DE GRUYTER OPEN

„Journal of Management and Business Administration. Central Europe"
Vol. 25, No. 1/2017, p. 33–52, ISSN 2450-7814; e-ISSN 2450-8829

The Effect of Corporate Governance on the Performance of a Company. Some Empirical Findings from Indonesia

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Submitted: 29.07.16. Final acceptance: 09.11.16

Abstract

Purpose: This study is aimed at analyzing the influence of the size of the board of directors, audit committee, institutional ownership and managerial ownership on the financial performance of manufacturing companies listed on the Indonesia Stock Exchange.

Methodology: The study analyses 156 Indonesia firms listed on the Indonesia Stock Exchange using linear regression analysis.

Findings: The results indicated that the size of the board of directors has a positive effect on financial performance, while the size of the audit committee, institutional ownership and managerial ownership has no effect on the financial performance. While on the simultaneously testing, it showed that the size of the board of directors, audit committee size, institutional ownership and managerial ownership influence the financial performance.

Research limitations/implications: The research has been limited to the manufacturing sector of Indonesian companies and the internal mechanism of corporate governance. The study suggests considering an external mechanism of corporate governance as predictor variables.

Originality: The study adds to the literature of corporate government and firm performance in emerging countries. The study implies that corporate governance mechanism for audit committee, managerial ownership and institutional ownership do not enhance company performance. The average size of an audit committee just to fulfill the regulation. Corporate governance mechanism that improve financial performance is size board director. Improvement in board performance as board size increase has positive impact that enhance financial performance of company.

Keywords: board of directors, institutional ownership, corporate governance, managerial ownership, the audit committee

JEL: G340

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English-language editing of that article was financed under Agreement 763/ P-DUN /2016 with funds from the Ministry of Science and Higher Education allocated to the popularization of science.

Intoduction

Good Corporate Governance is a system or process and a set of rules that govern the relationship between the various interested parties (stakeholders) in the company, such as shareholders, board of commissioner and board of directors for the achievement of corporate objectives. In Indonesia, Good Corporate Governance has been applied, because of the economic and monetary crisis that hit the country in 1997–1999. This crisis happened because there were many companies that have not implemented consistently good corporate governance, particularly in the company's business ethics. Moreover the case of WorldCom and Enron in the United States emphazised the importance of good corporate governance to be applied in the company. A study conducted by the Asian Development Bank (ADB) identified the lack of corporate governance as a key contributor to the impact and depth of the crisis (Zhuang et al., 2000). Thus, the Asian financial crisis became a significant momentum factor, pushing the reform of corporate governance in Asia, specifically in Indonesia.

Indonesia has improved corporate governance through organization and regulation. The milestones of corporate governance In Indonesia are (1) Establishment of the *National Committee on Corporate Governance Policy* (2) *Law on Limited Liability Company* (3) *GCG Codes (Financial Service Authority,* 2014). The most recent development in the Indonesian financial sector has been the establishment of the Financial Services Authority (OJK) through Law No. 21 of 2011 concerning the Financial Services Authority (OJK). The Indonesia Stock Exchange (IDX) was established after a merger of the Surabaya Stock Exchange and the Jakarta Stock Exchange. The Indonesia Stock Exchange is the primary point for Securities trading, which includes, among others, stocks, bonds, sukuk and derivatives.

This study examines the effect of good corporate governance in this proxy with, the board of directors, audit committee, institutional ownership and managerial ownership to the company's financial performance, along with many issues of good corporate governance that have occurred in Indonesia. The focus of this sample is on manufacturing companies listed on the Indonesia Stock Exchange (BEI). The manufacturing company is the corporate sector which is the largest number of listed companies compared toe other sectors, with a total of 150 manufacturing companies listed on the Stock Exchange by the Indonesian Capital Market Directory (ICMD) in the period 2009–2015. This shows that manufacturing companies have a significant influence either in the dynamics of trading in the company or in BEI.

Bugshan (2005) explains that the size of the board will increase along with the greatness of the need and the more effective it is on external relations. Therefore the size of the board of directors plays a role in improving corporate performance and reducing agency conflicts that occur in the company. Research conducted by Coles et al. (2008) shows that the size of the board of directors affects financial performance. The board of directors in a company can also determine the strategy taken by the company that may affect the financial performance and reduce the agency conflict. A different result was obtained by Dalton et al. (1999), who revealed that larger boards are less efficient in decision-making compared with smaller boards.

The company's audit committee is responsible for overseeing the financial reports, external audit and internal control system and is also able to reduce the agency conflicts that occur in the enterprise. According to research conducted by Anderson et al. (2004) and Bouaziz (2012), the size of an audit committee influences the company's financial performance, meaning the larger audit committees will enhance the company's financial performance. Other results were found by Aanu et al. (2014) and Amer et al. (2014), that the size of the audit committee has no effect on the financial performance.

The level of institutional ownership will increase the supervision by the institutional investors to avoid opportunistic managerial behavior. The results are in line with the research conducted by Uwuigbe and Olusanmi (2012) and Cornett et al. (2007) that institutional ownership affects the financial performance. A different result was obtained by Najjar (2015), that institutional ownership does not affect the company's financial performance and Siagian (2011) who stated that institutional ownership has a negative association with corporate governance in Indonesia.

Agency theory argues that high managerial ownership can reduce agency problems within the company, indicating that managerial ownership influences the financial performance. A different result was found by Din and Attiya (2011), who showed that managerial ownership does not have an an effect on financial performance.

The continual relevance of this issue and the different results obtained by previous studies on good corporate governance, means that this research aims to investigate the effect of good corporate governance on an Indonesian manufacturing company's financial performance.

 DOI: 10.7206/jmba.ce.2450-7814.188

Theoretical Background and Hypothesis Development

Agency Theory and Good Corporate Governance

Jensen and Meckling (1976), stated that the agency relationship is a contract between the manager and the investor. This theory studies the relationship between the principal and the agent. The principal refers to the owner of the company or shareholders, while the agent refers to the manager of the company. This theory is one of the theories that emerged in the development of accounting research which is a modification of the financial accounting model by adding aspects of human behavior into economic models.

Agency theory is a condition occuring in a company where the management as an executor or an agent and the owners of capital (owner) as the principal, agree to make a cooperation contract. This partnership contract contains an agreement which explains that the management of the company has to work as well as possible for the maximum satisfaction of the owner such as the high profit earned by the company.

The agency problem incures the cost of the agency or the agency cost, which according to Jensen and Meckling (1976) consists of:

a. The monitoring expenditures by the principal. This monitors costs incurred by the principal to study the behavior of agents, including to a control of the agent's behavior.
b. The bonding expenditures by the principal. The costs incurred by the principal to ensure that the agent will not do such actions that would disbenefit the principal after the agency relationship.
c. The residual loss. A decrease in the welfare of the principal and the agent caused by the actions of the agents themselves.

The company oversight management mechanism can be used to reduce the conflict or agency problems. Agency theory states that conflicts of interest and information asymmetries that arise can be reduced by a proper monitoring mechanism to align the interests of the various parties within the company. One of the tools used is good corporate governance. The implementation of good corporate governance will make the owner confident that the management of the company will manage the assets owned by the owner properly so as to eliminate any conflict of interest and agency fee.

Good corporate governance is a pattern of relationships, systems, and processes used by the parties of the company (directors, commissioners) in order to give added value to shareholders on an ongoing basis in the long term, based on the current legislation and norm, without forgetting the interests of the other stakeholders. The main principles of good corporate governance, as offered by the Organization for Economic Cooperation and Development (OECD), are accountability, responsibility, transparency, independene andfairness. The concept of corporate governance according to The Indonesian Institute for Corporate Governance (IICG) is a series of mechanisms that direct and control an enterprise so that the company's operations are in line with the expectations of stakeholders.

The corporate governance mechanism is a rule, procedure, and clear relationship between the decision making parties and the controlling parties who are conducting the control or supervising the decision taken. Effective corporate governance combines both internal and external mechanisms (Cremers and Nair, 2005).

Hypothesis Development

Board size and financial performance

The board of directors is the center of control in the company and this board has ultimate responsibility for the health and long-term success of the company. In the guidelines of GCG Indonesia, in order to smoothen the directors to work effectively, it has to follow the following principles:

1. The Composition of the Board of Directors has to enable the decision making process to proceed effectively, precisely and quickly, and also to act independently.
2. The Board of Directors has to be made up of professionals, full of integrity and having the experience and skills required to carry out their duties.
3. The Board of Directors is responsible for the management of the company to generate profit (profitability) and to ensure the company's sustainability .
4. The Board of Directors reports their results at the GMS (General Meeting of Shareholders) in accordance with the legislation in force.

A Board of Directors, includes a board member that is responsible for the company's performance and running or managing the companies. The larger the size of the company's board of directors, the better it will be able to reduce any agency conflicts that occur in the company. The Board of Directors is responsible for managing the company and decision making and determining the strategy for the company. If the management make an opportunistic action, the directors can make decisions effectively, precisely and quickly to minimalise the management actions.

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One of the corporate governance mechanisms is the board of a company. Bugshan (2005) and Coles et al. (2008) explain that the greater the demand and the more effective external relations are, then in turnthe need for a large board will be higher. The number of directors and firm performance have a positive association (Belkhir, 2009; Issarawornrawanich, 2015).

Therefore, the size of the board of directors plays a role in improving corporate performance and reducing agency conflicts that occur in the company. The higher the size of a company's board of directors in a company, the better will be the company's performance through directions to specialize, increased experts and greater monitoring capacity (Klein, 2002), Dalton et al. (1999). Walczak (2013) concludes that the behavior of members has a decisive impact on the mechanisms of corporate governance.

Research conducted by Coles et al. (2008) looked at the effect of the mechanism of corporate governance and the ownership structure of financial performance. The results showed that the size of the board of directors affects the financial performance.

Jensen (1993) and Yermack (1996) concluded that companies with oversized Boards tend to become less effective, whilst having small Boards enhances the company's performance and influences positively the investor's behaviour and company value. A negative relationship between the size of the board of directors and ROA was also revealed by Zabri et al. (2016). A different conclusion was drawn by Horváth and Spirollari (2012) and Yilmaz and Buyuklu (2016), who conlude that a board's size does not have a significant effect on firm's performance.

H1: The size of the board of directors affects the financial performance.

Size of the audit committee and financial performance

The decision of Chairman of Bapepam Number: Kep-643/PM/2012 which states that the audit committee is a committee established by the Board of Commissioners in order to help them to carry out their duties and functions. The audit committee is a group of people appointed by the board of commissioners, responsible for maintaining the independency of the auditor from the management.

Bapepam Kep 643/BL/2012 on Regulations Number IX.1.5 states that the audit committee is a committee established by the Board of Commissioners in order to help them to carry out their duties and functions. The audit committee is a group of people appointed by the board of commissioners, responsible for maintaining the independency of the auditor from the management.

In the agency theory known as moral hazard, the manager or the agent do not implement the tasks as agreed in the employment contract. One of them is the possibility of fraud in the financial statements. The audit committee is responsible for overseeing the financial reports, external audit, and observing the internal control system (including internal audit) that may reduce opportunistic management that performs earnings management by way of overseeing the financial statements and supervising the external audit.

The higher the number of the audit committee of the company, the more it will improve the supervision of the company, especially in the financial statements of the company, so as to reduce the possibility of fraud occurring and preventing the agency conflict and improving the financial performance. Research conducted by Bouaziz (2012) and Anderson et al. (2004) showed that the size of the board audit committee affects the financial performance. According to Xie et al. (2003), the size of the audit committee is able to enhance the effectiveness of the audit committee so as to prevent acts of earnings management and improve the financial performance.

H2: The size of the audit committee affects the financial performance.

The influence of institutional ownership on the financial performance

Institutional ownership is the total number of shares outstanding that are owned by institution. The existence of institutional ownership can monitor the increasing of their investment professionally so that the level of control over the management is very high, which in turn can reduce the potential of fraud. Chung and Zhang (2011) stated that the proportion of the institutional investor increases with its governance quality.

Jensen and Meckling (1976) stated that institutional ownership plays a very important role in minimizing the agency conflict that occurs between managers and shareholders. The existence of institutional investors are considered capable of being an effective monitoring mechanism in any decision taken by the manager. This is because institutional investors are involved in strategic decision making and they do not easily believe the actions taken in earnings manipulation. The high level of institutional ownership will lead to greater oversight efforts by the institutional investors that can deter the opportunistic behavior of managers.

So the higher the institutional ownership, then the better control is exercised by the institution, in order to deter the opportunistic behavior of managers and improve the company performance. Research conducted by Uwuigbe and Olusanmi (2012), Cornett et al. (2007), and Ahmad and Jusoh (2014) show that institutional ownership has an effect on the financial performance. A different conclusion is made by Kumai and Bala (2015), who reveal an inverse relationship between institutional shareholding and firm performance.

H3: Institutional ownership affects the financial performance.

Managerial ownership and financial performance

Managerial ownership refers to the ownership of shares held by the company's management. Managerial ownership is the shareholder of the company in which the shares are owned by the management of the company who actively participate in the making of corporate decisions (Director and Commissioner). It is measured by the percentage shares owned by the management.

According to agency theory, the increasing managerial ownership level is used as one way to address the problems that exist in the company. The greater the managerial ownership in the company, the harder the management will work to improve the company's performance because they have the responsibility to fulfill the wishes of shareholders which are themselves. This explanation relates with the behavioral aspect of the positive psychology capital concept, that the development of employee self efficacy, hope, optimism and resilience can contribute to strengthening participatory attitudes among workers, and thus enhancing the efficiency of the entire organization (Bozek, 2015).

Potential conflicts of interest led to the need for a mechanism to protect the interests of shareholders. One of the tools to reduce the conflicts between the management and the agent can be done by increasing the managerial ownership. The greater managerial ownership in the company, the management will work harder to improve the company's performance because they have responsibility to fulfill the wishes of shareholders which are themselves. The expectations of the managerial ownership is that top managers can be more consistent in running the company, so as to create an alignment of interests between management and shareholders and can improve a company's performance. Research conducted by Cole and Mehran (1998), showed that managerial ownership affects the financial performance. A different conclusion is revealed by Andow and David (2016) that managerial ownership has negatively impacted on the performance of listed conglomerate firms. Ghamdi and Rhodes (2015) stated that in a family firm, managerial ownership and a firm's performance are strongly related.

H4: Managerial ownership affect the financial performance.

Research Design

Data

39 companies were used for a sample in this research, so the overall observation since the 2011–2014 were total of 156 samples obtained.

39 companies were clasified based on market capitalization on 2014. The percentile method was used to clasify the companies into 3: small, medium and large. The Company size is presented in Table 1.

Table 1. Company Size

Size	Amount (Companies)
Small	10
Medium	19
Large	10

The considerations in using the sample are as follows:

1. Shares of manufacturing companies listed on the Stock Exchange during the period 2011–2014.
2. Present the financial statements consistently.
3. The Company is presenting the financial statements in the form of units Rp
4. The manufacturing company must make a profit during the observation period 2011–2014.
5. The information contained in the annual report or audited financial statements include all the variables used in the study.

Model

The model for our study is represented by the following equation:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + \varepsilon$$

The analysis method used in this research is the multiple linear regression analysis.

 DOI: 10.7206/jmba.ce.2450-7814.188

Operational Definitions Variable Research

The variables in this study consisted of four independent variables and one dependent variable. The variable definitions and measurement are presented in Table 2.

Table 2. Operational Definitions Variables

Variables	Definition	Measurement
A. Independent		
1. Size of the board of directors (X1)	Size board member responsible for the performance and management of the company	$\sum$ The Board of Directors
2. Size of the audit committee (X2)	Group of people appointed by the board of commissioners responsible for helping the auditor to keep the independency of the management	$\sum$ Audit Committee
3. Institutional ownership (X3)	Number of shares owned by the institution of the total shares outstanding. Including institution ownership shares owned by company.	(institutional ownership : outstanding stock) x 100%
4. Managerial ownership (X4)	Shareholder of the company in which the shares are owned by the management of the company who actively participate in the making of corporate decision (Director and Commissioner)	(managerial ownership : outstanding stock) x 100%
B. Dependent	Financial performance is measured by the profitability ratio, which focuses on the company's ability to get profit.	
Financial Performance	Financial Performance as measured by using Return On Assets (ROA)	(Income after taxes: Total Assets) x 100%

Source: Issarawornrawanich (2015), Xie et. al (2003), Ahmad and Jusoh (2014), Andow and David (2016).

Result and Discussion

Result

Variables that operated in this study consisted of the independent variables size of the board of directors, audit committee size, institutional ownership, and managerial ownership. To understand the characteristics of the variables in terms of minimum value, maximum, average, and standard deviation, the descriptive statistical data is presented below.

Table 3. Descriptive statistics

VARIABLE	Minimum	Maximum	Mean	Std. Deviation
Financial performance	1,38	40,10	11,17	9,25
The size of the board of directors	2,00	13,25	5,62	2,83
The size of the audit committee	1,75	4,00	3,06	0,33
The institutional ownership	32,22	98,18	69,58	17,13
The Managerial ownership	0,00	25,51	3,73	6,71

Source: own elaboration.

Based on Table 2 above, the average financial performance (ROA) is 11.17% with the lowest value being 1.38% and the highest 40.10%. The Standard deviation of the financial performance (ROA) is 9.25, lower than the mean value and thus it can be said that the deviations in the data are relatively small.

The size of the board of directors with lowest number (minimum) is 2.00 or 2 board of directors and a maximum value of 13.25 or 13 board of directors. From the above data, it can be seen that the size of the board of directors has an average value (mean) of 5.62, meaning that the average board of directors in the company's manufacturing is rounded off by a 6 person board of directors. The standard deviation of the size of the board was 2.83, lower than the mean value and thus it can be said that the deviations of the data are relatively small.

The size of the audit committee in the study with the lowest value (minimum) is 1.75 and the maximum value is 4.00 or 4 audit committees. From the above data, it can be seen that the size of the board of directors has an average value (mean) of 3.06, meaning that the average audit committee in manufacturing firms is met by as many as 3 of the audit committees. The standard deviation 0.33, smaller than the mean value, and thus it can be said that the deviations in the data are relatively small.

The institutional ownership with the lowest value (minimum) is 32.22% which means that the lowest ownership of shares owned by an institution was 32.22%, while the maximum value is 98.18% or owned by institutions that reach 98.18%. The mean value

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is 69.58%, which means that the average company has 69.58% institutional shares. The standard deviation of institutional ownership was 17.13 lower than the mean value and thus it can be said that the deviations in the data are relatively small.

The Managerial ownership with the lowest value (minimum) is 0.00%, which means that the lowest shares owned by the management was 0.00%, while the maximum value of the shares owned by the management company is 25.51%. The mean value is 3.73%, which means that the average percentage of shares owned by the company management amounted to 3.73%. The standard deviation of 6.71 managerial ownership is still greater than its mean value of 3.37.

In this study, the multiple linear regression model is developed to determine the effect of the size of the board of directors, audit committee size, institutional ownership and managerial ownership on financial performance. The result of the calculation is shown in Table 4.

Table 4. Multiple Regression Analysis

No.	Independent Variables	Coefficien	T
1	CONSTANT	1,866	
2	The size of the board of directors	0,785	2,380*
3	The size of the audit committee	2,295	1,485
4	The institutional ownership	0,472	1,264
5	The Managerial ownership	0,090	1,686
	R	0,343	
	R Square	0,118	
	Adjusted R Square	0,077	

Notes: * Significant at 5 percent level.

Source: own elaboration.

Based on the results of multiple regression analysis in the above table, the regression equation model obtained is as follows:

$$Y = 1{,}866 + 0{,}785\ X1 + 2{,}295\ X2 + 0{,}472\ X3 + 0{,}090\ X4 + e$$

From Table 3 it can be seen that the influence of each independent variable to the dependent variable is as follows:

a) The regression analysis of the size of the board of directors is significant at the level of 0.020 > 0.05 and 2.380 t count > t table 2.032, indicating that the size of the board of directors has a significant positive effect on the financial performance
b) The regression coefficient of the size of the audit committee is positive amounting to 2,295, indicating an unidirectional relationship between the size of the audit committee and financial performance. Although it is a positive sign of regression coefficient in accordance with that hypothesized, the relationship is not significant where the t-count value is smaller than t-table (1,485 < 2.032) or sig. greater than 5% significance level to test one party (0.141 > 0.050). Thus the research hypothesis is rejected.
c) The regression coefficient of institutional ownership is positive, amounting to 0.472, indicating an unidirectional relationship between institutional ownership and financial performance. Although it is a positive sign of regression coefficient in accordance with that hypothesized, the relationship is not significant where the t-count value is smaller than the t-table (1,264 < 2.032) or sig. greater than the 5% significance level to test one party (0.210 > 0.050). Thus the research hypothesis is rejected.
d) The regression coefficient on managerial ownership is positive, equalling 0.090 and indicating an unidirectional relationship between institutional ownership and financial performance. Although it is a positive sign of regression coefficient in accordance with that hypothesized, the relationship is not significant where the t-count value is smaller than the t-table (1.686 < 2.032) or sig. greater than 5% significance level to test one party (0.096 > 0.050). Thus the research hypothesis is rejected.
e) The coefficient of determination is equal to 0.077, this means that the changes variation of Y affected by the changes of X1 to X4 by 7.7%. So the magnitude of the effect the size of the board of directors, audit committee size, institutional ownership and managerial ownership on the financial performance was only 7.7%, while the remaining 92.3 % was influenced by other factors outside the study.

 DOI: 10.7206/jmba.ce.2450-7814.188

Discussion

The Effect of the Size of Board of Directors to the Financial Performance

This result proves that the higher the number of the board of directors in the company, the more it will improve its financial performance. The results are consistent with the results of research conducted by Coles et al. (2008).

The board of directors in a company can also determine the strategy taken by the company, both long term and short term, which may affect the financial performance and reduce agency conflict. Bugshan (2005) explained that the greater demand and external relations to be more effective and hence the need a larger board will be higher. The effectiveness and efficiency of a company depends on the mechanism of management and that it is the task of the board of directors, in accordance with the principles of good corporate governance, that is accountable.

So either the good or poor performance depends on the ability of the board of directors in carrying out their duties, and by increasing the number of the board of directors, the more persons will supervise the manager in the implementation of the company's business and ensure that the managers follow the interests of the council.

In Asia, the firms appointment avariety of professions onto the board asa common practice to produce licenses, inside information, and protection from state exactions and can thusimprove the firm's performance (McVey, 1992). Resource acquisition is more important than monitoring concern in the role of the board of directors (Van Essen et al., 2012).

The Effect of Size of Audit Committee to the Financial Performance

The result of this study is not consistent with the results of research conducted by Bouaziz (2012), Anderson et al. (2004) which state that the existence of an audit committee who isresponsible for overseeing the financial reports, the external audit, and observingthe internal control system (including internal audit) may reduce the opportunistic management that do the earning management (earnings management) and other things that harm the company by overseeing the financial reporting and puting control to the external audit.

The result of this study are not inline with study by Bouaziz (2012), Anderson et al. (2004) which show that the audit committee size have a significant effect of financial performance. Results of this study are in line with the research conducted by Aanu et al. (2014) and Amer (2014). According Aanu et al. (2014) the independence and financial expertise of the audit committee had a positive significant relationship with the firm's performance, althoughthe size and meetings of the audit committee did not.

This is probably because of the rules on the audit committee in Bapepam Kep 643/ BL/2012 on Regulations Number IX.1.5 concerning that the minimum number of audit committees in the company is three people so that companies only follow these regulations as a formality. Evidenced by the average number of audit committee members in the sample the companies were 3.06 (3 people) below the average audit committee size in India, which was 3.62 (2008) (Annual Reports of Companies, SANSCO).

Other aspects of the audit committee can be considered, such as the independent audit committee, knowledge and expertise. Krishnan and Lee (2009) find that even though there are obvious benefits of having accounting and financial experts in the audit committee, a sizeable proportion of firms do not have such experts on their audit committees.

The Effect of Institutional Ownership to the Financial Performance

The results of this study do not correspond with the results of research conducted by Uwuigbe and Olusani (2012) and Cornell (2007), which state that institutional ownership affects the financial performance. On the other hand, the results of this study confirms the results of research conducted by Najjar (2015), which indicates that institutional ownership has no effect on the financial performance. This is because the majority of institutional investors do not supervise the management of the company optimally but rather to compromise or siding with management and ignoring the interests of minority shareholders.

Results of this study, are in line with Duggal and Miller (1999) and Faccio and Lasfer (2000). The are in agreement with Wasowska (2013), that ownership concentration does not have a significant relationship with a firm's performance in case of the internalization of companies. The results of this study go against the existing theory that the greater ownership by the institution and thegreater the power of institutions that urge to oversee the management, thereby reducing agency conflicts and opportunistic behaviour that happen in the company and consequently will give greater effect to optimize the value of the company so the company's financial performance will also increase.

In most developing countries, there appears to be no association between institutional ownership and firm performance. An insigficant impact on financial performance may be interpreted by the real aplication for the appropriate principles and standards of corporate governance to the listed firms (Aljifri and Moustafa, 2007). This is evident in the studies of Aljifri and Moustafa (2007) in United Arab Emirates, Dwivedi and Jain (2005) in India and Quang and Xin (2014) in Vietnam.

The Effect of Managerial Ownership to the Financial Performance

The results of this study do not correspond with the results of research conducted by Cole and Mehran (1998), which states that managerial ownership affects the financial performance. Instead the results of this study are in line with the results of research conducted by Din and Attiya (2011), which shows that managerial ownership has no effect on the financial performance. The effective control of managers leads to them indulging their preferences for non-maximization behavior, although to a more limited extent than if they have effective control but no claim on the firm's cash flow (Morck et al., 1988).

Demsetz and Lehn (1985) presented where firm size, volatility, return on assets and industry evolve as adequate explanatory variables for the ownership structure of US corporations. As long as one cannot control the variables that are responsible for this relationship, i.e. there isunobserved firm heterogeneity, the detected correlation between ownership and firm performance might just be spurious. This explanation cannot be proven since evidently, in a perfect frictionless capital market, competitive forces would make sure that every company puts a value maximizing ownership structure in place (Kaserer and Moldenhauer, 2005). So an explanation that might be accepted is the real application of managerial ownership in a developing country.

Conclusions

Based on the analysis and discussion in the previous chapter, this study makes the following conclusions: 1) The size of the Board of Directors affects the financial performance of the companies listed on the Stock Exchange in the 2011–2014 period; 2) The size of the audit committee does not affect the financial performance of the companies listed on the Stock Exchange in the 2011–2014 period; 3) institutional ownership has no effect on the financial performance of the companies listed on the Stock Exchange in the 2011–2014 period; 4) Managerial ownership does not affect the financial performance of the companies listed on the Stock Exchange in the 2011–2014 period.

Limitation and Future Research

The firm's performance has two dimensions, financial performance and non financial performance. Profitability measures is an inadequate representation of financial performance (Santos and Brito, 2012). Further research is needed in order to consider growth as another resepresentation of financial performance. Non financial dimensions like customer satisfaction, employee satisfaction, social performance and environmental performance can be considered to measure the firm's performance.

Good corporate governance is only one aspect affecting a firm's financial performance. A firm's financial performance can be affected by technological innovations, human resources and business strategy. Corporate Governance mechanism in Indonesia has many problems from concentration of ownership, corruption, cronyism and legal culture (Daniel, 2003). Future research could explore the legal aspect and culture of companies in order to obtain knowledged about the comprehensive implementation of corporate governance in Indonesia and another countries.

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