Corporate Governance and Financial Performance of Consumer Goods Industry Companies Listed on Indonesia Stock Exchange

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Abstract. This study aims to investigate the effect of corporate governance on financial performance in consumer goods industry companies listed on the Indonesia Stock Exchange in the period 2016 -2020. The independent variables used consist of insider shareholding, board size, board independence, board meeting, and board gender diversity, and the control variables used are leverage and firm size. The dependent variable used is financial performance with measurement proxies using Tobin's Q. The study examines 31 consumer goods industry companies. The results of this study indicate that insider shareholding, independent board, board meetings, and firm size do not affect financial performance. Board size has a positive significant effect on financial performance. Board gender diversity and leverage have a negative significant effect on financial performance. Companies in the consumer goods sector are expected to reduce their share ownership by internal parties so that their internal parties will continue to focus on their primary objectives without prioritizing their interests as company shareholders.

Keywords: independent board, financial performance, board member diversity, Internal stock ownership, leverage, board meetings, board size, company size.

1 Introduction

The manufacturing recorded growth of 6.91%, where the consumer goods industry sub-sector is the sector with the largest share. The consumer goods industry can be the most significant contributor to the improvement in the performance of the manufacturing sector in the pandemic period by contributing to an increase in the value of the National Gross Domestic Product (GDP) of 6.6% derived from the food and beverage industry and contributing 1.96% of the pharmaceutical industry (https://www.kemenperin.go.id/). The consumer goods industry sector can be the most significant contributor to Indonesia's economic growth, of course, inseparable from the performance of each company listed in the sector. The success of a company in carrying out all its business activities can be seen from the financial performance of the company [1].

Assessment of financial performance (corporate financial performance) can be measured by analyzing Tobin's Q ratio [2]. Tobin's Q ratio tends to be used by external parties such as investors. Tobin's Q ratio can be a measurement proxy for assessing a company's current and future performance based on market-side valuations [3] and is also used to look at future corporate investment opportunities [4]. The higher value of Tobin's Q ratio indicates good financial performance because the company can manage the total assets owned to increase the market value of the company's assets higher than the company's asset book value [3].

Factors that can affect the value of a company's financial performance are the influence of corporate governance, known as corporate governance. Research conducted by Kyere & Ausloos (2021) on insider shareholding, board size, board independence, CEO duality, and committee financial performance audit found that good corporate governance can improve financial performance [2]. Kiptoo et al. (2021) conducted research on similar topics on corporate governance and financial performance using independent variables

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consisting of board size, board independence, board composition, board diversity, and measurement proxies to assess financial performance [5].

Corporate governance can be an overview of the ways or methods companies use to reduce corporate conflicts of interest by paying attention to the goals of both the agent (company management) and the purpose of prospering shareholders as company owners and increasing investor confidence in the company [6]. Companies are often faced with problems when establishing corporate governance because of differences in objectives between the company's management and agents entrusted by the company owner to help carry out the company's business activities with the goals of the company owner. The management of the company is often more concerned with its own goals or interests because it feels authorized to run the company and ignores the welfare of shareholders, which is the primary goal of a company [2]. Research conducted by Kiptoo et al. (2021) and Kyere & Ausloos (2021) found that the results of corporate governance can contribute both positively and negatively to financial performance, which is reflected by the level of ability of the company to get profits or profits (Kiptoo et al., 2021) (Kyere & Ausloos, 2021). Zandi et al. (2020) said that a company with a high level of insider shareholding tends to have good management so that, overall, the company's performance is more effective than a company with a low level of internal ownership [7]. Board members of a company have a role or function to oversee all activities carried out by the company and make decisions so that they can be in line with the goals set by the company. The board size of a large company can provide more information and ideas for the company to improve the company's performance through increasing corporate profits [8]. Research conducted by Kiptoo et al. (2021) found that the board size of a company influences financial performance, which, with a significant board size level, can have a positive and negative impact on the financial performance assessment of a company [5].

Research conducted by Sasidharan (2020) states that the number of independent boards of a company has a positive influence on financial performance because independent boards are considered better able to monitor, supervise, and improve the performance of the company and protect the interests of all parties involved in the company because it is not bound or has no relationship with others [9]. An independent company board has a strong enough influence in improving financial performance [2]. Tayseer Alshaboul & Ahmad Abu Zraiq (2020) stated that board meetings have a significant influence on the financial performance of a company [10]. Companies that have a high intensity to the implementation of board meetings can increase profits reflected by the increasing ROA ratio of the company because more and more frequently, a company carrying out board meetings can provide more significant opportunities for the company's board to supervise and evaluate the performance of its company [11]. The more diverse gender diversity board in a company can affect financial performance because it can provide various perspectives from board members [5].

Previous research conducted by Kyere & Ausloos (2021) on non-financial companies listed on the London Stock Exchange in 2014 on corporate governance and financial performance was a reference in this study [2]. The sample used in this study specifically used a sample of Consumer Goods Industry sub-sector companies listed on the Indonesia Stock Exchange because it is a manufacturing sub-sector that contributes significantly to the Indonesian economy. Based on the description of some of the results of previously conducted research submitted above, the dependent variable used is financial performance with measurement proxies using Tobin's Q and independent variables used, namely corporate governance consisting of insider shareholding, board size, board independent, board meeting, board gender diversity and control variables used are leverage and firm size.

2 Research Method

The research design used for this research is hypothesis testing to understand the effect of insider shareholding, board size, board independence, board meetings, board gender diversity, leverage, and firm size on financial performance. Data was collected from financial reports of the consumer goods industry listed on the Indonesia Stock Exchange and the period 2016 -2020.

2.1 Dependent variable

Financial performance in this study is the dependent variable as measured by Tobin's q ratio [2].

$$\text{Q ratio} = \frac{\text{Total Market Value}}{\text{Total Asset}} \quad (1)$$

2.2 Independent variable

Insider shareholding [2], board size, board independence [2], board meeting [12], and board gender diversity [13] are used in this study as independent variables.

$$\text{Insider Shareholding} = \frac{\text{Numbers of shares owned by insiders}}{\text{Total number of shares outstanding}} \quad (2)$$

Board size = number of board members in the company

Board Independent = Proportion of the company's independent board members

Board Meeting = number of board meetings held in one year

Board Gender Diversity = number of female board members

2.3 Control variable

This study also uses leverage and firm size as control variables: leverage [14] and firm size [2].

$$\text{LG} = \frac{\text{Total Debt}}{\text{Total Asset}} \quad (3)$$

FS = Logarithm Total Company Asset

2.4 Data analysis method

Panel Regression Model is a method of analysis of panel data used in this study. This method it is explains the effect of independent variables and dependents used. The regression equations used in this research analysis are as follows :

$$\text{Q ratio} = \beta_0 + \beta_1 \text{IS}_{it} + \beta_2 \text{BS}_{it} + \beta_3 \text{BT}_{it} + \beta_4 \text{IB}_{it} + \beta_5 \text{BDIV}_{it} + \beta_6 \text{LG}_{it} + \beta_7 \text{FS}_{it} + \epsilon_{it} \quad (4)$$

Q ratio The Company's Financial Performance; IS = Insider Shareholding; BS = Board Size; BM = Board Meeting; IB = Board independen$_{ce;}$ BDIV = Board Gender Diversity; LG = Leverage; FS = Firm Size; ϵ = Error Term.

3 Results and Discussions

Descriptive statistical results of the variables in the study are shown in the following table:

Table 1. Descriptive statistics.

Variable	N	Mean	Min.	Max.	Std. Dev
Tobin's Q ratio	155	1.841548	0.060000	12.75000	2.428460
Insider Shareholding	155	3.771870	0.000000	38.43000	8.693842
Board Size	155	9.412903	4.000000	20.00000	3.428492
Board Independent	155	2.264516	0.000000	5.000000	0.980229
Board Meeting	155	20.18710	0.000000	52.00000	9.714054
Board Gender Diversity	155	1.238710	0.000000	4.000000	1.001080

Leverage	155	0.401753	0.076890	0.843020	0.172888
Firm Size	155	12.42932	11.14600	14.21300	0.713553

Source: Data processed with Eviews 9.

The results of the T-Test in the study with the dependent variable used is **Tobin's Q Ratio**, spelled out in the following table:

Table 2. T test results.

Independent Variables	Dependent Variables Tobin's Q Ratio		
	Coefficient	**Probability**	**Conclusion**
Constant	4.348441	-	-
IS	-0.032950	0.1749	Insignificant
BS	0.204647	0.0108	Significant Positives
IB	0.156709	0.3384	Insignificant
BM	-0.000213	0.9911	Insignificant
BDIV	-0.392012	0.0160	Significant Negatives
LG	-2.879115	0.0058	Significant Negatives
FS	-0.242750	0.6419	Insignificant

Source: Data processed with Eviews 9.

Based on the results of the T-Test in the table above, it can be concluded that the results of the discussion as follows:

3.1 Insider Shareholding

The results of an analysis of the influence of insider shareholding variables on financial performance, when measured by Tobin's Q ratio, showed a negative and significant influence. The results of this study are not in line with the results of research conducted by Kyere & Ausloos (2021), stating that insider shareholding does not influence financial performance [2]. However, the results of this study are supported by the research found by Vieira (2018) and Im & Chung (2017), which states that insider shareholding of a company has a significant negative influence on financial performance as measured by Tobin's Q ratio [15][16]. This is because high ownership of the company's shares by internal parties leads to much input and thinking from the board that hinders the decision-making process, and with a high number of insider shareholding, board members have less effective performance in supervising and managing the company to affect the company's financial performance.

3.2 Board Size

Tests that have been conducted found that board size has a significant favorable influence on financial performance measured using Tobin's Q ratio. The results of this study are in line with the results put forward by Kyere & Ausloos (2021), which stated that board size positively and significantly affects financial performance as measured by Tobin's Q ratio [2]. The results of this study are also in line with the results of Al Farooque et al. (2020) and Kiptoo et al. (2021), who found that board size has a significant positive influence on financial performance. This is because the company has many board members and is diverse in providing ideas or ideas that help in decision-making [17][5].

3.3 Board Independent

Based on the tests conducted, this study found the absence of influence from independent boards on financial performance measured using Tobin's Q ratio. The results of this study are different from the results of research conducted by Kyere & Ausloos (2021) and

Kiptoo et al. (2021), where independent boards have a significant positive influence on financial performance [2][5]. The results of this study support the results found by Im & Chung (2017) [16]. Singh et al. (2018) research also found the absence of board-independent influence on financial performance as measured by Tobin's Q ratio [3]. This is because independent boards only have a little information than board members from within the company, so that independent boards will rely more on internal board members in decision-making.

3.4 Board Meeting

This study showed no influence of board meetings on financial performance with proxy measurements of Tobin's Q ratio. This study is not in line with the results of research conducted by Almoneef & Samontaray (2019b), which states that board meetings have a negative and significant influence on financial performance reflected in the measurement values of Tobin's Q ratio [12]. The results of this study also contradict the results of the results developed by Tayseer Alshaboul & Ahmad Abu Zraiq (2020), stating that there is a significant positive influence of board meetings on financial performance with the proxy measurement of Tobin's Q ratio [10]. However, the results of this study are in line with the results found by Palaniappan (2017) and Rashid (2018), stating that board meetings do not influence financial performance as measured by Tobin's Q ratio [14][18]. This is because board meetings conducted at high frequency can indicate that the company has many problems that board members must discuss, and the company requires costs and energy to conduct board meetings.

3.5 Board Gender Diversity

This study found a significant negative influence of board gender diversity on financial performance as measured by Tobin's Q ratio. The results of this study were in line with the results developed by Yang et al. (2019), finding that board gender diversity had a significant negative influence on financial performance as measured by Tobin's Q ratio [19]. This is because female board members are usually more careful and avoid making decisions that are high risk despite having a high return.

3.6 Leverage

The study found that leverage had a significant negative influence on financial performance as measured by Tobin's Q ratio. Kyere & Ausloos (2021) found results that contradicted the results of this study, stating that leverage has a significant positive influence on financial performance [2]. The results of this study are in line with the results developed by Brahma et al. (2021), which states that leverage has a negative influence on financial performance as measured by Tobin's Q ratio [20]. The higher the leverage of a company, the more the company will focus on paying off its obligations rather than improving its financial performance.

3.7 Firms Size

Based on the results of data testing in this study, it was found that there was no effect of firm size on financial performance measured using Tobin's Q ratio. The results of this study are different from the results of research put forward by Kyere & Ausloos (2021), stating that there is a negative influence of firm size on financial performance [2]. Research conducted by Im & Chung (2017) found results that aligned with this study, where firm size did not influence financial performance with Tobin's Q ratio [16]. Firm size does not influence financial performance because a large firm size does not indicate that the company uses its assets for all its operations that generate profits or prosper shareholders.

4 Conclusions

This research assessed the influence of corporate governance consisting of insider shareholding, board size, board independence, board meeting, board gender diversity, leverage, and firm size as independent variables to dependent variables, namely financial performance with measurement of Tobin's Q ratio. The results of this study indicate that insider shareholding, independent boards, board meetings, and firm size do not affect financial performance. Board size has a positive significant effect on financial performance. Board gender diversity and leverage have a negative significant effect on financial performance.

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