The Influence of Corporate Governance Mechanism on Performance of Manufacturing Listed Companies in Indonesia Stock Exchange

by Winwin Yadiati

Submission date: 18-Apr-2022 01:49PM (UTC+0700)
Submission ID: 1813314296
File name: f_Manufacturing_Listed_Companies_in_Indonesia_Stock_Exchange.pdf (418.23K)
Word count: 6778
Character count: 38585

The International Journal of Business Management and Technology, Volume 4 Issue 3 May–June 2020
ISSN: 2581-3889

Research Article Open Access

The Influence of Corporate Governance Mechanism on Performance of Manufacturing Listed Companies in Indonesia Stock Exchange

Emylia Yuniarti[1], Syamsurijal AK[2], Winwin Yadiati[3], Lukluk Fuadah[4]

1 AccountingDepartment, EconomicsFacultyofSriwijayaUniversityPalembang
2 Economic StudyDepartment, Economics FacultyofSriwijaya University, Palembang
3 AccountingDepartment, EconomicsFacultyofPadjadjaranUniversity, Bandung
4 Accounting Departement, EconomicsFaculty of Sriwijaya University, Palembang

Abstract: Interest differences between pricipals and agents could lead into agency conflicts. Procedure control mechanisms are needed to prevent clashes, as well as harbour and concord these interests between the stakeholders through corporate governance. Corporate governance refers to systems, processes, structures, and sets of regulations that control the stakeholders to achieve efficient and fruitful corporate performances. The aim of this research is to determine the effects of of CG mechanisms on company performances. CG mechanisms were proxied by management and institutional ownership, audit committee, independent commissioners, and debt to equity; whereas company performances were measured by CFROA (financial performances) and Tobin's Q (market performances).
Samples were obtained from manufacture companies listed in Indonesian Stock Exchange from 2013 to 2017. Sampling technique used was purposive sampling. 44 companies were sampled with summed observations of 220. This research used panel data analysis method. The result showed management and institutional ownership, audit committee, independent commissioners, and debt to equity simultaneously and significantly affected corporate performances (CFROA and Tobin's Q). Management and institutional ownership, as well as independent commissioners increased CFROA. On the other hand, audit committee and debt to equity positively affected Tobin's Q (market performances).

Keywords: CFROA, Corporate Governance Mechanism, Corporate Performance, CorporateMarket Performance, Indonesian Stock Exchange

I. Introduction

The main purpose of the company is to increase the value of the company through increasing the wealth of owners or shareholders. To achieve the company's objectives, shareholders as the owner of the capital generally hand over the management of the company to the professionals who are called as managers. But shareholders find it difficult to ascertain whether the manager's performance is in line with or aligned with the objectives expected by the shareholders. Shareholders expect managers to act professionally in managing the company so as to improve the company's performance. Managers are expected to use existing resources solely for the benefit of enterprise progress (corporate value). On the other hand, managers who manage the company have different ideas, especially those related to the increased potential of individuals and compensation received. This causes the management of the company manager to have other goals and interests that are contrary to the main objectives of the company and often ignore the interests of shareholders

This difference of interest between manager and shareholder resulted in conflict called agency conflict. Under these conditions, control mechanisms, provisions or procedures for safeguarding conflicts of interest and aligning differences of interests between the parties through good corporate governance (GCG) mechanisms are called good

corporate governance (GCG). Corporate governance is a set of processes, customs, policies, rules and institutions that influence the direction, management, and control of a company or corporation. Corporate governance also includes the relationship between the involved stakeholders and the company's management objectives. The focus of corporate governance is economic efficiency, meaning that corporate governance systems should be aimed at optimizing economic outcomes, with a strong emphasis on shareholders' welfare.

The concept of corporate governance arises because of the limitations of agency theory in overcoming agency problems. Overall the concept of corporate governance arises as an attempt to control or overcome self-centered management behaviors. Corporate governance creates mechanisms and control tools to enable the creation of a balanced profit and benefit sharing system for stakeholders and create efficiency for the company (Nuswandari, 2009). According to Berghe and Ridder (1999) in Darmawati et al (2004), linking corporate performance with good corporate governance is not easy to do. Some studies show no corporate governance relationship with firm performance, such as Daily et al. (1998) and the results of the CBI, Deloitte and Touche (1996) surveys as cited by Darmawati et al (2004). On the other hand, several previous studies, among others, conducted by Black et al. (2003) and Gompers et al. (2003) in Drobetz (2003), have proven that by improving governance practices within firms it improves firm performance by the value of Tobins Q). The same is also expressed by Drobetz et al. (2003) in Drobetz (2003) who found evidence in his research that firms with high levels of corporate governance can produce good performance (with high Tobins Q values). Klapper and Love (2002) also confirm that there is a high correlation level between corporate governance mechanism indicators with performance and market valuation.

The corporate governance mechanisms that the authors will use in this research are ownership of management, institutional ownership, independent board of commissioners, audit committee and debt to equity. Background of the authors use the mechanism because the five mechanisms have a big enough to run and oversee the way the company so as to improve the company's performance. Company performance generally will be represented in financial statements.The ownership of a company's stock by management can align the interests of the owner or shareholder with the manager (Jensen and Meckling, 1976). The degree of institutional ownership in large proportions also affects the market value of the firm. According to Barclay and Holderness (1990), the greater the shareholding rate by institutional investors, the more effective the control mechanism on the performance of management to achieve the company's goal of increasing the value of the company. Coller and Gregory (1999) stated that the larger the number of independent commissioners the easier it will be to control and monitor the company's activities. Siallagan and Machfoedz (2006) stated that the existence of the audit committee positively affects the value of the company. Husnan (2001) found that the value of debt to equity is also used to assess indicators of internal corporate governance mechanisms in public companies in Indonesia. Karim (2012) states that the presence of independent commissioners and managerial ownership does not have asignificant positive effect on firm value (Tobin'Q). Corporate governance affects the operational performance of the company but does not affect the market performance (Nuswandari, 2009).

Financial reports are useful to help investors, creditors, potential investors and other users in order to make investment decisions, credit decisions, stock analysis and determine the prospects of a company in the future. Through performance appraisal, the company can choose its strategy and financial structure. Because the company's performance appraisal is based on the financial statements, to conduct this performance appraisal using financial ratios. These ratios will later provide an indication for management regarding the investor's assessment of the company's performance and its prospects in the future. The common ratios used to perform company performance appraisals include CFROA and Tobin's Q.

II. Statement of Problem

The problem in this study is how the influence of corporate governance (CG) mechanisms is proxied with management ownership, institutional ownership, independent board of commissioners, audit committee, and debt to equity on firm performance proxied with CFROA (financial performance) and Tobin's Q (performance market) manufacturing companies listed on the Indonesia Stock Exchange (IDX) period 2013 – 2017

III. Objective of Study

The purpose of this study is to know empirically that corporate governance (CG) mechanisms proxied with management ownership, institutional ownership, independent board of commissioners, audit committee, and debt to equity have an effect on company performance proxyed by CFROA (financial performance) and Tobin's Q (market performance) manufacturing companies listed on the Indonesia Stock Exchange (IDX) period 2013 – 2017

The results of this study are expected to be useful to support the development of accounting science in general and especially related to the influence of corporate governance mechanisms on the performance of manufacturing companies. The results of this study are expected to be taken into consideration by shareholders in analyzing and establishing appropriate investment options, so as to maximize profits and minimize risks on investment.

IV. Literature Review

Jensen and Meckling (1976) claim agency relationships arise when one or more individuals (employers) hire another individual (employee or agent) to act on his behalf, delegate power to make decisions to his agent or employee. The agency relations perspective is the foundation used to understand corporate governance. The issue of corporate conflict in the corporation usually occurs because the company owner (principal) can not play an active role in the management of the company. They delegate the authority and responsibility of managing the company to the professional managers (agent) to work on behalf of and for its sake. This delegation of authority leads managers to have incentives to make strategic, tactical and operational decisions that can benefit themselves. As a result, there is an agency conflict that is difficult to harmonize.

agency conflicts arise due to differences in interests between the owner of the company and its managers. On the one hand, the owner wants the manager to work hard to maximize the owner's utility. However, on the other hand, managers also tend to strive to maximize their own utility. Agency theory implies the existence of information asymmetry between managers as agents and owners (in this case shareholders) as principals. Jensen and Meckling (1976) argue that if both groups (agents and principals) are people who seek to maximize their utility, then there is a strong reason to believe that agents will not always act best for the principal's interests. Principals may limit it by setting appropriate incentives for agents and perform monitors designed to limit the activity of deviant agents. To ensure that the agent does the best for the principal to the fullest extent, the company must bear the agency costs incurred in the contract of work between the agent and the principal.

Corporate governance is a system, process, structure, set of rules to organize various stakeholders for the achievement of corporate objectives. While corporate governance goal is to create value added for all stakeholders. Corporate Governance has several principles, and these principles of corporate governance are ensured to be applicable to every aspect of business and to all levels of the company. The principles of corporate governance that is transparency, accountability, responsibility, independence and equality and fairness are needed to achieve sustainable performance by taking into account the interests of interested parties. Mechanisms are the way things work systematically to meet certain requirements. Corporate governance mechanisms can be defined as a clear rule of law, procedures, and relationships between decision- making parties and those who will oversee the decisions, also called monitoring mechanisms.

According to Iskandar and Chamlou (2000) in Lastanti (2004), the mechanisms in corporate governance oversight are divided into two groups: internal and external mechanisms. Internal mechanisms are a way of controlling a company using internal structures and processes such as general shareholder meetings, board composition, board composition and board of director meetings. The internal gov ernance mechanism indicator consists of the number of boards of directors, the proportion of independent board of commissioners, and debt to equity whereas the indicator of the external governance mechanism consists of institutional ownership (Beiner et al., 2004). While external mechanisms are a way of influencing companies other than by using internal mechanisms, such as control by the company and market control. If both mechanisms work together, the company's corporate governance system tries to motivate managers to maximize shareholder value.

V. Research Methodology

The type of data used in this study is quantitative data which collected from Indonesian Capital Market Directory (ICMD) and annual report of manufacturing companies listed on the Indonesia Stock Exchangein 2013 to 2017. The total population in this study as 138 companies. Determination of sample using purposive sampling method that is sampling method based on certain criterion. The criteria used in the sampling are: (1) Manufacturing companies listed on BEI from 2013 to 2017, (2) No delisting from IDX during the study period (2012 to 2017), (3) Issuing financial statements annual report ending on 31 December during the observation period 2013 to 2017, and (4) The Company which has complete data related to the variables used in the research.

This study use a descriptive design to determine the influence of corporate governance mechanism with corporate performane which can be describe into these variables

1. Management Ownership (KM) is a share owned by management (directors and commissioners) at a manufacturing company listed on the Indonesia Stock Exchange
2. Institutional ownership (KI) is shares owned by institutions or institutions that are incorporated in a manufacturing company listed on the Indonesia Stock Exchange
3. The independent board of commissioner (DKI) is a member of the board of commissioners who is not affiliated with the management, other members of the board of commissioners and the controlling shareholder, as well as free business relationships or other relationships that may affect his ability to perform liability fairly on behalf of the company at the Manufacturing company listed in BEI.
4. The audit committee (KA) is a group of people selected from the board of commissioners of the company responsible for assisting the auditor in maintaining its independence from management at Manufacturing companies listed on the BEI.
5. Debt to equity (DEBT) is the amount of short-term and long-term debt in Manufacturing companies listed on BEI.
6. CFROA or cash flow return on asset is the financial performance or operation of the company which calculated by profit before interest and tax plus depreciation divided by total assets.
7. Tobin's Q is market performance that calculated by the market value of equity (closing price x number of shares outstanding) plus total debt divided by book value of total equity plus total debt.

Data analysis method used is panel data analysis. The Panel Data Regression Method consists of: (1) Common Effects, (2) Fixed Effects (Fixed Effects / MET), and (3) Random Effects (Random Effects Method / MER).

The regression model used to test hypotheses are as follows:

$$CFROA = \alpha + \beta 1\, KM + \beta 2\, KI + \beta 3\, DKI + \beta 4\, KA + \beta 5\, DEBT + \varepsilon \quad (1)$$

$$Tobin's\ Q = \alpha + \beta 1\, KM + \beta 2\, KI + \beta 3\, DKI + \beta 4\, KA + \beta 5\, DEBT + \varepsilon \quad (2)$$

Description:

CFROA = Financial performance
Tobin's Q = Market performance
A = Constants
β1- β6 = Regression coefficient of each independent variable
KM = Ownership of management
KI = Institutional ownership
DKI = Board of independent commissioners
KA = Audit Committee
DEBT = Debt to Equity
ε = Error or interruption

VI. Result and Discussion

The population in this study is a manufacturing company listing on the Indonesia Stock Exchange from 2013 – 2017, with purposive sampling method. The sample that meets the criteria is 44 companies with a total of 220 observations unit. Table 1 presents a summary of descriptive statistics for each variable used in this study.

Table 1
Descriptive Statistics

	CFROA	TOBINSQ	KM	KI	DKI	KA	DEBT
Mean	0.132104	1.246478	0.059251	0.666963	0.395003	3.163636	1.511136
Maximum	1.496492	3.894321	0.341341	0.956537	1.000000	7.000000	38.78638
Minimum	-0.202282	0.395769	5.06E-06	0.123206	0.250000	3.000000	-10.34068
Std. Dev	0.131576	0.615302	0.083474	0.186806	0.109737	0.515110	3.456695
Observation	220	220	220	220	220	220	220
Cross Sections	44	44	44	44	44	44	44

Source: Data processed

6.1 Management Ownership, institutional ownership, independent board of commissioners, audit committee, and debt to equity affect CFROA (financial performance) of manufacturing companies listed on Indonesia Stock Exchange

From Table 2 it can be seen that the independent variables of corporate governance (ownership management, institutional ownership, independent board of commissioners, audit committee and debt to equity) simultaneously have a significant influence on the dependent variable CFROA (financial performance). This means that management ownership, institutional ownership, independent board of commissioners, audit committee and debt to equity as together can be used as a corporate governance mechanism to improve CFROA (financial performance) of manufacturing companies.

Table 2
CFROA Regression Method Fixed Effect with White- Test

Dependent Variable: CFROA?
Method: Pooled EGLS (Cross-section weights) Sample: 2012 2016
Included observations: 5
Cross-sections included: 44
Total pool (balanced) observations: 220
Linear estimation after one-step weighting matrix
White cross-section standard errors & covariance (d.f. corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.002848	0.040685	-0.069998	0.9443
KM?	0.038439	0.118910	0.323261	0.7469
KI?	0.214144	0.038686	5.535450	0.0000
DKI?	0.033715	0.017738	1.900684	0.0590
KA?	-0.005549	0.011124	-0.498841	0.6185
DEBT?	-0.003913	0.001899	-2.061168	0.0408
Fixed Effectss (Cross)				
_AKRA—C	-0.011369			
_ALMI—C	-0.082233			
_ANTM—C	0.094509			
_ARGO—C	-0.033559			
_ASII—C	0.121030			
_AUTO—C	0.029953			
_BRAM—C	0.014387			
_BRNA—C	0.074396			
_BRPT—C	-0.148530			
_DPNS—C	-0.087054			
_ETWA—C	0.275967			

_GGRM—C	0.031059		
_GJTL—C	0.029566		
_HDTX—C	-0.130159		
_IKAI—C	-0.145893		
_INDF—C	0.056588		
_INTA—C	-0.068329		
_INTD—C	-0.031260		
_JKSW—C	-0.150379		
_JPRS—C	-0.056491		
_KAEF—C	-0.059166		
_KBLM—C	-0.103888		
_KICI—C	-0.116330		
_LION—C	0.177406		
_LMPI—C	-0.103934		
_LMSH—C	0.148335		
_LTLS—C	-0.013414		
_MLIA—C	0.012981		
_MTDL—C	0.148443		
_NIPS—C	0.026954		
_PICO—C	-0.065037		
_PRAS—C	0.021843		
_PSDN—C	-0.012246		
_PYFA—C	0.007584		
_SMSM—C	0.188352		
_SRSN—C	-0.043193		
_STTP—C	0.004365		
_TBLA—C	0.035932		
_TBMS—C	-0.103568		
_TCID—C	0.067968		
_TPIA—C	-0.080481		
_TSPC—C	-0.004859		
_ULTJ—C	0.087450		
_YPAS—C	-0.003697		
	Effectss Specification		
Cross-section fixed (dummy variables)			
	Weighted Statistics		
R-squared	0.864934	Mean dependent var	0.469242
Adjusted R-squared	0.827021	S.D. dependent var	0.473072
S.E. of regression	0.106188	Sum squared resid	1.928170
F-statistic	22.81359	Durbin-Watson stat	2.229538
Prob(F-statistic)	0.000000		
	Unweighted Statistics		
R-squared	0.427788	Mean dependent var	0.132104
Sum squared resid	2.169462	Durbin-Watson stat	2.010278

Source: Data processed

Management Ownership (KM)

Table 2 showed that management ownership (KM) has no significant effect on CFROA(financial performance). The result of regression of management ownership variable (KM) shows positive regression coefficient of 0.038439. The positive regression coefficient of management ownership of CFROA (financial performance) shows that the greater ownership of management within an enterprise can align the potential difference of interests between shareholders and management means that ownership of management can reduce the agency conflict that arises. This is because the management who owns the shares in the company actually performs its duties effectively even though the amount of ownership is less than 50% of the shares in circulation, so as to align the potential difference of interests between outside shareholders and management (Jensen and Meckling, 1976). So the agency problem is assumed to be lost if the manager is at once as an owner.

The positive coefficient indicates that the increased ownership of management can improve CFROA (financial performance). The results of this study are consistent with previous research conducted by Jensen and Meckling (1976) which proves that the variable of share ownership structure by management has a positive influence on company performance. The greater the proportion of management stock ownership in the company, the management tends to try harder for the benefit of shareholders who are none other than himself. The results of this study are also consistent with research conducted by Trisnantari (2010) which states that managerial ownership statistically affect the performance of the company. But the results of this study are inconsistent with research conducted by Siallagan and Machfoedz (2006) which suggest that managerial ownership negatively affects the firm's value (Tobin's Q). Hastuti and Achmad (2011) also stated that management ownership has a negative and insignificant effect on financial performance (CFROA).

Institutional Ownership (KI)

Institutional ownership (KI) has a significant effect on CFROA (financial performance).Regression results show that the regression coefficient of institutional ownership (KI) is positive with regression coefficient value of 0.214144. The positive regression coefficient of institutional ownership (KI) shows that institutional ownership can be an effective monitoring tool for companies in monitoring manager behavior. With the monitoring done by the institution is expected to substitute other agency costs, so the agency cost decreases and the value of the company increases.

The results of this study are consistent with the results of research conducted by Barclay and Holderness (1990) who found that the level of institutional ownership has a significant positive effect on firm value. Hastuti and Achmad (2011) also found that institutional ownership positively affects CFROA. According to Tarjo (2008), institutional ownership significantly affects shareholder value. Shleifer and Vishny (1986) also argue that substantial institutional ownership will affect the firm's market value. Other findings also found that institutional ownership positively affects the firm's performance (Xu and Wang, 1997; Pizarro et al., 2006; and Bjuggren et al., 2007). On the other hand, the results of this study are inconsistent with the results of previous research, Daryatno (2004) and Wahyudi and Pawestri (2006) who found that institutional ownership has no significant effect on firm value. Hill et al., (2007) also stated that the hypothesis of efficiency abatement reveals that institutional ownership has a negative relationship with firm value.

Based on the results of this study found that institutional ownership has a positive and significant impact on CFROA (financial performance). This means that institutional ownership can be used as one of corporate governance mechanism that can improve CFROA (financial performance). This is because institutional investors are the majority owners (average of institutional ownership of 66.6% or> 50%) so as to be able to monitor the manager's performance well.

Independent Board of Commissioners (DKI)

From Table 2 it can be seen that the independent board of commissioner (DKI) has asignificant effect on CFROA (financial performance). Regression results show that the regression coefficient of independent board of commissioners (DKI) is positive with regression coefficient value of 0.033715. The positive coefficient indicates that with an increase in the board of independent commissioners can increase the CFROA (financial performance). Fama and Jensen (1983) state that non-executive directors can act as mediators in disputes between internal managersand oversee management policies and advise management. Independent board of commissioner is the best position to carry out the monitoring function in order to create a good corporate governance company. From the perspective of agency theory, independent board of commissioners represent the main internal mechanisms for controlling opportunistic management behavior so as to help align the interests of shareholders and managers (Young et al., 2001 in Kusumawati and Riyanto, 2005).

The results of this study are not consistent with the results of previous research conducted by Hastuti and Achmad (2011) stating that the independent board of commissioners has a negative and significant impact on CFROA (financial performance). But the results of this study are consistent with the results of research conducted by Kusumawati et al

(2005) and Rachmawati and Triatmoko (2007) which found no significant influence between independent board and firm value.

Audit Committee (KA)

Table 2 shows that the audit committee (KA) has no significant effect on CFROA (financialperformance). The result of regression of audit committee variable (KA) showed negative regression coefficient equal to -0.005549. The negative coefficient indicates that with the increasing number of audit committees it can not improve CFROA (financial performance). The results of this study are inconsistent with previous research conducted by Siallagan and Machfoedz (2006) stating that the existence of the audit committee has a positive effect on firm value. McMullen (1996) in Siallagan and Machfoedz (2006) also stated that investors, analysts and regulators consider the audit committee to contribute to the quality of financial reporting. This proves that audit committees positively influence the value of the company.
Based on the results of this study found that audit committee can not be used as one of corporate governance mechanism that can improve CFROA (financial performance). This is because the audit committee has not implemented a monitoring function that can create good corporate governance in the company. This may also be due to the fact that the audit committee has not performed its duties effectively, which has not given its professional opinion to the board of commissioners to improve the quality of work and reduce the deviation of the company's management.

Debt to Equity (DEBT)

From Table 5.2 it is known that debt to equity (DEBT) has a significant effect on CFROA(financial performance). The result of regression of debt to equity variable (DEBT) showed negative regression coefficient of -0.003913. The negative regression coefficient of debt to equity (DEBT) to CFROA (financial performance) shows debt to equity negatively affect CFROA (financial performance) where more debt to equity (DEBT) owned by a company can not increase (CFROA) financial performance. The results of this study are inconsistent with previous research conducted by Harris and Raviv (1991) in Arifin (2005) stating that there is a positive relationship between the amount of debt and the value of the company. Wulandari (2006) also found that debt to equity significantly positively affects the company's performance. Based on the results of this study found that with an increase in debt (DEBT) can not increase CFROA (financial performance). This means an increase in DEBT to reduce agency costs is not effective. Should DEBT be expected to outside equity is not increased so that the agency conflict between outside investors and management does not increase and will reduce agency costs. With the reduction of agency costs is expected to increase the company's CFROA (financial performance).

The result of R2 and adjusted R2 test can be seen in Table 2. The regression result of Fixed Effects Model with White Test for hypothesis 1 where the dependent variable is CFROA (financial performance) shows the result that all independent variables used in this research are able to explain the effect on CFROA finance) of 82.7% and the balance of 17.3% is explained by other variables not included in the regression equation.

6.2 Management Ownership, institutional ownership, independent board of commissioners, audit committee, and debt to equity influence Tobin's Q (market performance) of manufacturing companies listed on Indonesia Stock Exchange

Table 3 showed that independent variables such as corporate governance (ownership management, institutional ownership, independent board of commissioners, audit committee and debt to equity)simultaneously have a significant influence on the dependent variable that is Tobin's Q (market performance). This means that jointly ownership of management, institutional ownership, independent board of commissioners, audit committee and debt to equity can be used as a corporate governance mechanism to improve Tobin's Q (market performance) of manufacturing companies.

Table 3

TOBIN'S Q Regression Method Fixed Effect With White- Test

Dependent Variable: TOBINSQ?
Method: Pooled EGLS (Cross-section weights) Sample: 2012 2016
Included observations: 5
Cross-sections included: 44
Total pool (balanced) observations: 220
Linear estimation after one-step weighting matrix
White cross-section standard errors & covariance (d.f. corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.553642	0.629349	2.468647	0.0145
KM?	-0.316598	0.314647	-1.006199	0.3157
KI?	-1.058211	0.178182	-5.938936	0.0000
DKI?	-0.084129	0.139515	-0.603012	0.5473
KA?	0.139973	0.190331	0.735421	0.4631
DEBT?	0.005155	0.000970	5.315700	0.0000
Fixed Effectss (Cross)				
_AKRA—C	0.279343			
_ALMI—C	-0.300951			
_ANTM—C	-0.064486			
_ARGO—C	-0.375561			
_ASII—C	0.480130			
_AUTO—C	0.780109			
_BRAM—C	-0.355217			
_BRNA—C	-0.392185			
_BRPT—C	-0.268959			
_DPNS—C	-0.072781			
_ETWA—C	-0.513383			
_GGRM—C	1.225053			
_GJTL—C	-0.143583			
_HDTX—C	-0.020014			
_IKAI—C	-0.026387			
_INDF—C	-0.343596			
_INTA—C	-0.020207			
_INTD—C	0.644405			
_JKSW—C	1.159849			
_JPRS—C	-0.251141			
_KAEF—C	0.183039			
_KBLM—C	-0.293723			
_KICI—C	-0.607136			
_LION—C	-0.434035			
_LMPI—C	-0.414234			
_LMSH—C	-0.598857			
_LTLS—C	-0.395872			
_MLIA—C	0.304599			
_MTDL—C	-0.924190			
_NIPS—C	-0.738255			
_PICO—C	-0.016189			
_PRAS—C	-0.475049			
_PSDN—C	-0.025322			
_PYFA—C	-0.407468			

_SMSM—C	0.722659		
_SRSN—C	0.269639		
_STTP—C	-0.176732		
_TBLA—C	-0.197184		
_TBMS—C	-0.092826		
_TCID—C	0.393878		
_TPIA—C	-0.043650		
_TSPC—C	1.315884		
_ULTJ—C	0.191840		
_YPAS—C	1.038744		
	Effectss Specification		
Cross-section fixed (dummy variables)			
	Weighted Statistics		
R-squared	0.941223	Mean dependent var	2.770607
Adjusted R-squared	0.924725	S.D. dependent var	2.862678
S.E. of regression	0.403037	Sum squared resid	27.77709
F-statistic	57.04845	Durbin-Watson stat	1.671669
Prob(F-statistic)	0.000000		
	Unweighted Statistics		
R-squared	0.639221	Mean dependent var	1.246478
Sum squared resid	29.91311	Durbin-Watson stat	1.090158

Source: Data processed

Management Ownership (KM)

From Table 3 it can be seen that management ownership (KM) has an insignificant effect onTobin's Q (market performance). The result of regression of management ownership variable (KM) shows negative regression coefficient equal to -0.316598. The negative regression coefficient of management ownership of Tobin's Q (market performance) shows that the greater management ownership in a company can not align the potential difference of interests between shareholders and management means that ownership of management can not reduce the agency conflict arising. This is due to the percentage of share ownership by management in the company sampled in this study amounted to less than 50% of the outstanding shares.

The negative and insignificant coefficients indicate that an increase in management ownership can not improve Tobin's Q (market performance). The results of this study are consistent with previous research conducted by Siallagan and Machfoedz (2006) which states that management ownership negatively affects Tobin's Q. Supposedly, ownership of management can bring together the interests of managers and shareholders, so managers directly feel the benefits of the decisions taken and also share the loss as a consequence of wrong decision making. The greater the ownership of shares by management, the less the tendency of management to optimize the use of resources, resulting in increased value of the company and vice versa when the ownership of shares by management is low, then there is a tendency of opportunistic manager behavior that will increase as well.

Institutional Ownership (KI)

Table 3 shows that institutional ownership (KI) has a significant effect on Tobin's Q (marketperformance). The negative coefficient of -1.058211 indicates that with an increase in institutional ownership can not increase Tobin's Q (market performance). The results of this study are inconsistent with previous research conducted by Wulandari (2006) who found that institutional ownership did not significantly positively affect Tobin's Q (corporate performance). The results of this study indicate that institutional ownership as majority ownership does not participate in corporate controls and institutional ownership can not yet be an effective monitoring tool for companies. Institutional ownership should have important meaning in monitoring management, because with the

existence of institutional ownership will encourage more optimal supervision on the performance of management, so that management will be more careful in making decisions. Monitoring will surely ensure prosperity for shareholders. Institutional ownership acts as a party to monitor the company in general and managers as managers of the company in particular. Thus, the greater the institutional ownership, the more efficient the utilization of corporate assets and the existence of institutional ownership can also prevent fraud committed by management.

Independent Board of Commissioners (DKI)

From Table 3 it can be seen that the independent board of commissioners (DKI) has aninsignificant effect on Tobin's Q (market performance). The coefficients are negative and insignificant indicating that with the increase of independent board of commissioners it can not improve Tobin's Q. The results of this study are consistent with some of the previous studies, among others Chalie Weir et al. (2000), Yermack (1996) and Agrawal and Knoeber 1996) found a negative relationship between the proportion of independent and performance boards. However, the results of this study are inconsistent with the results of a study conducted by Wulandari (2006) who found that independent boards did not significantly have a positive effect on Tobin's Q. Based on the results of this study it was found that the independent board of commissioners had a negative and insignificant effect on Tobin's Q (market performance). This means that the board of independent commissioners can not be used as one of the mechanisms of corporate governance that can be an effective monitoring tool for the company so as to improve market performance. This is because the board of independent commissioners has not carried out its mission effectively so it has not been able to improve the market performance.

Audit Committee (KA)

From Table 3 it can be seen that audit committee (KA) has no significant effect on Tobin'sQ (market performance). The positive coefficient of 0.017609 and significant indicates that with the increasing number of audit committees can improve market performance. The more the number of audit committees in a company, the more it will create a climate of discipline, improve the quality of financial statements. The audit committee exercises control over which it can reduce the occurrence of irregularities in corporate governance and improve internal audit function. The results of this study are consistent with previous research conducted by Siallagan and Machfoedz (2006) stating that the existence of the audit committee positively affects the value of the company. This can provide evidence that the existence of the audit committee can improve the effectiveness of thecompany's performance. McMullen (1996) in Siallagan and Machfoedz (2006) states that investors, analysts and regulators consider the audit committee to contribute to the quality of financial reporting. Based on the results of this study found that audit committee has positive but not significant influence on Tobin's Q. This means that audit committees can serve as one of the corporate governance mechanisms that can be an effective monitoring tool for companies that can improve market performance.

Debt to Equity (DEBT)

Table 3 shows that debt to equity (DEBT) significantly influences Tobin's Q (marketperformance). The result of regression of debt to equity variable (DEBT) shows positive regression coefficient of 0.005155. The positive regression coefficient of debt to equity (DEBT) on Tobin's Q shows that the more debt to equity owned by a company can improve market performance. The results of this study are consistent with previous research conducted by Wulandari (2006) who found that debt to equity has a positive effect on Tobin's Q (corporate performance). Harris and Raviv (1991) in Arifin (2005) also stated that there is a positive relationship between the amount of debt and the value of the company. Based on the results of this study found that with an increase in debt (DEBT) can increase Tobin's Q (market performance). This means an increase in DEBT is effective in reducing agency costs. With the existence of DEBT is expected to outside equity does not increase so that the agency conflict between outside investors and management does not increase and will reduce agency costs. With the reduction of agency cost is expected to improve the company's market performance.

Results of testing R2 and adjusted R2 can be seen in Table 3. The results of the regression model Fixed Effects With White Test for Hypothesis 2 where the dependent variable is Tobin's Q (market performance) showed that all independent variables used in this study could explain its effect on Tobin's Q (market performance) of 92.4% and the rest of 7.6% is explained by other variables not included in the regression equation.

VII. Conclusion

From the analysis, it can be concluded that: (1) Corporate governance (CG) mechanisms proxied with management ownership (KM), institutional ownership (KI), independent board of commissioner (DKI), audit committee (KA) and debt to equity (DEBT) (2) The test result states that institutional ownership, independent board of commissioner and debt to equity partially have a significant effect on CFROA (financial performance) , (3) Ownership of management, institutional ownership and independent board of commissioners can be used as one of the corporate governance mechanisms to improve CFROA (financial performance). Although management ownership is not a major corporate governance mechanism that can improve CFROA (financial performance), this is because management ownership has no significant effect on CFROA (financial performance), (4) The test results state that institutional ownership and debt to equity are partially significant significant to Tobin's Q (market performance), and (5) Audit and debt to equity committees that can serve as one of the corporate governance mechanisms to improve market performance. Although the audit committee is not a major corporate governance mechanism in improving market performance, it is because the audit committee has no significant effect on Tobin's Q (market performance).

References

[1] Nuswandari, Cahyani., 2009. Pengaruh *Corporate Governance Perception Index* Terhadap Kinerja Perusahaan Pada Perusahaan yang Terdaftar di Bursa Efek Jakarta. *Jurnal Bisnis dan Ekonomi (JBE)*, Vol. 16, No. 2, September Hal.70-84.

[2] Darmawati, D., Khomsiyah, dan R. G. Rahayu. 2004 Hubungan *Corporate Governance* dan Kinerja Perusahaan. *Simposium Nasional akuntansi VII Denpasar,* 2-3 Desember 2004.

[3] Drobetz, W. 2003. The Impact of Corporate Governance on Firm Performance. http://www.wwz.unibas.ch/cofi/publications/papers/2003/0703.pdf.

[4] Jensen, M. C. dan W.H. Meckling. 1976. Theory of The Firm: Managerial Behavior, Agency Cost and Ownership Structure. *Journal of Financial Economics 3*.hal. 305-360.

[5] Fama, E.F., dan Jensen, Michael C. 1983. Agency Problems and Residual Claims, *The Journal of Law and Economic, 26 (2)*

[6] Morris, RD. 1987. Signalling, Agency Theory and Accounting Policy Choice, *Accounting and Business Research,* Vol. 18. No. 69 pp. 47-56.

[7] Barclay dan Holderness. 1990. Social Responsiveness, Corporate Structure, and Economic Performance, *Academy of Management Review*, Vol.7, No.2, 235- 241.

[8] Coller, P., dan A. Gregory. 1999. Audit Committee Activity and Agency Costs, *Journal of Accounting and Public Policy,* Vol 18 (4-5) pp 311-332.

[9] Husnan, Suad. 2001. *Corporate Governance* dan Keputusan Pendanaan: Perbandingan Kinerja Perusahaan Dengan Pemegang Saham Pengendali Perusahaan Multinasional dan Bukan Multinasional. *Jurnal Riset Akuntansi.* Vol. 1 No. 1. Februari.

[10] Arifin, Zainal. 2005. *Teori Keuangan dan Pasar Modal*. Ekonisia Kampus Fakultas Ekonomi UII Yogyakarta.

[11] Karim, Abdul. 2012. Pengaruh *Good Corporate Governance* Terhadap Kinerja Saham Perusahaan (Studi Empiris Pada Saham LQ 45 di BEI). *Solusi ISSN : 1412-5331* Vol. 11 No. 4 Halaman 110-126.

[12] Lastanti, Hexana. Sri. 2004. Hubungan Struktur *Corporate Governance* Dengan Kinerja Perusahaan dan Reaksi Pasar. Konferensi Nasional Akuntansi: Peran Akuntan dalam Membangun *Good Corporate Governance.*

[13] Beiner, S., W. Drobetz, F. Schmid dan H. Zimmermann. 2004. Is Board Size An Independent Corporate Governance Mechanism? *KYKLOS* Vol. 57. Fasc. 3, 327-356.

[14] Siallagan, Hamonangan dan M. Machfoedz. 2006. Mekanisme *Corporate Governance*, Kualitas Laba dan Nilai Perusahaan. *Simposium Nasional Akuntansi IX.Padang*, 23-23 Agustus.

[15] Hastuti dan Achmad. 2011. Pengaruh Mekanisme *Corporate Governance* Secara Internal dan Eksternal Terhadap Kinerja Keuangan: Studi Kasus di Bank yang Terdaftar di BEI 2006-2009.

[16] Shleifer, A., dan R.W. Vishny. 1986. Large Shareholders and Corporate Control, Journal of Political Economy 94 (31).

[17] Nachrowi dan Usman. 2006. *Pendekatan Populer dan Praktis Ekonometrika Untuk Analisis Ekonomi dan Keuangan*. Lembaga Penerbit Fakultas Ekonomi Universitas Indonesia.

[18] Klapper, L. F. and I. Love. 2002. Corporate governance, investor protection, and performance in emerging markets. *World Bank Working Paper*. http:// ssrn.com.

[19] Kusumawati, D. W. dan Riyanto, B. 2005. *Corporate Governance* dan Kinerja: Analisis Pengaruh *Compliance Reporting* dan Struktur Dewan terhadap Kinerja. *Simposium Nasional Akuntansi VIII*, 248-261.

[20] Trisnantari, Ayu Novi. 2010. Pengaruh *Corporate Governance* Pada Hubungan Pergantian Chief Executive Officer Dengan Kinerja Perusahaan. *Tesis S2 Program Pasca Sarjana Universitas Udayana. Denpasar* (Tidak Dipublikasikan).

[21] Veronica N.P. Silvia dan Yanivi S. Bachtiar. 2004. Good Corporate Governance, Information Asymmetry and Earnings Management. *Simposium Nasional Akuntansi VII. Denpasar Bali*, 2-3 Desember.

[22] Wulandari, Ndaruningpuri. 2006. Pengaruh Indikator Mekanisme *Corporate Governance* terhadap Kinerja Perusahaan Publik di Indonesia. *Jurnal Fokus Ekonomi.* Vol. I No.2 Desember.

The Influence of Corporate Governance Mechanism on Performance of Manufacturing Listed Companies in Indonesia Stock Exchange

ORIGINALITY REPORT

12%	12%	9%	5%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

#	Source	%
1	theijbmt.com Internet Source	5%
2	Submitted to University of South Australia Student Paper	2%
3	pps.unud.ac.id Internet Source	2%
4	eprajournals.com Internet Source	2%
5	repository.uinjkt.ac.id Internet Source	2%

Exclude quotes Off
Exclude bibliography Off
Exclude matches < 2%