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Original Research Article

# *Corporate Governance* and Shareholder Structure Application in Indonesia

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**Abstract:** The industrial sector is strategic in developing the national economy because it can help overcome unemployment. Law Number 17 of 2007 concerning the National Long-Term Development Plan 2005–2025 states that the economic structure is strengthened by placing the industrial sector as the economy's driving force. The sample of this research is manufacturing companies that are listed and still active on the Indonesia Stock Exchange. The reason for choosing a manufacturing company is that manufacturing company are the majority of companies on the Indonesia Stock Exchange, which consist of industrial sub-sectors and can reflect the company's entire population. The objectives of this study are as follows: To describe the variable *corporate governance*, Shareholder Structure. The audit committee as measured by the percentage of audit committee members who come from outside the audit committee to all members of the audit committee, from companies used as research samples with a minimum value of 0.192 and a maximum value of 0.329. These results indicate that the maximum number of audit committees outside the company is 32.9% of the total number of audit committees. On average, the sample companies already have a component audit committee that is quite good at implementing *corporate governance,* 24.2%. This is expected to be able to control and monitor decisions made by managers. The findings show that the minimum value of managerial share ownership is 0.101, and the maximum value is 0.242. These results indicate that the percentage of ownership of the company's shares by management consisting of directors and commissioners is a maximum of 24.2%. On average, the sample companies had 39% ownership of the company's shares by management. These results can be explained that many members of the board of commissioners and directors have shares in the company.

**Keywords:** Corporate Governance, Shareholder Structure.

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## INTRODUCTION

The industrial sector is strategic in developing the national economy because it can help overcome unemployment. Law No. 17 of 2007 concerning the National Long-Term Development Plan 2005–2025 states that the economic structure is strengthened by placing the industrial sector as the economy's driving force, supported by agricultural, marine, and mining activities in the broadest sense that produce products efficiently. Modern, sustainable, and effective services apply best practices and good governance to realize solid economic resilience.

The number of companies in the industry and the current economic conditions has created tight competition between manufacturing companies. Competition in the manufacturing industry makes every company improve its performance so that its goals can still be achieved. The primary purpose of the company being established is to increase the value of the company through increasing the prosperity of the owners or shareholders. The development of the industrial sector is an integral part of national development that must be carried out in an integrated and sustainable manner to provide benefits to the community. The manufacturing sector is the industrial sector that provides the most significant contribution to the Indonesian economy.

Based on the Central Statistics Agency (BPS), the growth of the manufacturing industry in 2018 increased by 4.07 percent compared to 2017. The sectors that supported the non-oil and gas processing industry growth in 2018 included the rubber industry, rubber goods, and plastics, which grew by 11.85 percent, followed by the leather, leather goods, and footwear industry at 11.38 percent. The growth of the food and beverage industry reached 8.67 percent, and the textile and apparel industry reached 6.39 percent. The manufacturing sector has consistently been the most significant contributor to the national Gross Domestic Product (GDP), recorded at 19.83 percent in the second quarter of 2018.

Based on the results of previous empirical studies, it shows that there is a diversity of variables that affect firm value and has not been integrated into one model, so there is a gap for further research on the effect of *Corporate Governance*, Shareholder Structure, and *leverage* on firm value with profitability as invariable *intervening*.

Based on the background stated above, the formulation of the problem in this study is as follows: How is the description of the variable *corporate governance*, Shareholder Structure? Based on the background that has been described and the formulation of the problem that has been determined, the objectives of this study are as follows: Describevariables *corporate governance*, Shareholder Structure,

# LITERATURE REVIEW

Brigham and Erhardt (2005:145) define *corporate governance* as a set of rules and regulations. Procedures that ensure managers apply the principles of value-based management. These principles in their application are known as tariffs, namely Transparency, Accountability, Responsibility, Independence, and Fairness. The essence of *corporate governance* is to ensure that the main shareholder objectives of wealth management are implemented.

*Corporate governance* arises because there is a separation between ownership and control of the company, or often known as the agency problem. The agency problem in the relationship between the owner of capital and the manager is how difficult it is for the owner to ensure that the invested funds are not taken over or invested in unprofitable projects that do not bring a return. *Corporate governance is* motivated by *agency theory*, which states that agency problems arise when a company's management is separated from its owner. The board of commissioners and directors who act as agents in a company are given the authority to manage the company's running and make decisions on behalf of the owner. With authority possessed, the manager cannot act in the owner's best interest because of a conflict *of interest, and* management has interests that are different from the owner's interests (Riyanto, 2010).

*Corporate governance*, according to Sutedi (2011:1), is a process and structure used by company organs (Shareholders/Capital Owners, Commissioners, Supervisory Boards, and Directors) to improve business success and corporate accountability in order to realize shareholder value in the long term while consistently taking into account the interests of other stakeholders, based on laws and regulations and ethical values. The mechanism of *corporate governance* according to.

The board of commissioners is the highest internal control mechanism responsible for supervising and monitoring the actions of top management. The board of commissioners will be responsible and have the authority to oversee management actions and, if deemed necessary, to provide advice to management (Mulyadi, 2016). The composition of individuals who will work as members of the board of commissioners in monitoring management activities is essential to run and work effectively. The board of commissioners consists of *inside* and *outside directors* who will have access to valuable specialized information and greatly assist the board and make it an effective tool in controlling decisions. While the function of the board of commissioners is to oversee the management of the company carried out by management (directors) and is responsible for determining whether management fulfills its responsibilities in developing and implementing the company's internal control (Mulyadi, 2016).

The greater the number of personnel on the board of commissioners, the worse the company's performance will be. This can be explained in the *agency problem* (agency problem), namely, with the increasing number of members of the board of commissioners, it will make it increasingly difficult to carry out their roles, including difficulties in communicating and coordinating work among each member of the board of commissioners, besides that it will have difficulty in carrying out supervisory duties on the company's management so that later it will have an impact on the company's declining performance (Ujiyantho, 2007).

The board of commissioners will generally form committees under it by the needs of the company and applicable laws and regulations to assist the board of commissioners in carrying out their responsibilities and authorities effectively. The committees formed by the commissioners are the audit committee, risk policy committee, remuneration and nomination committee, and policy committee *good corporate governance*. (National Committee on policy *Governance*, 2006).

In principle, the audit committee has the main task of assisting the board of commissioners in carrying out the supervisory function of the company's performance. By the decision of the National Committee on Governance Policy (2006) states that an audit committee is a group of people chosen by a larger group to do specific jobs or to perform particular tasks or several members of the board of commissioners of the client company who are responsible for assisting the auditor in maintaining independence from the management."

The audit committee is tasked with assisting the board of commissioners in monitoring various financial reporting processes by the management to increase the credibility of the financial statements. The audit committee's duties include reviewing the accounting policies applied by the company, assessing

internal control, reviewing external reporting systems, and compliance with regulations (Suryana, 2005). The audit committee also has the task of observing the internal control system, overseeing external audits, and overseeing financial reports to reduce the nature of *opportunistic* management (Siallagan and Machfoedz, 2006). The audit committee is closely related to reviewing the risks faced by the company and compliance with applicable regulations. The existence of an audit committee has become very important as one of the main tools in the implementation of *good corporate governance.*

Shares are a form of long-term funding that does not have a payback period. Shares show proof of ownership of a company in the form of a Limited Liability Company (PT). Shareholders of a company are shareholders and, at the same time, the owner of the company. The responsibility of the owner of a company in the form of a Limited Liability Company is the paid-up capital or ownership (Husnan, 2015:41). Shareholder Structure (*ownership structure*) compares the number of shares owned by insiders with the number of shares owned by investors (Ikbal, 2012).

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The level of information asymmetry will tend to be relatively high in companies with a significant level of investment opportunities. The managers or managers of the company have private information about the project's future value, and shareholders cannot closely monitor their actions. So that the agency costs between managers and shareholders will increase in companies with high investment opportunities.

Ownership is shared ownership by the government, financial institutions, legal entities, foreign institutions, trust funds, and other institutions at the end of the year (Belkaoui and Philip: 1989). According to Gapensi (1997), institutional ownership is one of the factors that can affect a company's performance. The existence of ownership by institutional investors will encourage a more optimal increase in the supervision of management performance because share ownership represents a source of power that can be used to support or vice versa on management performance.

Navissi and Vic. (2006) stated that the tight supervision carried out by institutional investors is highly dependent on the amount of investment made. Bathala *et al*., (1994) also found that institutional ownership replaces managerial ownership in controlling *agency costs*. The greater the ownership by financial institutions, the greater the voting power and encouragement of financial institutions to oversee management and consequently will provide a greater impetus to optimize the value of the company so that company performance will also increase.

The existence of institutional investors can indicate mechanism *corporate governance* as a strength that can be used to monitor the company's management. The influence of institutional investors on company management can be significant and can be used to align the interests of management with those of shareholders. This is because if the level of managerial ownership is high, it can hurt the company. After all, it can cause defense problems, which means that if managerial ownership is high, they have a solid position to exercise control over the company, and external shareholders will have difficulty controlling the actions of managers. This is due to the high voting rights owned by managers (Navissi, Farshid, and Naiker, Vic. 2006). The existence of optimal supervision of the manager's performance will be more careful in making decisions.

## RESEARCH METHODS

The population of this study is manufacturing companies that are listed and still active on the Indonesia Stock Exchange. The reason for choosing a manufacturing company is that manufacturing company are the majority of companies on the Indonesia Stock Exchange, which consist of industrial sub-sectors and can tell the company's entire population. Grouping by sector

Determination of the sample proportionally calculated based on the company in each sub-sector, so to determine the number of samples in each sub-sector, calculated by the formula (Sugiyono, 2004) namely (population: total population) x number of samples.

## RESEARCH RESULTS AND DISCUSSION

The capital market or stock exchange has existed since the Dutch colonial era and precisely in 1912 in Batavia. The Dutch East Indies government established the capital market to benefit the colonial government or the VOC. Although the capital market has existed since 1912, the development and growth did not go as expected, even during several periods of

capital market activity experiencing a vacuum. The factors that caused this were World War I and II, the transfer of power from the colonial government to the government of the Republic of Indonesia, and various conditions that prevented the operation of the stock exchange from running correctly. The Government of the Republic of Indonesia reactivated the capital market in 1977, and a few years later, the capital market experienced growth in line with various incentives and regulations issued by the government.

Statistics is a general description of research data related to collecting and summarizing data from research variables. Descriptive statistics also describe various data characteristics, such as the(*mean*), maximum, minimum, and standard deviation values. Descriptive statistics on this research data is a collection and summary of data on *corporate governance*, shareholder structure, *leverage*, profitability, and firm value, which are presented in Table 7 below:

**Table 1: Descriptive Statistics of Research Variables**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| *Corporate governance* | 189 | 0,192 | 0,329 | 0,242 | 0,240 |
| Shareholder Structure saham | 189 | 0,101 | 0,242 | 0,391 | 0,373 |

Source: Secondary Data Processed, 2021

Based on Table 7, it can be explained that variables *corporate governance* is measured by the audit committee in charge of assisting the board of commissioners to ensure the implementation of internal and external audits by applicable auditing standards. The audit committee as measured by the percentage of audit committee members who come from outside the audit committee to all members of the audit committee, from companies used as research samples with a minimum value of 0.192 and a maximum value of 0.329. These results indicate that the maximum number of audit committees outside the company is 32.9% of the total number of audit committees. On average, the sample companies already have an audit committee component that is quite good in implementing *corporate governance,* which is 24.2%; this is expected to control and monitor managers' decisions.

Shareholder Structure as measured by managerial share ownership, which is the company's share ownership by management consisting of directors and commissioners. The findings show that the minimum value of managerial share ownership is 0.101, and the maximum value is 0.242. These results indicate that the percentage of ownership of the company's shares by management consisting of directors and commissioners is a maximum of 24.2%. On average, the sample companies had 39% ownership of the company's shares by management. These results can be explained that many members of the board of commissioners and directors have shares in the company, so that according to the opinion of Jensen and Meckling (1976), that the more significant the proportion of management ownership in the company, the management tends to focus more on shareholders who are managers. , the interests of shareholders are also equal to the interests of company managers.

# CONCLUSIONS AND RECOMMENDATIONS

*Corporate governance* is measured by the audit committee, whose task is to assist the board of commissioners to ensure that the implementation of internal and external audits is by applicable auditing standards. The audit committee as measured by the percentage of audit committee members who come from outside the audit committee to all members of the audit committee, from companies used as research samples with a minimum value of 0.192 and a maximum value of 0.329. These results indicate that the maximum number of audit committees outside the company is 32.9% of the total number of audit committees. On average, the sample companies already have a component audit committee that is quite good in implementing *corporate governance,* 24.2%. This is expected to control and monitor decisions made by managers.

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Based on the results of the analysis and discussion of this study, it can be concluded that: Based on the conclusions above, the suggestions from this study are to increase the company's value, for companies to implement more *corporate governance* mechanisms, especially the duties of the audit committee, which include reviewing the accounting policies applied by the company, assessing internal control, reviewing external reporting systems, and compliance with regulations

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