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### Impact of Corporate Governance on Financial Performance

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**Abstract:**

This study aims to examine the effect of implementing corporate governance proxied by board accountability (BA), audit committee (AC), transparency and disclosure (TD), shareholder rights and investor relations (SI), and ownership and control disclosure (OC), leverage, and firm size as control variables on the company's financial performance. The sample was determined by the purposive sampling method, and there were 376 non-financial companies listed on the Indonesian stock exchange (IDX) for the period 2015-2019. Data analysis using panel data regression analysis. The results show that shareholder rights and investor relations (SI), leverage, and firm size significantly affect Tobin's Q. However, it has an insignificant effect on ROE. Meanwhile, board accountability (BA), audit committee (AC), transparency and disclosure (TD, and ownership and control disclosure (OC) has an insignificant effect on Tobin's Q and ROE. The results of this study indicate that the implementation of good corporate governance can improve potential corporate market value.

**Keywords:** corporate governance, leverage, firm size, financial performance.

### 公司治理对财务业绩的影响

**摘要:**

本研究旨在检验实施以董事会问责制 (BA)、审计委员会 (交流电)、透明度和披露 (运输署)、股东权利和投资者关系 (SI) 以及所有权和控制披露 (超频) 为代表的公司治理的效果, 杠杆和公司规模作为公司财务业绩的控制变量。样本采用目的抽样法确定, 2015-

2019年期间在印尼证券交易所 (IDX) 上市的非金融公司有376家。数据分析采用面板数据回归分析。结果表明, 股东权利和投资者关系 (SI)、杠杆率和公司规模显着影响托宾的问。但是, 它对鱼子的影响微乎其微。同时, 董事会问责制 (BA)、审计委员会 (交流电)、透明度与披露 (运输署) 以及所有权与控制权披露 (超频) 对托宾问和鱼子的影响不显着。治理可以提高潜在的公司市场价值。

**关键词:** 公司治理、杠杆、公司规模、财务业绩。

## 1. Introduction

Firm performance is the result of the efforts made by the company in maximizing its resources. Firm performance is one of the important factors to be analyzed in the decision-making process for investors and other stakeholders, such as managers, creditors, employees, and the state (Vieira et al., 2019). The parameters often used by researchers to assess firm performance are the financial aspects contained in the financial statements. Financial ratios that can be used to assess a firm's performance include profitability, liquidity, solvency, and activity. According to Prihadi (2013), profitability is the main concern of investors and analysts. This cannot be separated from one of the goals of establishing a company - to gain profit. Consistency of profitability is a measure of how a company can survive and continue to compete in its business. Several other studies use Tobin's Q to measure the company's financial performance in terms of the potential market value of a company (Shahwan, 2015; Afrifa & Tauringana, 2015; Al-Ahdal et al., 2020).

Firm performance can reflect how corporate management is conducted. Shareholders as the owner of the company (principals) can transmit the company's management to other people (agents) who better understand the business. This is done so that the company can be managed professionally and more optimally in generating profits. However, in practice, principals and agents can have different interests. The differences that arise have created agency conflict, which could be a problem for the company.

The implementation of corporate governance is one of the strategies in improving the company's financial performance and overcoming agency problems. Good quality corporate governance will streamline business processes, improve operational performance, and reduce capital expenditures so that they can contribute to sales and profit growth (International Finance Corporation, 2018). According to Handayani (2017), implementing good corporate governance (GCG) can increase profits and reduce the risk of loss in the future. The implementation of GCG is expected to make corporate governance more orderly, effective, and efficient. So, when corporate governance is implemented appropriately, an increase in firm performance can be achieved so that the company can profit and continue to compete.

The implementation of GCG in Indonesia is interesting to examine for several reasons. First, the concept of corporate governance in Indonesia has become an important issue after the economic crisis in 1997-1998 occurred. The survey results from Booz-Allen in 1998 showed that the Indonesian corporate governance index was in the lowest position with a score of 2.88 below Thailand (4.89), Malaysia (7.72), and Singapore (8.93) (Kaihatu, 2006). The low CG index indicates that the quality of corporate governance of companies in Indonesia is still poor and is considered one of the causes of the crisis. Second, Indonesia is part of the 2015 ASEAN Economic Community (AEC)

regional economic integration plan. Competition for business and investment activities will become tighter. Therefore, in 2014 the Financial Services Authority issued a roadmap for Indonesian corporate governance. This roadmap aims to promote better governance practices at the corporate level, in particular for issuers and public companies. Improving corporate governance practices is one of the efforts to spur financial and operational performance, increase investor trust, and provide access to incoming capital (Otoritas Jasa Keuangan, 2014b). Third, the Indonesian capital market has developed rapidly in recent years and has an important role in the national economy.

## 2. Literature Review

### 2.1. Board Accountability and Financial Performance

The use of the term board in this study adapts to the dual board system used in Indonesia. The term "board" refers to the supervisory board, while "key executives" refers to the management board (Organisation for Economic Co-operation and Development, 2015). In Indonesia, the supervisory board is called the board of commissioners, while firm management is called the board of directors. The board of commissioners is a corporate organ responsible for supervising and advising the board of directors and ensuring the implementation of good corporate governance practices (International Finance Corporation, 2018). If the function of the board of commissioners is well done, it will be able to spur the board of directors and firm management to improve firm performance. This is consistent with Sumarno et al. (2016) that the responsibilities of the board of commissioners and directors have a positive effect on firm performance and value.

### 2.2. Audit Committee and Financial Performance

According to the Financial Services Authority Regulation No. 55 /POJK.04/2015 (Otoritas Jasa Keuangan, 2015), an audit committee must be formed by the public company and responsible to the board of commissioners in helping carry out the duties and functions of the board of commissioners. The audit committee plays a role in helping the board of commissioners carry out their oversight responsibilities for risk management, financial reporting, control, and effective governance (International Finance Corporation, 2018). Al-Mamun et al. (2014) revealed that a good audit committee is seen from its members' financial expertise and independence, while good accounting practice is to minimize earnings management practices or the absence of fraud in its financial presentation and reporting. The audit committee's supervision results can be used as evaluation material for the company's management to improve the firm's operational performance. Improvement of the operational performance can provide a positive signal to the market so that the firm's value increases. Owusu and Weir (2016) revealed that

the audit committee index has a significant positive effect on the performance of Ghanaian companies (ROA and Tobin's Q).

### **2.3. Transparency and Disclosure and Financial Performance**

Access to material information protects shareholder rights by allowing shareholders to assess the firm's position and respond to relevant changes of their concern (International Finance Corporation, 2018). Companies disclosing more information will give a positive signal to the market that the company is transparent and does not try to conceal certain information from the public. The level of asymmetric information between the company and shareholders decreases (Putri & Siswanto, 2019). It can increase the trust of market players in the company, increasing the firm value and making it easier to access capital. This condition creates more possibilities for the company to increase financial performance in a better operational manner. Oino (2019) found that transparency and disclosure had a significant positive effect on company performance.

### **2.4. Shareholder Rights and Investor Relations and Financial Performance**

The corporate governance framework must protect and facilitate the exercise of shareholder rights and ensure fair treatment of all shareholders (Organisation for Economic Co-operation and Development, 2015). Putri and Siswanto (2019) stated that the fulfillment of shareholder rights could be a positive signal indicating that the company prioritizes the interests of shareholders. This can increase market trust so that the demand for firm shares will increase and make it easier for companies to obtain additional capital to improve their performance. Owusu and Weir (2016) revealed that the shareholder index has a significant positive effect on the performance of Ghanaian companies (ROA and Tobin's Q).

### **2.5. Ownership and Control Structure and Financial Performance**

According to the criteria argued by Shahwan (2015), good share ownership and firm control structure include disclosure of ownership structure, controlling shareholders less than 70%, employee share ownership programs, and individual shareholders at least 5 % of equity. Companies owned and controlled by the majority shareholder have a strong incentive to ensure that capital is used sparingly and efficiently and indirect production costs are strictly managed (Lukviarman, 2016). The incentive effect of this ownership pattern will reduce the need for supervision from outside of the company, reducing monitoring costs as a component of agency costs. The existence of an employee share ownership program (ESOP) can increase employees' sense of concern for the company. That way, employees will voluntarily do their best to improve the company's performance (Fang et al., 2015).

### **2.6. Leverage and Financial Performance**

Leverage indicates a firm's debt position (Al-Ahdal et al., 2020). Debt becomes one of the alternative firm funding sources. This ratio measures the assets of firms financed by creditors in the form of debt. Leverage is calculated by dividing the book value of the total debt and the book value of the total assets (Sami et al., 2011).

Debt has an important role in reducing free cash flow agency costs by preventing investment in non-positive net present value (NPV) projects and thus can be considered a corporate governance mechanism (Akbar et al., 2016). However, on the other hand, using debt to finance the company certainly creates risks and expenses for the company. Ciftci et al. (2019) revealed that companies with low leverage have the possibility of more free cash flow for new investment opportunities. Highly leveraged companies have more commitments and agreements, complicating the situation. That condition requires the company to fulfill more obligations so that it has a greater risk of default and bankruptcy (Haryetti & Rokhmawati, 2021; Afriyie et al., 2021).

### **2.7. Firm Size and Financial Performance**

The firm size can be measured from the total assets owned (Shahwan, 2015; Mishra & Kapil, 2018). Firms with large assets will have more opportunities to make bigger profits. Ajili and Bouri (2018) showed that firm size has a significant positive impact on the firm's performance. This means that the larger firm will be more likely to perform well if its management is done wisely, effectively, and efficiently. Thus, it can be said that the firm size affects financial performance.

## **3. Methodology**

### **3.1. Sample Selection and Data Collection**

This study aims to test the influence of the implementation of corporate governance on the financial performance of non-financial companies listed on the Indonesian Stock Exchange in 2015-2019. The dependent variables used are the firm financial performance as measured by Tobin's Q and ROE. At the same time, the independent variables are corporate governance with proxy board accountability (BA), audit committee (AC), transparency and disclosure (TD), shareholder rights and investor relations (SI), and ownership and control disclosure (OC). Leverage and firm size are added as control variables.

This research sample of 376 companies for 2015-2019 was selected using the purposive sampling method. Corporate governance data can be obtained from the annual report and the company's official website. The firm's performance data can be obtained from the company's annual financial statements and the Indonesia Stock Exchange official website.

**3.2. Variable Description**

**3.2.1. Dependent Variables**

**3.2.1.1. Tobin's Q**

Tobin's Q is used to determine the corporate performance in terms of the corporate potential market value. Tobin's Q can be calculated by dividing the market capitalization plus total debt by the total assets.

**3.2.1.2. Return on Equity**

ROE determines operational performance and firm efficiency in generating profits through equity. ROE can be calculated using profit after tax divided by total equity at the end of the year.

**3.2.2. Independent Variables (Corporate Governance)**

Measurement of good corporate governance in this study using corporate governance index (CGI), which developed based on previous literature. Each corporate governance proxy has several indicators used to form an index.

**3.2.2.1. Board Accountability (BA)**

Table 1. Board accountability indicators

Indicators	Source
The company disclosure the qualifications of the board members.	Al-Ahdal et al., 2020
Board meeting attendance by at least 75% of all members	Al-Ahdal et al., 2020
The firm reveals the offices held by an independent director in other companies.	Al-Ahdal et al., 2020
Separation of Chairman and CEO.	Al-Ahdal et al., 2020
Chairman of board independent director.	Al-Ahdal et al., 2020; Shahwan, 2015; Putri & Siswanto, 2019
Board is controlled by more than 50% of independent outside directors.	Al-Ahdal et al., 2020; Shahwan, 2015; Putri & Siswanto, 2019
Does the board contain at least one-third of members as independent members?	Shahwan, 2015; Putri & Siswanto, 2019
Support committees for the board.	Al-Ahdal et al., 2020
Board meetings at least once every two months	Otoritas Jasa Keuangan, 2014a
The time gap between the two meetings does not exceed four months.	Al-Ahdal et al., 2020; Otoritas Jasa Keuangan, 2014a

**3.2.2.2. Audit Committee (AC)**

Table 2. Audit committee indicators

Indicators	Source
The firm has formed an audit committee.	Al-Ahdal et al., 2020
The audit committee consists solely of non-executive directors.	Al-Ahdal et al., 2020
At least two-thirds of members of the audit committee are independent directors.	Al-Ahdal et al., 2020
The chairman of an audit committee is an independent director.	Al-Ahdal et al., 2020
At least one member of the audit committee has accounting expertise or experience in finance.	Al-Ahdal et al., 2020

Continuation of Table 2

The size of the audit committee is at least three members.	Al-Ahdal et al., 2020
Chairman of audit committee present at AGM.	Al-Ahdal et al., 2020
AC has a written charter or terms of reference.	Al-Ahdal et al., 2020
AC meets two or more times per year.	Al-Ahdal et al., 2020
All members of all members attended at least 75% of AC meetings	Al-Ahdal et al., 2020

**3.2.2.3. Transparency and Disclosure (TD)**

Table 3. Transparency and disclosure indicators

Indicators	Source
Company objective	Al-Ahdal et al., 2020
The firm reports the accounting principles followed	Al-Ahdal et al., 2020
Publication of annual corporate governance report	Al-Ahdal et al., 2020
Disclosing related party transactions	Al-Ahdal et al., 2020
Consolidated financial statements are available on the company website	Al-Ahdal et al., 2020
Stock price information	Al-Ahdal et al., 2020
Risk management information is available in the annual report	Al-Ahdal et al., 2020
The company discloses a code of ethics or conduct for the board	Al-Ahdal et al., 2020
Information about the notice of the meeting is available in the annual report of the company	Al-Ahdal et al., 2020
The company has a website	Al-Ahdal et al., 2020
Annual reports for the company are available	Al-Ahdal et al., 2020
The firm's annual report discloses the details of corporate social responsibility	Al-Ahdal et al., 2020
Does the firm disclose the number of executives compensations?	Shahwan, 2015

**3.2.2.4. Shareholder Rights and Investor Relations**

Table 4. Shareholder rights and investor relations

Indicators	Source
There is an institutional investor with at least 5% of the firm's equity	Shahwan, 2015
The firm applies the one-share-one-vote rule indiscriminately	Shahwan, 2015; Putri & Siswanto, 2019
The company holds an annual general shareholder meeting	Putri & Siswanto, 2019
The company sends out notices of a general meeting to shareholders at least one week in advance	Putri & Siswanto, 2019
Decision on the remuneration of board members or executives approved by the shareholders annually	Putri & Siswanto, 2019

**3.2.2.5. Ownership and control structure (OC)**

Table 5. Ownership and control structure indicators

Indicators	Source
The firm discloses its ownership structure	Shahwan, 2015

Continuation of Table 5

Controlling shareholders hold less than 70% of voting rights	Shahwan, 2015
The firm have employee stock options (ESOPs)	Shahwan, 2015
There is an ownership concentration where at least 5 percent of a firm's equity ownership is held by an investor	Shahwan, 2015

### 3.2.3. Control Variables

#### 3.2.3.1. Leverage

Leverage is calculated by dividing total debt by total assets.

#### 3.2.3.2. Firm Size

Firm size is measured by the natural logarithm (ln) of total assets.

### 3.3. Model Specification

Data analysis method to test the impact of independent variables on dependent variables in this study using panel data regression analysis. The use of panel data is able to provide more data, so it will make a greater degree of freedom (Widarjono, 2018). The form of the regression equation in this study as follows:

$$(1) \quad TQ_{i,t} = \alpha_i + \beta_1 BA_{i,t} + \beta_2 AC_{i,t} + \beta_3 TD_{i,t} + \beta_4 SI_{i,t} + \beta_5 OC_{i,t} + \varepsilon_{it}$$

$$(2) \quad ROE_{i,t} = \alpha_i + \beta_1 BA_{i,t} + \beta_2 AC_{i,t} + \beta_3 TD_{i,t} + \beta_4 SI_{i,t} + \beta_5 OC_{i,t} + \varepsilon_{it}$$

$$(3) \quad TQ_{i,t} = \alpha_i + \beta_1 BA_{i,t} + \beta_2 AC_{i,t} + \beta_3 TD_{i,t} + \beta_4 SI_{i,t} + \beta_5 OC_{i,t} + \beta_6 LEV_{i,t} + \beta_7 SIZE_{i,t} + \varepsilon_{it}$$

$$(4) \quad ROE_{i,t} = \alpha_i + \beta_1 BA_{i,t} + \beta_2 AC_{i,t} + \beta_3 TD_{i,t} + \beta_4 SI_{i,t} + \beta_5 OC_{i,t} + \beta_6 LEV_{i,t} + \beta_7 SIZE_{i,t} + \varepsilon_{it}$$

where:

TQ - Tobin's Q;

ROE - return on equity;

$\alpha_i$  - intercept;

$\beta_n$  - slope;

BA - board accountability index;

AC - audit committee index;

TD - transparency and disclosure index;

SI - shareholder rights and investor relations index;

OC - ownership and control structure index;

LEV - leverage;

SIZE - firm size;

$\varepsilon_{it}$  - error term.

## 4. Results

### 4.1. Descriptive Statistics

Table 6 shows descriptive statistics for all variables used in 1,880 observations in 376 companies for 2015-2019.

Table 4. Descriptive statistics

Variable	(1) N	(2) Mean	(3) Median	(4) SD	(5) Min	(6) Max
Tobin's Q	1.880	1,5686	1,025	2,2038	0,1228	37,231
ROE	1.880	-0,0358	0,055	3,1778	-136,4	5,086
BA	1.880	0,7565	0,800	0,1306	0,200	1,000
AC	1.880	0,7969	0,800	0,1225	0,000	1,000
TD	1.880	0,8903	0,923	0,0835	0,231	1,000
SI	1.880	0,9100	1,000	0,1573	0,200	1,000
OC	1.880	0,5121	0,500	0,1744	0,250	1,000
LEV	1.880	0,4518	0,453	0,2612	0,000	7,079
Size	1.880	28,7211	28,695	1,6463	22,757	33,494

### 4.2. Regression Model Selection

The estimation model in the data panel regression analysis can be determined using OLS, fixed effect, and random-effect methods. To determine the exact estimation model of that methods need to be tested. Table 7 shows that model (1) uses random effect estimation, model (2) uses OLS estimation, model (3) uses fixed effect estimation, and model (4) uses OLS estimation.

Table 5. Results of the regression model selection test

	Model (1)	Model (2)	Model (3)	Model (4)
Chow test	FE	OLS	FE	OLS
LM test	RE	OLS	RE	OLS
Hausman test	RE	RE	FE	RE

### 4.3. Classic Assumption Test

OLS and fixed effect (LSDV) estimation models must meet the required assumptions. The correlation coefficient between independent variables is used to detect multicollinearity. Table 8 shows that none has a correlation coefficient > 0.85. So, it can be concluded that there is no multicollinearity. Wald and Breusch-Pagan tests are used to detect heteroskedasticity, while the Woolridge test is used to detect autocorrelation. Table 9 shows that models (2), (3), and (4) have heteroskedasticity issues, while models (3) have autocorrelation problems.

Table 6. Summary of correlation coefficients among the independent variables

	BA	AC	TD	SI	OC	LEV	Size
BA	1,000						
AC	0,273	1,000					
TD	0,254	0,362	1,000				
SI	0,057	0,127	0,137	1,000			
OC	0,014	0,024	0,009	0,013	1,000		
LEV	0,045	0,029	0,086	-0,018	0,022	1,000	
Size	0,074	0,254	0,456	0,128	-0,034	0,188	1,000

Table 7. Results of the classic assumption test

	Model (1)	Model (2)	Model (3)	Model (4)
Wald test	-	-	Heteroskedasticity	-
Breusch-Pagan test	-	Heteroskedasticity	-	Heteroskedasticity
Woolridge test	-	No autocorrelation	Autocorrelation	No autocorrelation

#### 4.4. Hypothesis Test

Table 8 shows that models (2), (3), and (4) do not meet the required assumptions. If the estimation model remains in use, it will not produce a BLUE (Best Linear Unbiased Estimator) estimator. Therefore, it is necessary to change the estimation by robustifying or clustering standard error.

Table 8. Regression results

	(RE)	(OLS robust SE)	(FE clustering SE)	(OLS robust SE)
Variable	Model (1)	Model (2)	Model (3)	Model (4)
BA	-0,362 (0,311)	0,419 (0,427)	0,044 (0,189)	0,524 (0,498)
AC	0,221 (0,369)	-0,574 (0,696)	0,063 (0,307)	-0,691 (0,772)
TD	-1,239* (0,671)	-0,294 (0,436)	-1,011 (0,631)	-0,673 (0,663)
SI	0,618*** (0,191)	1,142 (0,991)	0,602* (0,308)	1,056 (0,927)
OC	-0,427 (0,321)	-0,056 (0,062)	-0,119 (0,336)	-0,003 (0,087)
LEV			1,228*** (0,095)	-0,823 (0,682)
SIZE			-0,756*** (0,211)	0,071 (0,049)
Constant	2,426*** (0,653)	-0,644 (0,425)	23,070*** (5,895)	-1,916 (1,274)
Observations	1.880	1.880	1.880	1.880
R-squared		0,004	0,095	0,008
Number of ids	376		376	

Notes: Robust standard errors are in parentheses.

\*\*\*  $p < 0,01$ ; \*\*  $p < 0,05$ ; \*  $p < 0,1$

##### 4.4.1. Impact of Board Accountability on Financial Performance

Models (1), (2), (3), and (4) show that board accountability (BA) has a significant effect on Tobin's Q and ROE. The results of this study are similar to those of Al-Ahdal et al. (2020), who stated that BA has an insignificant effect on Tobin's Q and ROE. However, the results of this study differ from Sumarno et al. (2016), who revealed that the responsibilities of the board (RB) had a significant positive effect on Tobin's Q and Shaukat and Trojanowski (2018), showing that the board governance index has a positive effect on the operational performance. BA has an insignificant effect on performance, presumably due to the small role of the Board of commissioners in the effort to improve firm performance. The Board of commissioners is limited to controlling and monitoring functions only. Strategic policy to improve the company's performance is determined by the board of directors as the direct manager of the firm.

##### 4.4.2. Impact of the Audit Committee on Financial Performance

Models (1), (2), (3), and (4) show that the audit committee (AC) has an insignificant impact on Tobin's Q and ROE. This is in contrast to Owusu and Weir (2016) revealed that the audit committee index had a significant positive impact on the firm performance in Ghana. The results of this study are similar to those of Ajili and Bouri (2018), who revealed that AC has an insignificant effect on performance. The absence of a

significant impact of AC on corporate performance can be explained by the fact that the audit committee has a primary focus on ensuring a better quality of disclosed financial reporting rather than improving financial performance (Ajili & Bouri, 2018). The task of the audit committee is to ensure that financial reporting follows applicable standards and is free from conflict of interests which can involve financial loss.

##### 4.4.3. Impact of Transparency and Disclosure on Financial Performance

Model (1) shows that transparency and disclosure (TD) has a significant negative effect on Tobin's Q. These results are consistent with Sumarno et al. (2016), who revealed that disclosure and transparency (DT) had a significant negative effect on Tobin's Q. However, when leverage and firm size as control variables are added to the model (3), TD has an insignificant impact on Tobin's Q. It means TD is not strong enough in affecting the firm's performance in potential market value.

Models (2) and (4) show that transparency and disclosure (TD) has an insignificant effect on ROE. It can be explained by shareholders' and potential investors' need to know the levels of transparency and disclosure of a company's information for making investment decisions. Shareholders have the right to influence corporate policy through a general meeting of shareholders. However, shareholders are not expected to assume responsibility for managing corporate activities. The responsibility for the company's strategy and operations is usually on the Board of Directors and the management team. Therefore, TD does not significantly affect the firm's operational performance.

##### 4.4.4. Impact of Shareholder Rights and Investor Relations on Financial Performance

Models (1) and (3) show that shareholder rights and investor relations (SI) have a significant positive effect on Tobin's Q. This result supports the findings of Sumarno et al. (2016), Owusu and Weir (2016), who argued that rights of shareholders (RS) have a significant positive effect on Tobin's Q. Good fulfillment of shareholder rights will be a positive signal that the company can prioritize and protect shareholders' interests. It can increase shareholder trust to continue investing in the company and attract potential investors and other market players to invest (Putri & Siswanto, 2019). That way, the market demand for firm shares will increase, and the firm value will also increase.

Models (2) and (4) show that SI has an insignificant effect on ROE. An insignificant effect between SI and the firm operational performance may occur due to shareholders' limited authority and responsibility. Ownership of shares provides the right to influence the corporation through participation in the general meeting of shareholders and by voting (Organisation for Economic Co-operation and Development, 2015). In practice, however, corporate cannot be managed by

shareholders with different interests, goals, and abilities through a referendum or voting process. Moreover, firm management must be able to make business decisions quickly. Given this reality and the complexity of managing a company in a fast-paced and changing market, shareholders are not expected to assume the responsibility for managing the firm activities.

#### 4.4.5. *Impact of Ownership and Control on Financial Performance*

Models (1), (2), (3), and (4) show that ownership and control (OC) has an insignificant impact on Tobin's Q and ROE. This result contrasts with that of Darko et al. (2016), who revealed that ownership concentration has a positive impact on the firm's performance (ROE and Tobin's Q). This is thought to be due to the poorly average of the OC index. The poor OC index is partly due to the lack of companies implementing employee share ownership programs (ESOP). The implementation of ESOP can reduce agency problems. Throughout ESOP, management and employees can have a high spirit of work to provide their best capabilities to improve the firm performance.

#### 4.4.6. *Leverage Impact on Financial Performance*

Model (3) shows that leverage has a significant positive impact on Tobin's Q, in contrast to Sami et al. (2011), who argued that leverage has a significant negative impact on Tobin's Q. The positive relationship between leverage and Tobin's Q indicates that the increased debt is directly proportional to the increase in the value of Tobin's Q. This directly proportional relationship indicates that creditors have good trust in the firm. Creditors believe the firm investment plan will have a good return. Without good market trust, the company will find it difficult to get additional funds to improve the firm performance.

Model (4) shows that leverage does not significantly affect ROE. The result is different from Sami et al. (2011), Ajili and Bouri (2018), who argued that leverage has a significant negative effect on ROE. Leverage does not significantly affect ROE; researchers suspect this is influenced by the management of the investment that has not been maximized. The company still needs more time to develop the investment made. Therefore, additional external capital from debt has not increased the firm operating income significantly.

#### 4.4.7. *Impact of Firm Size on Financial Performance*

Model (3) shows that firm size has a significant negative impact on Tobin's Q. These results are consistent with Akbar et al. (2016), Sami et al. (2011). The increase in firm size did not have a significant positive impact on the demand for firm shares. Meanwhile, Model (4) shows that firm size has an insignificant effect on ROE. It is suspected that it is caused by the company's inability to utilize the assets properly to improve its operational performance.

## 5. Conclusions

The findings of this study show that board accountability (BA), audit committee (AC), and ownership and control structure (OC) have an insignificant impact on Tobin's Q and ROE. Transparency and disclosure (TD) are not strong enough to affect the corporate performance in potential market value. TD can be represented by the information disclosed by the company, such as leverage and firm assets. Leverage has a significant positive impact on Tobin's Q, indicating that the corporation still has a good market value despite the corporate debt increase. Market value has a positive relationship to market trust. Market trust becomes an important capital for companies to obtain additional funds from an external source. Firm size has a significant negative impact on Tobin's Q, While TD, leverage, and firm size have an insignificant impact on ROE.

The practical implication of this research is that investors should notice the implementation of corporate governance as one of the considerations before investing, especially in fulfilling shareholder rights. a firm with a good fulfillment of shareholder rights means committing to prioritize the interests of shareholders.

## 6. Limitations and Further Study

This research has not used all aspects of assessment corporate governance. Further research can develop and modify the corporate governance indicators used for a maximum result. Practical implications for future research suggest adding or modifying indicators and developing assessment methods on corporate governance variables to obtain more accurate results. Furthermore, future researchers can add other proxies of corporate governance, such as the role of the Board of Directors.

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## Authors' Contributions

Rony Dwi Cahyono was in charge of the overall research direction and planning, the data collection, analysis, and interpretation.

Ely Siswanto made substantial contributions to the research design, methodological design of the work, and overall research supervision.

Lulu Nurul Istanti performed the data analysis, collection, and interpretation.

Yuli Soesetio reviewed the literature, synthesizing and summarising relevant publications.

Fadia Zen made contributions to the analysis, data collection and interpretation.

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