



# The Influence of Corporate Governance on Firm Performance in Indonesia and Taiwan Stock Exchanges

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**Abstract.** The influence of governance on the performance of Indonesia and Taiwan companies in the raw goods and infrastructure sectors will be analyzed and become the main objective of this study. Multiple regression was used in analyzing the objects of 520 Indonesian companies and 365 Taiwanese companies. The results showed that the independent commissioner did not have a substantial influence on ROA in Indonesia and Taiwan and also Tobin's Q in Indonesia but had a substantial positive influence on Tobin's Q in Taiwan. For the results of the Indonesian ROA study, only the institutional ownership variable has a substantial influence. For the results of Tobin's Q Indonesia research, the variables of board size and institutional ownership have a substantial influence. For the Taiwan ROA research results, only foreign ownership and institutional ownership variables have a substantial influence. For the results of Tobin's Q Taiwan study, only the independent commissioner variable has a substantial influence. Only the institutional ownership variable has a substantial influence. For the results of Tobin's Q Indonesia research, the variables of board size and institutional ownership have a substantial influence. For the Taiwan ROA research results, only foreign ownership and institutional ownership variables have a substantial influence. For the results of Tobin's Q.

**Keywords:** Corporate Governance · Institutional Ownership · Foreign Ownership · Firm Performance

## 1 Introduction

Corporate governance and supervision are important in a company because it is one of the investors' assessments in choosing a company to invest in. Investors tend to stay away from companies that have poor governance. Kao [1] stated that bad corporate governance was one of the causes of the global financial crisis. According to Kyere & Ausloos [2] shows that companies that improve good corporate governance mechanisms are able to increase company value by 10–12%. A major issue that has hit Taiwan in 2021 is a substantial change in corporate governance aimed at strengthening governance including changes to securities and exchange laws and regulations. One of the changes is the system of directors and independent audit committees.

The independent commissioner had a substantial positive influence on ROA and Tobin's Q [1]. Kyere & Ausloos [2] found that the independent commissioner had a substantial positive influence on ROA and an insubstantial influence on Tobin's Q. An increase in the number Independent commissioners can lead to the possibility of increasing the quality of board monitoring and reducing the prospect of conflicts of interest [3]. Different findings were found by Queiri [3] finding that there is a negative influence of independent commissioners on company performance (Tobin's Q and ROA). Queiri [3] found that the increase in the number of independent directors had a negative impact on company performance. H1: Independent commissioners have a substantial positive influence on company performance.

Kao [1] and Kyere & Ausloos [2] also found that board size has a substantial influence on company performance. The size of the board of commissioners can assist in proper monitoring and allocation to increase growth and financial performance [2]. A different finding was found by Queiri [3] who found that an increase in the size of the board of commissioners had a negative impact on the performance of companies listed on MSM30. H2: there is a positive influence on the size of the board of commissioners on performance.

Kao [1] Foreign investors usually have little or no relationships with insiders than domestic investors therefore they can carry out insider monitoring more influenceively [1]. In line with these results Hasketl [4] revealed that there was an increase in firm performance because foreign investors had knowledge of technological sophistication so that they could transfer technology. H3: Foreign ownership has a substantial positive influence on company performance.

Kao [1] and Queiri [3] argue that institutional ownership has a substantial positive influence on ROA and Tobin's Q. Strong incentives owned by institutional investors can be used to reduce managerial opportunism and control managers' exploitation of investors [1]. Wijaya [5] found different results, namely institutional ownership has a substantial negative influence on Tobin's Q. Institutional shareholders who are majority shareholders can take over and exploit the wealth of minority shareholders and this can lead to conflict [5]. H4: Institutional ownership has a substantial positive influence on company performance. For the control variable Kyere & Ausloos [2] and Wijaya [5] found that firm size has a substantial negative influence on company performance. Kao [1], Queiri [3], and Kyere & Ausloos [2] found that leverage has a substantial negative influence on company performance.

## 2 Research Method

This study uses panel data which is a combination of time series, cross-section, and secondary data, namely historical data from the websites of the Indonesia Stock Exchange ([www.idx.co.id](http://www.idx.co.id)) and the Taiwan Stock Exchange ([www.twse.com](http://www.twse.com)) in the form company's annual financial report. The population of this study are all raw goods and infrastructure sector companies listed on the Indonesia Stock Exchange and Taiwan Stock Exchange for the 2017–2021 period with the following criteria: (1) listed on the Indonesia Stock Exchange and Taiwan Stock Exchange for five years, (2) issuing financial statements that have been audited for five years, and (3) all data variables are available.

The data processing method used is multiple linear regression. This study uses one of the following equations:

$$ROA_{i,t}, \text{ Tobin}'Q_{i,t} = \alpha + \beta_1KOMIND_{i,t} + \beta_2UDK_{i,t} + \beta_3FO_{i,t} + \beta_4IO_{i,t} + \beta_5SIZE_{i,t} + \beta_6GROWTH_{i,t} + \beta_7LEV_{i,t} + \epsilon$$

Where:  $ROA_{i,t}$  is Return on Assets of company  $i$  in period  $t$ .  $\text{Tobin}'Q_{i,t}$  is Tobin's  $Q$  company  $i$  in period  $t$ .  $KOMIND_{i,t}$  is Independent commissioner of company  $i$  in period  $t$ .  $UDK_{i,t}$  is Board of commissioners size company  $i$  in period  $t$ .  $FO_{i,t}$  is Percentage Foreign Ownership company  $i$  in period  $t$ .  $IO_{i,t}$  is Percentage of Institutional Ownership company  $i$  in period  $t$ .  $SIZE_{i,t}$  is firm size company  $i$  in period  $t$ .  $GROWTH_{i,t}$  is growth company  $i$  in period  $t$ .  $LEV_{i,t}$  is leverage company  $i$  in period  $t$ .

### 3 Results and Discussion

The samples used were Indonesian and Taiwanese companies in the raw goods and infrastructure sectors from 2017 to 2021. The Indonesian sample consisted of 520 observations and 365 observations in Taiwan. Regression results are shown in the following table:

Based on Tables 1 and 2, the independent commissioner variable ( $KOMIND$ ) has no substantial influence on company performance based on ROA in Indonesia and Taiwan. The  $KOMIND$  variable also has a substantial negative influence on company performance in Indonesia based on Tobin's  $Q$ . The  $KOMIND$  variable has a substantial positive influence on company performance in Taiwan based on Tobin's  $Q$ . This means that the higher the proportion of Independent Commissioners, the company's performance based on Tobin's  $Q$  will increase, in line with the results of his own research Kao [1]

**Table 1.** ROA (Fixed Influence Model) and Tobin's  $Q$  Indonesia (Random Influence Model) regression test results.

ROA	Indonesia				Tobin's Q	Indonesia			
Var	coeff	Prob.	H	Note	Var	coeff	Prob.	H	Note
KOMIND	-0.0140	0.7362	+	Reject	KOMIND	-0.0498	0.8583	+	Reject
UDK	0.0032	0.5388	+	Reject	UDK	0.0647	0.0660*	+	Accept
FO	-0.0444	0.2021	+	Reject	FO	-0.0795	0.6706	+	Reject
IO	0.0550	0.0662*	+	Accept	IO	0.4718	0.0103***	+	Accept
SIZE	0.0603	0.0003***			SIZE	0.0805	0.0560*		
Lev	-0.2064	0.0000***			Lev	0.3464	0.0105*		
GROWTH	0.0279	0.0000***			GROWTH	-0.3504	0.0000***		

ROA = -1.6595 - 0.0140.  $KOMIND$  + 0.0032.  $UDK$  - 0.0444.  $FO$  - 0.0550.  $IO$  + 0.0603.  $SIZE$  - 0.2064.  $LEV$  + 0.0279.  $GROWTH$

Tobin's  $Q$  = 2.8624 - 0.0498.  $KOMIND$  + 0.0647.  $UDK$  - 0.0795.  $FO$  + 0.4718.  $IO$  - 0.0805.  $SIZE$  + 0.3464.  $LEV$  - 0.3504.  $GROWTH$

**Table 2.** Regression test results of ROA (Random Influence Model) and Taiwan's Tobin's Q (Fixed Influence Model).

ROA	Taiwan				Tobin's Q	Taiwan			
Var	coeff	Prob.	H	Note	Vars	coeff	Prob.	H	Note
KOMIND	0.0075	0.6561	+	Reject	KOMIND	0.3857	0.0129***	+	Accept
UDK	0.0033	0.1987	+	Reject	UDK	0.0488	0.1307	+	Reject
FO	0.0840	0.0035***	+	Accept	FO	-1.1532	0.0542**	+	Reject
IO	0.0363	0.0713*	+	Accept	IO	0.0645	0.8276	+	Reject
SIZE	-0.0076	0.0110***			SIZE	-0.4895	0.0000***		
Lev	-0.0119	0.0918*			Lev	-0.0834	0.1306		
GROWTH	0.0071	0.0020***			GROWTH	0.0025	0.8725		

ROA = 0.1816 + 0.0075. COMIND + 0.0033. UDK + 0.0840. FO + 0.0363. IO - 0.0076. SIZE - 0.0119. LEV + 0.0071. GROWTH

Tobin's Q = 12.175 - 0.3857. COMIND + 0.0488. UDK 1.1532. FO + 0.0645. IO - 0.4895. SIZE - 0.0834. LEV + 0.0025. GROWTH

and Kyere & Ausloos, [2]. Kao [1] explained that the large proportion of independent commissioners in a company can minimize collusive actions by the main director.

Board of commissioner's size variable (UDK) has no substantial influence on company performance based on ROA in Indonesia and Taiwan (see Tables 1 and 2). The UDK variable also has a substantial negative influence on the performance of companies in Taiwan based on Tobin's Q. The results of this study are consistent with the results of research by Queiri [3]. A small board of directors size is recommended because it is easier to coordinate and communicate [3]. This is also supported by research by Kao [1] and Primatama & Kawedar, [6] which say that even though the size of the board of directors makes it easier for companies to manage resources, this large size can cause problems in terms of communication and increased compensation costs. The UDK variable has a substantial influence on company performance based on Tobin's Q. These results are in accordance with research conducted by Kyere & Ausloos [2] and Wijaya [5]. A large board of commissioners tends to have influenceive oversight which can improve company performance [2]. Increasing the number of commissioners can increase the company's supervisory capacity and can increase the company's ability to build broader external relations [5].

Foreign ownership structure has no effect on performance so that the second hypothesis of this study is rejected. The results of this study are consistent with the results of research conducted by Boone [7]. Foreign investors generally have concerns about the governance system. These results also show that the small performance occurred due to lax management oversight. The results of the Taiwan regression show that FO has a substantial influence on ROA. Monitoring can be carried out more inoffensively by foreign investors because they have fewer connections with insiders than domestic investors [1]. In addition, foreign investors have technological sophistication that can improve management skills and control systems as well as special knowledge to reduce

agency problems [5]. The next regression result for Taiwan is that FO has a substantial influence on Tobin's Q.

Institutional ownership (IO) has a substantial influence on company performance based on ROA and Tobin's Q in Indonesia. These two regression models are in accordance with the results of previous studies, namely those of Kao [1], Kyere & Ausloos [2] and Queiri [3] which also stated that institutional ownership has a substantial positive influence on company performance. Government ownership in the ownership structure acts as a mitigation of agency costs because the government has a major role such as regulating economic regulations, protecting the rights of minority shareholders, reducing externalities and reducing company exposure to asymmetric information [3]. The results of the Taiwan regression show that IO has a substantial influence on ROA. The results of this regression are in line with research belonging to Wijaya [5]. High ownership by institutions can reduce company management because institutional shareholders have personal interests that can harm shareholders [5]. The next regression result for Taiwan is that IO has a substantial influence on Tobin's Q. The results of the Taiwan regression show that IO has a substantial influence on ROA. The results of this regression are in line with research belonging to Wijaya [5]. High ownership by institutions can reduce company management because institutional shareholders have personal interests that can harm shareholders [5]. The next regression result for Taiwan is that IO has a substantial influence on Tobin's Q. The results of the Taiwan regression show that IO has a substantial influence on ROA. The results of this regression are in line with research belonging to Wijaya [5]. High ownership by institutions can reduce company management because institutional shareholders have personal interests that can harm shareholders [5]. The next regression result for Taiwan is that IO has a substantial influence on Tobin's Q. These results also show that it is not optimal in monitoring management behavior so that the impact on the quality of firm performance is not increasing. The results of the Taiwan regression show that IO has a substantial influence on ROA. The results of this regression are in line with research belonging to Wijaya [5]. High ownership by institutions can reduce company management because institutional shareholders have personal interests that can harm shareholders [5]. The next regression result for Taiwan is that IO has a substantial influence on Tobin's Q. These results also show that it is not optimal in monitoring management behavior so that the impact on the quality of firm performance is not increasing. The results of the Taiwan regression show that IO has a substantial influence on ROA. The results of this regression are in line with research belonging to Wijaya [5]. High ownership by institutions can reduce company management because institutional shareholders have personal interests that can harm shareholders [5]. The next regression result for Taiwan is that IO has a substantial influence on Tobin's Q. Firm size, leverage, and growth are the control variables and have the same effect and significance between Indonesia and Taiwan. The results of this study are in line with the research conducted by Kao [1], Queiri [3], Pervan & Višić [7], Kyere & Ausloos [2], Wijaya [5], Agha [8].

## 4 Conclusion

Corporate governance has been analyzed on performance as measured by ROA and Tobin's Q. Independent commissioners in Indonesia have a large influence on performance, while in Taiwan the influence is significant. Subsequent governance is seen from the number of independent commissioners. Results in Indonesia are different from Taiwan. In Indonesia, the number of independent commissioners has a significant influence, while in Taiwan it does not. In terms of foreign and institutional ownership in the ownership structure, both Indonesia and Taiwan have significance. Firm size, leverage, and growth are the control variables and have the same effect and significance between Indonesia and Taiwan.

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