abstrak
Penelitian ini bertujuan untuk mengetahui pengaruh *corporate governance* terhadap kinerja perusahaan. Dalam penelitian ini *corporare governance* menggunakan kepemilikan manajerial dan kepemilikan Institusional sebagai proksi untuk mengukur pengaruh *corporate governance* terhadap Kinerja Perusahaan. Ada tujuh perusahaan yang dijadikan sampel dalam penelitian ini. Penelitian ini menggunakan eviews dan excel untuk pengolahan datanya. Penelitian ini menggunakan eviews 9 dalam mendapatkan hasilnya. Hasil penelitian menunjukkan kepemilikan manajerial berpengaruh dan tidak signifikan terhadap kinerja perusahaan sedangkan kepemilikan institusional berpengaruh dan signifikan terhadap kinerja perusahaan.

Keywords: *Corporate Governance, Managerial Ownership, Institutional Ownership" and Firm Performance*

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Introduction

As an organization that focuses on profit, the company will try to maximize the potential it has for the company's sustainability, including companies that have been indexed on the Indonesian stock exchange. Companies called issuers on the Indonesian stock exchange should display the best performance to assess the public. Firm Performance is one of the objects that can be used for assessment. According to Almajali et al., 2012 what is referred to as company performance is a measurement of achievements that have been achieved by companies that show good conditions within a certain period. The purpose of measuring performance is to obtain helpful information related to the flow of funds, use of funds, effectiveness, and efficiency. The appropriate measure chosen to assess the company's performance depends on the type of organization to be evaluated and the objectives achieved through that evaluation. Although Firm Performance can be used as the basis for evaluating a company, several things can affect Firm Performance, such as Corporate Governance.

Jensen & Meckling (1976) giving trust by company owners to managers is considered a form of separation of decision-making functions. This separation of functions will lead to a conflict between the company's owner as of the principal and the manager as the agent. Shareholders as owners of the company are the parties who provide funds and operational facilities for the company. Meanwhile, the manager is the party who manages the funds and facilities provided by the principal with his professional abilities. The difference in position will present a form of conflicting interests between the two parties (Jensen & Meckling, 1976). This will cause management conflict because when the company tries to increase managerial ownership, it will impact the equal position of managers and shareholders. Public shareholders, even though they are minority shareholders in a company, also have an interest in the company. This public stock company seeks to monitor the behavior of company managers in running their companies, even demanding good corporate governance from a company. (Gupta, 2014) found that a large percentage of public shareholders will also increase the company's value because of the intervention to implement good corporate management.

In addition, PT KF Tbk. The main problem of PT KM Tbk is the increase in net profit in the financial statements of PT Kimia Farma in 2001. The inflation was Rp. 32.668 billion. Financial statements that should be Rp. 99,594 billion written Rp. 132 billion. Bapepam also found some evidence of error, namely that there was a misstatement in the financial statements of PT KM which resulted in an overstatement of net income for the year ended December 31, 2001 Rp32.7 billion, which was 2.3% of sales, and 24.7% of sales. net profit of PT KM Tbk where there were errors in several units that were not sampled by accountants, namely the industrial raw materials unit (overstated at Rp2.7 billion in sales) and the Pharmaceutical Wholesaler unit (overstated at Rp8.1 billion in inventory) (Stephanus, 2018).

According to Jensen & Meckling (1976) the percentage of ownership by institutions and management will determine the use of debt to finance company operations (Jensen & Meckling, 1976) . In addition, according to Minshik Shin and Kim Soo Eun in their research, corporate governance negatively impacts Firm Performance. This is based on Corporate Governance represented by managerial ownership having an unclear impact without statistical significance on the company's Firm Performance (ROA) for all companies in general. At the same time, for SEOs, there is a significant negative relationship between managerial ownership and Firm Performance. measured by ROA. This shows that the entrenchment level of managers in SEOs is higher than in other companies. In particular, in Vietnam, state ownership has a positive impact on the company's Firm Performance (ROA). Companies with a high level of state ownership in their Corporate Governance will have high Firm Performance (Minshik Shin & Kim Soo Eun, 2010). The research of Minshik

Shin and Kim Soo Eun is also supported by the results of research conducted by (Lee, 2008) which states that Corporate Governance has a negative effect on Firm Performance. Meanwhile, research conducted by (Fitriatun et al., 2016; Hanim et al., 2018; Rasyid & Linda, 2019) stated that Corporate Governance has a positive effect on Firm Performance. Based on the theory, phenomena, and differences in research results, the authors are interested in conducting a research entitled the relevance of the firm performance status of manufacturing companies at ISSI to corporate governance.

Literature Review

Agency Theory

Jensen & Meckling (1976) proposed a theory of the company (Agency Theory) based on the conflict of interest between the various parties involved in the contract - shareholders, company managers and debt holders . According to Jensen & Meckling (1976) the contract between the manager as an agent and the principal causes a separation of duties which results in differences in interests. The separation of ownership and control causes managers to act against the wishes of the principal. In carrying out managerial duties, managers have personal goals that are different from the principal's goal of maximizing shareholder wealth. The separation of ownership and control of a company is called an agency conflict (Jensen & Meckling, 1976).

In the concept of agency theory, each party has different motivations according to their respective interests and if these parties try to maximize or maintain the level of prosperity desired by each party, a conflict of interest arises between the manager as an agent and the owner of the company as the principal. The agent tries to maximize the receipt of contractual fees, and the principal tries to get a return on the use of resources . The conflict escalated because the principal was unable to monitor or supervise the day-to-day activities of the agent to ensure that the agent worked in accordance with the principal's wishes.

Stakeholder theory

Stakeholder theory is an excuse for managerial opportunism (Parmar et al., 2010; Rasyid & Linda, 2019) Its core claim is that by providing more groups with which management can debate the merits of their actions, stakeholder theory makes it much easier to engage in agreements on their own and defend them than if shareholder theory were the sole goal. On the other hand, they argue that managers who have obligations only to shareholders are better able to assess their performance and see clearly whether they have done well or not.

Stakeholder theory is primarily concerned with financial distribution (Marcoux, 2000)This view illustrates stakeholder theory, especially about who receives organizational resources, and creates a conspicuous and inherent conflict between shareholders and other stakeholders in terms of who gets what. If one starts with the idea that firms have a fixed surplus (i.e. profits) to distribute, and views stakeholder theory and shareholder theory as providing different schemes for distributing that wealth, then the differences between them are very clear (Parmar et al., 2010).

Ownership Structure

The proportion of Institutional Ownership and management ownership in the company's shareholding is referred to as the shareholding structure. Based on agency theory, companies that separate their Corporate Governance into two, namely managerial ownership and Institutional Ownership, will be vulnerable to conflict (Charreaux, 2010). This conflict occurs because of deviant behavior by company managers. The proportion of share ownership by institutional investors is called Institutional Ownership. The proportion of shareholders from the management in running the company and the company's decision-making by the directors and commissioners is referred to as managerial ownership.

In this study, the authors use indicators of managerial ownership and i*nstitutional ownership* that affect the actions to be taken by the company. Affect the actions to be taken by the company. Managers appointed by shareholders must work and act in the interests of shareholders and maintain and even increase stock prices and returns in the market so that the company's value increases. However, the proportion of managers' ownership of the company is less than 100% which triggers a conflict/agency problem because managers tend to pursue their interests, not shareholders.

This conflict results in a decrease in company value. This conflict can be minimized with a supervisory mechanism that will incur agency costs. In this study, the authors use indicators of managerial ownership and "*Institutional Ownership* "that affect the actions to be taken by the company. Affect the actions to be taken by the company. Managers appointed by shareholders must work and act in the interests of shareholders and maintain and even increase stock prices and returns in the market so that the company's value increases. However, the proportion of managers' company ownership is less than 100%, which triggers a conflict/agency problem. Managers tend to pursue their interests, not for shareholders, which results in a decrease in company value. This conflict can be minimized with a supervisory mechanism that will incur agency costs.

The Effect of Managerial Ownership on Firm Performance

Managerial ownership are people who are in top position can more consistent in running the company if you can equate the interests of managers and shareholders so as to improve performance company (Puspitasari & Ernawati, 2010). Firm Performance is a measure of the company to see the achievement for all forms of implementation of these financial functions is very important, for investors and companies (Noviawan & Septiani, 2013). So, Managerial Ownership impact on Firm Performance is to examine the effect of ownership by the manager on the performance of the business entity seen by the contract compensation (Puspitasari & Ernawati, 2010). More, Research results shows that share ownership by the manager has a significant effect positive on Firm Performance.

H1 : Managerial Ownership Affects Firm Performance

The Effect of *Institutional Ownership* on Firm Performance

Theoretically, the higher the *Institutional Ownership* , the stronger the control over the company, the company's performance/value will increase if the owner of the company can control management behavior to act in accordance with company goals (Puspitasari & Ernawati, 2010).

The research of Minshik Shin and Kim Soo Eun is also supported by the results of research conducted by (Lee, 2008) which states that Corporate Governance has a negative effect on Firm Performance. Meanwhile, research conducted by (Fitriatun et al., 2016; Hanim et al., 2018; Rasyid & Linda, 2019) stated that Corporate Governance has a positive effect on Firm Performance.

H2 : *Institutional Ownership* Affects Firm Performance

Methods

This study aims to analyze and see the effect of information asymmetry and Firm Performance on firm value with dividend policy as an intervening variable in manufacturing companies indexed at ISSI for the 2014-2019 period and obtained from the Indonesia Stock Exchange website https://www.idx.co.id/. In this study, the author uses quantitative methods that emphasize analysis of numerical data (numbers) that are processed using the Eviews 9 application.

The variable used by the researcher is one independent variable, namely Corporate Governance, which consists of Institutional Ownership and managerial ownership, and one dependent variable, namely Firm Performance. Seven companies could be sampled from 399 populations based on the purposive sampling method. This study's sample number was seven companies multiplied by five years, namely 35 samples. Companies that are used as samples in this study are as follows:

Table 1
Research Sample

No	Name
1	APLI Asiaplast Industries Tbk
2	DPN Duta Pertiwi Nusantara Tbk
3	IMPC Impack Pratama Industri Tbk
4	NIKL Pelat Timah Nusantara Tbk
5	SRSN Indo Acidatama Tbk
6	TRST Trias Sentosa Tbk
7	ULTJ Ultra Jaya Milk Industry & Trading Company, Tbk

Source: Data processed by researchers, 2021

In this study, the analytical technique used is path analysis with the Eviews 9 program. In this study, several tests were passed, such as the Classical Assumption Test consisting of the Normality Test, Linearity Test, Autocorrelation Test, and Heteroscedasticity Test. After that, there is a hypothesis test, namely the partial test (t-test), the coefficient of determination test, and the F test (Sakti, 2018). In the path analysis stage, the aim is to determine the direct or indirect effect between the independent variable, the intervening variable and the dependent variable which consists of 2 substructural equations, namely:

Y (ROA) = β (X1) + β (X2) + e1

Information:
ROA : Firm Performance
(X1) : Managerial Ownership
(X2) : "Institutional Ownership"

Data Collection Technique

This study aims to analyze the causal relationship used by the author in analyzing to see the effect of managerial ownership and *Institutional Ownership* on Firm Performance in Manufacturing Companies indexed at ISSI for the 2015-2019 period. The form of this research is to use causal associative research with a quantitative approach. This research is the source of secondary data obtained from the official website of the Indonesia Stock Exchange (IDX), namely www.idx.co.id.
The variables used in this study consisted of 3 variables including the following:

Table 2
Variable Operational Definition

Variables	Formula	Scale
Profitability (ROA)	$\frac{Net\ Income}{Shareholder's\ Equity} x100\%$	Rasio
Managerial Ownership	$\frac{Total\ Shares\ Owned\ by\ manager}{Total\ Shares\ Outstanding} x100\%$	Rasio
Institutional Ownership	$\frac{Total\ Shares\ Owned\ by\ Institutional\ Invetor}{Total\ Shares\ Outstanding} x100\%$	Rasio

Source: Data processed by researchers, 2021

Results and Discussion

Descriptive statistics

Based on table 3. shows that N or the amount of data for each valid variable is 35, from 35 sample firm performance data (Y), the minimum value is -11.50755, the maximum value is 22.36000, the mean value is 6.312243, and the standard deviation value is 6.601185. Managerial ownership sample data has a minimum value of 0.041251, a maximum value of 57.26028, a mean value of 13.05458, and a standard deviation of 13.79550. The institutional ownership sample data has a minimum value of 32.79400, a maximum value of 93.27855, a mean value of 62.76824, and a standard deviation of 19.46747.

Table 3
Descriptive statistics

	Firm Performance	KM1	KI1
Mean	6.312243	13.05458	62.76824
Median	4.259522	6.268631	58.80391
Maximum	22.36000	57.26028	93.27855
Minimum	-11.50755	0.041251	32.79400
Std. Dev.	6.601185	13.79550	19.46747

Skewness	0.424619	1.207145	0.079275
Kurtosis	4.078966	4.067203	1.938458
Jarque-Bera	2.749499	10.16126	1.680016
Probability	0.252903	0.006216	0.431707
Sum	220.9285	456.9102	2196.889
Sum Sq. Dev.	1481.572	6470.737	12885.40
Observations	35	35	35

Source: Data processed by researchers, 2021

Multiple Regression Analysis

This research has passed the classical assumption test stage. As for the hypothesis test, it is seen from the T test. If the t-count is greater than the t-table, then Ho is rejected and Ha is accepted and vice versa if the t-count is smaller than the t-table, then Ho is accepted and Ha is rejected. The amount of the t-table number with the provisions of = 0.05 and dk = (n-2) or (35-2) = 33. From this provision, the t-table number is 2.042.

Table 4.
Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	57.252	17.734	3.228	0.003
KM1	-0.881	0.675	-1.305	0.201
KI1	-11.961	4.139	-2.889	0.007
R-squared	0.240	Mean dependent var		7.003
Adjusted R-squared	0.193	S.D. dependent var		5.840
S.E. of regression	5.245	Akaike info criterion		6.235
Sum squared resid	880.486	Schwarz criterion		6.368
Log likelihood	-106.102	Hannan-Quinn criter.		6.281
F-statistic	5.070	Durbin-Watson stat		0.728
Prob(F-statistic)	0.012			

Source: Data Processed by Researchers, 2021

Based on the calculation results, the t-count is -1.305926 > t-table -2.042 with a significance number of 0.2009 > = 0.05, so Ho is accepted and Ha is rejected. This means that there is no influence of Managerial Ownership on Firm Performance. The magnitude of the influence of Managerial Ownership on Firm Performance = -0.881909 or 88.19% with a significance number of 0.2009> = 0.05. Based on the calculation results, the t-count is -2.889903 > t-table -2.042 with a significance number of 0.0069 < = 0.05, so Ho is rejected and Ha is accepted. This means that there is an influence of *institutional ownership* on firm performance. The magnitude of the influence of Managerial Ownership on Firm Performance = -11.96193 or 119% with a significance number of 0.0069 > = 0.05

The Effect of Managerial Ownership on Firm Performance

Based on the calculation results, the t-count is -1.305926 > t-table -2.042 with a significance number of 0.2009 > = 0.05, so Ho is accepted and Ha is rejected. This means that there is no influence of Managerial Ownership on Firm Performance. The magnitude of the influence of Managerial Ownership on Firm Performance = -0.881909 or 88.19% with a significance number of 0.2009> = 0.05. To reduce this deviant behavior, there is a need for supervision by outside parties (Wulandari Yani, 2014). Share ownership by institutions can reduce deviant behavior by managers by conducting supervision. Institutions can usually control the majority of shares because they have greater resources than other shareholders, so that their voting power over the shares they own can be stronger in supervising and deciding all activities carried out by managers. This has a good impact on the company because everything can run in accordance with the interests of the company and in the end the company's performance will increase.

The Effect of Institutional Ownership on Firm Performance

Based on the calculation results, the t-count is -2.889903 > t-table -2.042 with a significance number of 0.0069 < = 0.05, so Ho is rejected and Ha is accepted. This means that there is an influence of *Institutional Ownership* on Firm Performance. The magnitude of the influence of Managerial Ownership on Firm Performance = -11.96193 or 119% with a significance number of 0.0069 < = 0.05. The results of this study are in line with agency theory. The relationship between the owner of the institution and the company's performance is the owner of the institution as the party who oversees all management behavior in determining all decisions for the company so that the decisions taken by management are the right decisions for the advancement of company performance. The greater the ownership by financial institutions, the greater the voting power and encouragement of financial institutions to supervise management and consequently will provide greater impetus to company management to optimize company performance so that the company's Firm Performance will increase. On the other hand, the lower the level of *Institutional Ownership*, the weaker the voting power of the institutions in conducting supervision. Research conducted by (Fitriatun et al., 2016; Hanim et al., 2018; Rasyid & Linda, 2019) shows the results that "Institutional Ownership" has a significant positive effect on company performance. This supports the statement that ownership. Institutional institutions can improve the company's performance with its ability to oversee management policies that are not in line with the company so that they run in accordance with the interests of the company.

Conclusion

Based on the calculation results, the t-count is -1.305926 > t-table -2.042 with a significance number of 0.2009 > = 0.05, so Ho is accepted and Ha is rejected. This means that there is no influence of Managerial Ownership on Firm Performance. The magnitude of the influence of Managerial Ownership on Firm Performance = -0.881909 or 88.19% with a significance number of 0.2009> = 0.05. To reduce this deviant behavior, there is a need for supervision by outside parties. Share ownership by institutions can reduce deviant behavior by managers by conducting supervision. Based on the calculation results, the t-count is -2.889903 < t-table -2.042 with a significance number of 0.0069 < = 0.05, so Ho is rejected and Ha is accepted. This means that there is an influence of *Institutional Ownership* on Firm Performance. The results of this study are in line with agency theory. The relationship between the owner of the institution and the company's performance is the owner of the institution as the party who oversees all management behavior in determining all decisions for the company so that the decisions taken by management are the right decisions for the advancement of company performance.

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