THE IMPACT OF OWNERSHIP STRUCTURE AND CORPORATE GOVERNANCE ON PROFITABILITY AND FIRM VALUE

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ABSTRACT

This research aims to analyze the impact of ownership structure and corporate governance on profitability and firm value. The profitability and firm value, which are the dependent variables in this study, will be calculated using ROA (Return on Assets) and Tobin’s Q. Ownership structure and corporate governance as the independent variables consist of institutional and government ownership, board size, independent board member, and type of auditor with size of firm, debt ratio, dividends yield, and age of company as the control variables.

The samples that are used in this research are the 24 consumer goods industry companies that are listed in the Indonesia Stock Exchange. The technique that is used in this research is multiple regression analysis.

The result of this research shows that there is a significant positive influence of type of auditor on ROA (Return on Assets) and Tobin’s Q. Moreover, institutional ownership and board size has a negative significant influence on ROA and Tobin’s Q. While, government ownership and independent board member has a negative but insignificant impact on ROA and Tobin’s Q.

Keywords: ROA, Tobin’s Q, Institutional Ownership, Government Ownership, Board Size, Independent Board Member, Type of Auditor, Size of Firm, Debt Ratio, Dividends Yield, Age of Company

INTRODUCTION

The financial crisis, which destroyed the economy conditions of Indonesia, is caused by a number of reasons. According to Hanazaki and Liu (2007) there is a relationship between corporate governance and the economic disaster that happened. Corporate governance in relation to the protection of the rights of the minority shareholders had a major influence in the exchange rate depreciation and the decrease in stock market in 1997-1998 (Johnson, 2000). Moreover according to Husnan (2000) the financial crisis occurred due to high concentration of corporate ownership especially companies controlled by families have led to poor financing and investment practices. Studies conducted by World Bank and the Asian Development Bank also indicate that one of the causes of the recession in Indonesia and other countries is due to poor corporate governance implementation (Lukviarman, 2004).

Indonesia's government provides a strong encouragement to the
implementation of Good corporate governance. The evidence from the government's concern can be seen from the establishment of various regulations that governs Good corporate governance implementation. Starting from the creation of the National Committee on Corporate Governance Policy (KNKCG) through Decree of the Coordinating Minister of Economy Number: KEP / 31 / M.EKUIN / 08/1999. Then followed by the establishment of the National Committee on Governance Policy (KNKG) as a substitute for KNKCG through Decree of the Coordinating Minister for Economic Affairs Number: KEP / 49 / M.EKON / 11/2004. Subsequently, the issuance of Surat Edaran Ketua Bapepam Nomor Se-03/PM/2000 that explains that every enterprise should has an audit committee.

Several overseas studies have attempted to analyze the implications of corporate governance on the sustainability of a company which most of them produced diverse conclusions. Topal and Dogan (2014) explained that return on assets increases and the risk of financial failure decreases as the board size grows. On the other hand, different result is reported by Vo and Phan (2013). Their empirical evidence showed board size contributes negatively to firm’s performance, this happened due to a “gap of power” culture in Vietnamese companies. Hence they concluded that when board size increases, delegation would be reduced.

Qasim (2014) indicate significant positive impact of corporate governance on firm performance except for audit quality. Thus, companies with well-maintained corporate governance mechanisms are perceived positively by the financial market participants, which are reflected on companies’ stock market prices. A research conducted by Alfaraih et. al (2012) found a positive relationship between institutional ownership and firm performance. On the contrary, the findings suggest a negative relationship between government ownership and firm performance, indicating a low performance for firm when there is an existence of government ownerships showing that they tend to be politically rather than commercially motivated.

Previous conducted researches have showed varying results, which imply inconsistency and cannot conclusively explain the impact of ownership structure and corporate governance mechanisms on profitability and firm value. Therefore, the purpose of this research is to examine and verify these different results using Indonesia consumption goods sector firms listed in the Stock Exchange period 2011 – 2016 as the sample. This research will be using the model used by Qasim (2014) to analyze the impact of business ownership and corporate governance mechanisms on profitability and firm value. One of the limitations of the previous study is the proxies used to measure corporate governance as there are numerous other governance mechanisms that could affect firm performance. Qasim used institutional ownership, government ownership, board size, and audit quality to measure corporate governance elements. This research will add the number of independent board members as one of the independent variables, because boards dominated by externals tend to act in the best interest of shareholders.
Theoretical Background and Hypotheses Development

Agency Theory
Solomon (2007) explains that agency theory was first introduced by Ross (1973) and presented with more details by Jensen and Meckling (1976). In their explanation, shareholders are referred as the ‘principal’ and the managers of the company are referred as the ‘agents’. Shareholders carry out daily decision making as the owner or principal of the company to the directors who are the shareholders’ ‘agents’. This corporate ownership system results an issue, as the agents do not necessarily consider the best interest of the principal when making decisions. This problem is nourished by conflicting goals between the principal and agent. In finance theory, companies’ major purpose is to maximize shareholder wealth, however this contradicts in real life because company managers are tempted to make decisions, which prioritize their own personal objectives, for instance achieving highest bonus possible.

Corporate Governance
According to Cadbury Committee (1992), corporate governance is a system by which companies are directed and controlled with the objective of achieving a balance between the authority required by the company to ensure its existence and accountability to stakeholders. This relates to the authority of owners, directors, managers, shareholders, and so on. The definition of corporate governance according to the Decree of the Minister of BUMN No. Kep-117/M-MBU/2002 is a process and structure used by BUMN to improve business success and corporate accountability in order to maximize shareholder value in the long term by taking into account the interests of stakeholders, based on law and ethical values.

From the various definitions above, it can be concluded that Corporate Governance is a system that regulates, manages, and supervises the process of business operational to increase the company's value by taking into account the interest of stakeholders, employees, managers, and other parties involved according to the applicable law and ethical values.

According to Forum for Corporate Governance in Indonesia (2001), Organization Economic Cooperation and Development (OECD) developed a set of principles of Corporate Governance as known as The OECD Principles Of Corporate Governance, which are as follows: fairness, transparency, accountability, responsibility

Ownership Structure and Corporate Governance mechanisms
The ownership structures that will be discussed in this research are institutional ownership and government ownership. Moreover, the corporate governance mechanisms consist of board size, type of auditor, and number of independent board members.

Institutional Ownership
Tricker (2009) explains institutional investors consist of financial institutions, investment trusts, unit trusts or mutual funds and pension funds. The ownership by commercial banks, hedge funds, insurance companies corporate pension funds, college endowments, and so on within a company is considered as an institutional ownership (Al-Malkawi and Pillai, 2012).

Government Ownership
Government ownership is a proportion of shares in an entity that is owned by the state. According to Najid and Rahman (2011) claim that state-owned firms tend to give bad interpretation to shareholders because they often are criticized for prioritizing political rather than commercial motivation. In addition, the government can control the policies taken by management to suit the interests / aspirations of the government.

**Board Size**

Board size refers to the total member of directors on the board of a corporation. Keasey et. al (2005) describe that a larger board size will likely decrease agency problems for instance through more adequate monitoring or separation of decision responsibilities. Nevertheless, the intention of improving board legitimacy is established by larger size boards of directors which eventually caused less collusive action among the individual in the board because this produce a myth that the larger the board, the more diffused are the members’ responsibilities.

**Type of Auditor**

According to Arens et. al. (2014) in order to understand the criteria used, auditor must be qualified and in order to know the types and the total of evidence to be obtained to reach the proper conclusion after examining the evidence, auditor must be competent.

Arens et. al. (2014) claim that Certified Public Accounting (CPA) firms acting as independent auditors are granted the legal right to perform audits under certain regulations depending on each country. The opinion of independent auditor is important to external users such as investors, bankers, governmental agencies, and the overall general public. As of today, there are four big audit firms, which are Deloitte, PWC (PricewaterhouseCoopers), Ernst & Young, and KPMG.

**Independent Board Members**

Tricker (2009) describes independent board members as individuals in the board who are not involved in any executive management position in the company. According to Kim and Nofsinger (2007) a board with a higher faction of independent directors is more effective and reliable at monitoring management.

**Literature Review**

Research on the impact of ownership structure and corporate governance on profitability and firm’s value has been carried out by many researches, among them are:

<table>
<thead>
<tr>
<th>No</th>
<th>Researcher</th>
<th>Research Title</th>
<th>Dependent variables</th>
<th>Independent variables</th>
<th>Research Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Mishari Alfaraih, Faisal Alanezi, Hesham Almujamed (2012)</td>
<td>The Influence of Institutional and Government Ownership on Firm Performance: Evidence from Kuwait</td>
<td>• Tobin’s Q • Return on Assets</td>
<td>• Institutional Ownership • Government Ownership • Board Size</td>
<td>There is a positive relationship between institutional investors and firm performance in Kuwait. On the contrary, there is a negative</td>
</tr>
<tr>
<td>2.</td>
<td>Yusuf Topal, Mesut Doğan (2014)</td>
<td>Impact of Board Size on Financial Performance: The Case of BIST Manufacturing Industry</td>
<td>Return on Assets, Return on Equities, Tobin’s q, Z Altman, Board Size, Duality</td>
<td>There is a positive relationship between the board size, and return on assets and Z Altman score. However, board size is not influential on market performance indicator and return on equity.</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Duc Vo, Thuy Phan (2013)</td>
<td>Corporate Governance and Firm Performance: Empirical Evidence From Vietnam</td>
<td>Return on Assets, Board members, Female board members, CEO Dual, Board’s educational level, Board’s working experience, Outside Director, Board’s compensation, Board’s ownership, Block holders</td>
<td>The result of the study shows that board size has a negative impact on firm’s performance for Vietnam’s listed firms.</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Dana AL-Najjar (2015)</td>
<td>The Effect of Institutional Ownership on Firm Performance: Evidence from</td>
<td>Return on Assets, Return on Equity, Institutional Ownership, Size, Tangibility, Business Risk</td>
<td>The study suggests that there is no relationship between both the institutional ownership and firm</td>
<td></td>
</tr>
<tr>
<td>Source</td>
<td>Jordanian Listed Firms</td>
<td><em>Debt to Asset</em></td>
<td>Marketability</td>
<td>Performance for Jordanian listed firms.</td>
<td></td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------</td>
<td>-----------------</td>
<td>---------------</td>
<td>----------------------------------------</td>
<td></td>
</tr>
<tr>
<td>6. Ozcan Isik</td>
<td>Operating return on assets, Return on assets</td>
<td>Board size</td>
<td>Board composition</td>
<td>There is a significant and positive relationship between board size and bank performance.</td>
<td></td>
</tr>
<tr>
<td>Ali Riza Ince (2016)</td>
<td>Board Size, Board Composition and Performance: An Investigation on Turkish Banks</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Okumu Ogola Ochieng Fredrick (2015)</td>
<td>Return on assets, Market-to-Book-Value</td>
<td>Board Size</td>
<td>Board Composition, Audit Committee</td>
<td>The results of the study indicate that corporate governance attributes have a significant influence on Return on Assets. However, corporate governance attributes have an insignificant influence on firm value.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Corporate Governance and Firm Value for Firms Listed at The Nairobi Securities Exchange</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Mao-Feng Kao, Lynn Hodgkinson, Aziz Jaafar (2013)</td>
<td>Dependent variables: Return on assets, Tobin's Q</td>
<td>The proportion of independent directors, The proportion of independent supervisors, Board size, Board leadership, Blockholders’ ownership, Institutional ownership, Foreign ownership, Family ownership</td>
<td>The findings of the study indicate that board independence and institutional ownership have a significant and positive impact on firm Performance.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Board Characteristics, Ownership Structure And Firm Performance: Evidence From Taiwan</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: Data processing by the author, 2017
Conceptual Framework

Figure 1 Conceptual Framework

Hypothesis Development

According to Rose (2007) institutional investors serve as a tool of disciplining management because the free-rider problem associated with dispersed ownership is alleviated. Research conducted by Wei et. al (2005), Zeitun (2009), and Al-Zaidyeen and AL-Rawash (2015) show that institutional ownership negatively influence profitability (ROA) and firm’s value (Tobin’s Q). On the contrary, a different conclusion was made through the study conducted by AL-Najjar (2015) suggests that there is no relationship between profitability and firm value and institutional ownership. However, Hashim and Devi (2008), Qasim (2014), Alfaraih et al. (2012), report that there is a positive relation between profitability and firm value and ownership by institutional investors.

Based on the explanation above, the first and second hypotheses of this research are:

**H1:** There is a significant positive influence between institutional ownership and profitability

**H2:** There is a significant positive influence between institutional ownership and firm value

Companies owned by government may encounter fewer difficulties to meet financial reporting regulations, which might trigger management to improve firms’ performance through the selection of accounting choices (Aljifri & Moustafa, 2007). Such firms are more likely to enjoy the advantages associated with state ownership, such as close and effective monitoring, a reduction in agency cost, and easier access to financing. Therefore, it is plausible to assume that the profitability and firm value of Indonesia’s listed-consumer goods firms will be positively affected by government ownership.
The existence of a negative relationship between government ownership and profitability as measured by ROA was found in the research conducted by Tran et. al. (2014), Gursoy and Aydogan (2002), Zeitun and Tian (2007). Moreover, Alfaraih et. al. (2012) and Wei and Valera (2003) found that government ownership reduce corporate value as measured by Tobin’s Q. However, Studies conducted in Kuwait and UAE found a significant positive relationship between government ownership and firm performance (Aljifri and Moustafa, 2007, Qasim, 2014, and Alfaraih, et. al., 2012).

Based on the explanation above, the third and fourth hypotheses of this research are:

**H3:** There is a significant positive influence between government ownership and profitability

**H4:** There is a significant positive influence between government ownership and firm value

Berghe and Levrau (2004) express that increasing the board size means increasing the expertise, which produces a more knowledgeable and skillful board, compare to smaller boards. Lasfer (2002) explain that the ability of CEO to dominate boards are decreased in larger board size.

Research conducted by Mak and Kusnadi (2005), Bebeji et. al. (2015), and Guest (2009) report that board size negatively influence profitability (ROA) and firm’s value (Tobin’s Q). However, a research conducted by Topal and Dogan (2014) indicates that a large board size will improve a firm’s performance. A large board size appears to be better for firm performance because the study explained that return on assets increases and the risk of financial failure decreases as the board size grows. This because larger board size can dominate the irrational decision by CEO. Moreover, study by Qasim (2014) also explains that board size positively influence firm performance. Similar results are shown by the research conducted by Fredrick (2015). Board size has a positive impact on firm profitability as measured by ROA. Weterings and Swagerman (2012) also suggest that there is a positive relationship between board size and firm value as measured by Tobin’s Q.

Based on the explanation above, the fifth and sixth hypotheses of this research are:

**H5:** There is a significant positive influence between board size and profitability

**H6:** There is a significant positive influence between board size and firm value

Previous literature indicates that type of auditor is considered as one of the elements that have an effect on audit quality (Carcello and Nagy, 2004). DeZoort et. al. (2002) explain that when detecting errors larger audit firms are better compared to smaller audit firm due to the greater resources at disposal and more superior skills and experience possess by employees. As a result, in comparison with smaller audit firms, large audit firms are able to conduct their audits at a higher standard. According to Qasim (2014) higher audit control may increase profitability and firm value because it may control opportunistic management behaviors and reduce agency costs.
A number of researches has been conducted and among them produced mixed conclusions. For instance, a study conducted by Aryan (2015) using 69 Jordanian companies report that there is no relationship between type of auditor and profitability. On the contrary, research by Fooladi and Shukor (2012) using 400 Malaysian public listed companies provide the evidence that bigger audit firms increase profitability as measured by ROA and firm value as measured by Tobin’s Q. Bouaziz (2012) also found that auditor type positively affect profitability using 26 Tunisian firms listed on the Tunis Stock Exchange as the samples.

Based on the explanation above, the seventh and eighth hypotheses of this research are:

**H7:** There is a significant positive influence between type of auditor and profitability

**H8:** There is a significant positive influence between type of auditor and firm value

According to Jensen and Meckling (1976) in Yasser (2011) due to the opportunistic behavior of dependent board members, independent board members are necessarily needed in order to monitor and control such actions. In addition, independent board members act as neutralizers to keep the balance in the board with the aim of improving its effectiveness. According to Walt & Ingley (2003) and Nicholson & Kiel (2007) in Isik and Ince (2015) the presence of independent directors (outside directors) reduces agency problems, this because they enable the board to better discover and reduce any self-interested actions by managers.

As of today, there have been mixed results of research conducted regarding the effect of independent directors on firm performance. For instance, the research conducted by Ness et. al. (2010) shows that there is no relationship between number of outside directors with firm performance as measured by ROA. On the contrary, research conducted by Jackling and Johl (2009) suggests that there is a positive and significant relationship between independent director (outside directors) and financial performance as measured by Tobin’s Q. Moreover, study conducted by Knyazeva et. al. (2013) indicates that outside directors has a positive impact on firm profitability (ROA).

Hence, although prior studies regarding the relationships between independent board members and profitability (ROA) and firm value (Tobin’s Q) produced mixed-results, the concept of the effect of outside directors on reducing agency problems hence improving firm performance is adopted.

Based on the explanation above, the first and second hypotheses of this research are:

**H9:** There is a significant positive influence between number of independent board member and profitability

**H10:** There is a significant positive influence between number of independent board member and firm value

**RESEARCH METHODOLOGY**

The population of this research is all consumer goods companies industry in Indonesia Stock Exchange (BEI) from year 2011 to 2016 (6 years).
The sample in this study was taken by adapting the research model taken according to the reference journal, where the companies are selected according to the completeness of the data based on the following criteria:

1. Consumer goods companies which are consistently listed in the Indonesia Stock Exchange (BEI) and disclose its annual financial statement in the currency of Rupiah from year 2011 to 2016.
2. Consumer goods companies that continuously produce income during the observation period.

**Empirical Research Model**

There are two model regression panels with the following specifications:

\[
\text{Tobin's } Q = \alpha + \beta_1 \text{(GOV)} + \beta_2 \text{(INST)} + \beta_3 \text{(BSIZE)} + \beta_4 \text{(AUDIT)} + \beta_5 \text{(IND)} + \\
\beta_6 \text{(LnTA)} + \beta_7 \text{(DRATIO)} + \beta_8 \text{(DYLD)} + \beta_9 \text{(AGE)} + \varepsilon_{it}
\]

\[
\text{ROA} = \alpha + \beta_1 \text{(GOV)} + \beta_2 \text{(INST)} + \beta_3 \text{(BSIZE)} + \beta_4 \text{(AUDIT)} + \beta_5 \text{(IND)} + \\
\beta_6 \text{(LnTA)} + \beta_7 \text{(DRATIO)} + \beta_8 \text{(DYLD)} + \beta_9 \text{(AGE)} + \varepsilon_{it}
\]

Where;
- \(\text{Tobin’s Q}\) = MV of Equity + BV of Debt / BV of Assets
- \(\text{ROA}\) = Return on assets ratio; net income/total assets
- \(\text{(GOV)}\) = Proportion of government ownership in the firm
- \(\text{(INST)}\) = Proportion of Institutional ownership in the firm
- \(\text{(AUDIT)}\) = External auditor type; 1 if the company's accounts are audited by a big four auditing firm, 0 otherwise.
- \(\text{(BSIZE)}\) = Board size
- \(\text{(IND)}\) = Number of independent board member
- \(\text{(LnTA)}\) = Natural logarithm of total assets
- \(\text{(DRATIO)}\) = Debt Ratio; total debt/total assets.
- \(\text{(DYLD)}\) = Dividends Yield;
- \(\text{(AGE)}\) = Number of years since establishment
- \(\alpha\) = Intercept coefficient of firm i,
- \(\beta\) = Row vector of slope coefficients of regressors;
- \(\varepsilon_{it}\) = Residual error of firm I in year t.

**Research Variables.** This research uses two dependent variables, five independent variables, and four control variables. The dependent variables used in this research are firm’s value as measured by Tobin’s Q and profitability as measured by ROA (Return on Asset). The independent variables used are government ownership, institutional ownership, type of auditor, board size, and independent board member. While, the control variables used are size of firm, debt ratio, dividends yield, and number of years since establishment.

**Discussion**

**Descriptive of Sample Observation**

In accordance with the criteria that had been previously mentioned in chapter three, this research has come to obtain a sample of 24 companies for each year in the six years period (2011-2016). The total sample that is used in this
research is 144 samples. The selection of the sample is described in the table 2 below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Consumer Goods companies constantly listed in Indonesia Stock Exchange from 2011-2016</td>
<td>39</td>
</tr>
<tr>
<td>Consumer goods companies that do not disclose its annual financial statement in the currency of Rupiah</td>
<td>0</td>
</tr>
<tr>
<td>Consumer goods companies that do not issue and publish its financial statement which ended in 31 December</td>
<td>(8)</td>
</tr>
<tr>
<td>Consumer goods companies that do not provide complete data related to variables required</td>
<td>0</td>
</tr>
<tr>
<td>Consumer goods companies that do not continuously produce income</td>
<td>(6)</td>
</tr>
<tr>
<td>Total samples for each year</td>
<td>24</td>
</tr>
<tr>
<td>Total number of samples for 6 years (2011-2016)</td>
<td>144</td>
</tr>
</tbody>
</table>

Table 3 Descriptive Statics Result

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>roa</td>
<td>144</td>
<td>.1544562</td>
<td>.1222465</td>
<td>.01542</td>
<td>.6572</td>
</tr>
<tr>
<td>tobinsq</td>
<td>144</td>
<td>3.9289</td>
<td>3.929118</td>
<td>.74184</td>
<td>20.06521</td>
</tr>
<tr>
<td>gov</td>
<td>144</td>
<td>.0484625</td>
<td>.1858354</td>
<td>0</td>
<td>.9003</td>
</tr>
<tr>
<td>inst</td>
<td>144</td>
<td>.1693951</td>
<td>.2701745</td>
<td>0</td>
<td>.9201</td>
</tr>
<tr>
<td>bsize</td>
<td>144</td>
<td>6.041667</td>
<td>2.773186</td>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td>ind</td>
<td>144</td>
<td>.5763889</td>
<td>1.081179</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>audit</td>
<td>144</td>
<td>.5833333</td>
<td>.4947274</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>lnta</td>
<td>144</td>
<td>14.80618</td>
<td>1.675016</td>
<td>11.67872</td>
<td>18.33547</td>
</tr>
<tr>
<td>debtratio</td>
<td>144</td>
<td>.3963794</td>
<td>.1599901</td>
<td>.02235</td>
<td>.75178</td>
</tr>
<tr>
<td>dyld</td>
<td>144</td>
<td>.0354333</td>
<td>.0986339</td>
<td>0</td>
<td>.96012</td>
</tr>
<tr>
<td>age</td>
<td>144</td>
<td>42.95833</td>
<td>19.68347</td>
<td>2</td>
<td>87</td>
</tr>
</tbody>
</table>

Source: Data processing from STATA, 2017

Classical Assumption Tests

Normality Test. After running the Shapiro-Wilk test, the null hypotheses indicating that the variables are normally distributed is rejected because the probability is less than 5%. Hence, a treatment to resolve the normality problem should be conducted. Below is the result of the remedy for the dependent variables, which are ROA (Return on Asset) and Tobin’s Q: 0.08870 and 0.06028.

After conducting the treatment, the null hypotheses indicating that the variables are normally distributed is accepted because the probability is more than 5%. Hence, it can be concluded that the samples are normally distributed.
**Multicollinearity Test.** Based on the results, all of the variables have a value of VIF less than 10. This means that all of the variables in the regression model do not have a multicollinearity problem.

**Heteroscedasticity Test.** Based on the results, the probabilities of both dependent variables, which are ROA (Return on Assets) = 0.1643 and Tobin’s Q = 0.4736.

**Hypotheses Test**

<table>
<thead>
<tr>
<th>Dependent Variables</th>
<th>R-squared</th>
<th>Adjusted R-squared</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA (Return on Assets)</td>
<td>0.5771</td>
<td>0.5487</td>
</tr>
<tr>
<td>Tobin’s Q</td>
<td>0.5268</td>
<td>0.4950</td>
</tr>
</tbody>
</table>

Based on the results in Table 4, the value of R-squared with ROA (Return on Assets) as the dependent variable is 0.5771. This means the ability of the independent variables, which are government ownership, institutional ownership, board size, independent board members, and type of auditor to explain ROA is 57.51%. While, the other 42.49% cannot be explained by the independent variables in the regression model.

Based on the results in Table 4, the value of R-squared with Tobin’s Q as the dependent variable is 0.5268. This means the ability of the independent variables, which are government ownership, institutional ownership, board size, independent board members, and type of auditor to explain ROA is 52.68%. Meanwhile, the other 47.32% cannot be explained by the independent variables in the regression model.

**F-Test**

The results of the F-test is summarized in the table 5 below:

<table>
<thead>
<tr>
<th>Dependent Variables</th>
<th>Prob&gt;F</th>
<th>Hypotheses Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA (Return on Assets)</td>
<td>0.0000</td>
<td>H₀ is rejected</td>
</tr>
<tr>
<td>Tobin’s Q</td>
<td>0.0000</td>
<td>H₀ is rejected</td>
</tr>
</tbody>
</table>

Based on the F-test result with ROA and Tobin’s Q as the dependent variable in table 5, the probability, which is 0.0000, is less than the predetermined significance level (1%, 5%, and 10%). The null hypotheses is rejected, this means all the independent variables, which are government ownership, institutional ownership, board size, independent board members, and type of auditor have an influence toward ROA (Return on Asset) and Tobin’s Q.

**T-test of ROA (Return on Assets)**

Based on the t-test result, the equation of the regression model with ROA (Return on Asset) as the dependent variable is as follows:

\[ \ln_{\text{ROA}} = -3.121 - 0.178(\text{GOV}) - 0.870(\text{INST}) - 0.041(\text{BSIZE}) - 0.032(\text{IND}) \]
Moreover, the following conclusions are made in regard of the hypothesis that had been developed in this research:

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Coefficient</th>
<th>P-Value</th>
<th>Hypotheses Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government ownership</td>
<td>-0.1779544</td>
<td>0.475</td>
<td>Null Hypothesis is accepted</td>
</tr>
<tr>
<td>Institutional ownership</td>
<td>-0.869691</td>
<td>0.000***</td>
<td>Null Hypothesis is accepted</td>
</tr>
<tr>
<td>Board Size</td>
<td>-0.0411631</td>
<td>0.044**</td>
<td>Null Hypothesis is accepted</td>
</tr>
<tr>
<td>Independent Board Member</td>
<td>-0.0319748</td>
<td>0.482</td>
<td>Null Hypothesis is accepted</td>
</tr>
<tr>
<td>Type of Auditor</td>
<td>0.7492985</td>
<td>0.000***</td>
<td>Null Hypothesis is rejected</td>
</tr>
</tbody>
</table>

*significant at the 10% level, **significant at the 5% level, *** significant at the 1% level
Source: Data processing by the author, 2017

**T-test of Tobin’s Q**

Based on the t-test result, the equation of the regression model with Tobin’s Q as the dependent variable is as follows:

\[
\text{Tobin’s } Q = -2.158 - 0.103(\text{GOV}) - 1.610(\text{INST}) - 0.069(\text{BS}ize) - 0.011(\text{IND}) \\
+ 0.784(\text{AUDIT}) + 0.117(\text{LNTA}) + 0.423(\text{DebtRatio}) + 0.665(\text{DYLD}) \\
+ 0.025(\text{AGE}) + e
\]

Based on the conclusions above, the hypotheses decision for the independent variables are summarized in Table10 below:

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Coefficient</th>
<th>P-Value</th>
<th>Hypotheses Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government ownership</td>
<td>-0.1025676</td>
<td>0.796</td>
<td>Null Hypothesis is accepted</td>
</tr>
<tr>
<td>Institutional ownership</td>
<td>-1.609768</td>
<td>0.000***</td>
<td>Null Hypothesis is accepted</td>
</tr>
<tr>
<td>Board Size</td>
<td>-0.068982</td>
<td>0.034**</td>
<td>Null Hypothesis is accepted</td>
</tr>
<tr>
<td>Independent Board Member</td>
<td>-0.0105189</td>
<td>0.884</td>
<td>Null Hypothesis is accepted</td>
</tr>
<tr>
<td>Type of Auditor</td>
<td>0.7835923</td>
<td>0.000***</td>
<td>Null Hypothesis is rejected</td>
</tr>
</tbody>
</table>

*significant at the 10% level, **significant at the 5% level, *** significant at the 1% level
Source: Data processing by the author, 2017
Discussion and Analysis

The Influence of Government Ownership

The regression from the research model shows that government ownership does not have a significant positive influence on profitability as measured by ROA (Return on Assets) and firm value as measured by Tobin’s Q. Instead, it shows a negative insignificant impact. This finding is similar to the studies conducted by Hovey et. al (2003) and Wei (2007) where state ownership is not related to firm value and ROA, respectively. Moreover, research conducted by Tran et. al. (2014), Gursoy and Aydogan (2002), Zeitun and Tian (2007) found the presence of a negative relationship between government ownership and ROA. Moreover, Alfaraih et. al. (2012) and Wei and Valera (2003) found that government ownership reduce corporate value as measured by Tobin’s Q.

There are several reasons why government ownership has a negative insignificant impact toward ROA (Profitability) and Tobin’s Q (Firm Value) according to Srivastava and Jhajharia (2011). First, government may not be motivated to seek profits and increase firm value, but is guided by social altruism. For example, the government may give more attention to unemployment or control over certain strategic industries rather than the firm’s performance. Second, government might not be the real owner who governs the company, but the bureaucrats. Since bureaucrats will not gain anything from ensuring a company is performing well or have good corporate governance, they are not motivated or has no personal interest in doing it.

The Influence of Institutional Ownership

The regression from the research model shows that institutional ownership does not have a positive influence on profitability as measured by ROA (Return on Assets) and firm value as measured by Tobin’s Q. Instead, it shows a negative impact. This outcome is similar to the findings by Wei et. al (2005) and Zeitun (2009), and Al-Zaideen and AL-Rawash (2015). Such relationship might happen due to the dominant effect of conflict of interest between institutional investors and the management rather than the role of institutional investors to oversee the management. Institutional investor might develop profitable affairs thus being less attracted in restricting and supervising management movement. This may eventually affect the effectiveness of the company and its performance.

The Influence of Board Size

Based on the results above, board size has a negative significant influence towards profitability as measured by ROA (Return on Assets) and firm value as measured by Tobin’s Q, hence when board size is getting bigger, the value of ROA and Tobin’s Q decreases. Similar negative relationship is found by Mak and Kusnadi (2005), Bebeji et. al. (2015), and Guest (2009). This negative relationship may be constructed due to the reason that larger board size has a potential to face discoordination and miscommunication. Another reason is because larger board size may be slow in making decisions, which in contrast with smaller board size that tend take quick and adequate decision. These reasons then may affect the company’s effectiveness and its overall performance may decline.

The Influence of Independent Board Member
Based on the results above, the influence of independent board member is insignificant towards profitability as measured by ROA (Return on Assets) and firm value as measured by Tobin’s Q. This outcome is similar to the research conducted by Ness et. al. (2010). Moreover, the empirical result also shows that there is a negative relationship between independent board member and ROA and Tobin’s Q. This might be somewhat surprising, because most scholars argued that independent directors improve corporate governance thus resulting in better financial performance due to the knowledge they possess (Kao et. al., 2013, Jackling and Johl, 2009, Knyazeva et. al., 2013). However, Ararat et. al. (2010) and Wang and Oliver (2009) quoted by Fuzi et. al. (2016) explain that when there is no association or negative relationship between independent directors and firm’s performance, the existence of independent directors on the board might be jeopardized. Companies might fulfilled the regulations on the required number of the independent directors on the board, however there is a possibility of neutralizing the power of independent board members through several strategies. Firms might appoint a person who has irrelevant background that they seem powerless on the board. Another scenario is companies might appoint someone who has personal, financial, and social ties with the dominant shareholders, which eventually affect their independent judgment.

The Influence of Type of Auditor

The regression from the research model shows that type of auditor has a significant positive influence on profitability as measured by ROA (Return on Assets) and firm value as measured by Tobin’s Q. This result is consistent with the past studies conducted by Qasim (2014), Fooladi and Shukor (2012), and Aljifiri and Moustafa (2007). Furthermore, this relationships is established due to the reason that bigger audit firm may provide more well-trained expertise and maintain their independence in performing their jobs as auditor such as detecting errors compared to smaller audit firm. Hence, this derives to a company obtaining higher audit control, which may increase profitability and attract investor to increase firm value because it may control opportunistic management behaviors and reduce agency costs.

CONCLUSIONS, LIMITATIONS, AND RECOMMENDATIONS

Conclusions

This research is conducted in order to examine the factors that affect profitability and firm value. The factors that are being studied in this research are ownership structure and corporate governance. The ownership structure consists of institutional and government ownership. The corporate governance consists of board size, independent board members, and type of auditor. These factors are being examined with the help of four control variables, which are size of company, debt ratio, dividend yield, and age of company. The profitability is measured using ROA (Return on Assets), while the proxy to measure firm value is Tobin’s Q.

The sample for the regression model has a total sample of 144, which consists of the 24 consumer goods industry companies listed in Indonesia Stock Exchange for the period 2011-2016.
The conclusions based on the results of the research can be summarized as:

1. The impact of government ownership towards profitability and firm value is negative but insignificant. This is because government tends to prioritize social altruism rather than obtaining profitability and increasing firm value and the one who exercise governance in government ownership is bureaucrats. This is in line with the research by Hovey et al. (2003) and Wei (2007).

2. The impact of institutional ownership towards profitability and firm value is negative and significant. This happens due to agency problems where there is a conflict of interest between institutional investors and the management. This evidence is consistent with the research done by Wei et al. (2005) and Zeitun (2009), and Al-Zaidyeen and AL-Rawash (2015).

3. The impact of board size towards profitability and firm value is negative and significant. This is caused because larger board size seems to be less efficient in making decisions. This is in line with the research by Mak and Kusnadi (2002), Bebeji (2015), and Guest (2009).

4. The impact of independent board member towards profitability and firm value is negative but insignificant. This happens because the role of independent director is jeopardized or manipulated by the company. This evidence is consistent with the research done by Ness et al. (2010), Ararat et al. (2010), and Wang and Oliver (2009).

5. The impact of auditor type towards profitability and firm value is positive and significant. Such influence occurs because big four companies tend to have more well trained personnel. This is in line with the research by Qasim (2014), Fooladi and Shukor (2012), and Aljifiri and Moustafa (2007).

In conclusion, companies with appropriate ownership structure and strong corporate governance influence company performance in terms of obtaining profits and attracting investors to increase firm value.

Research Limitations
There are several limitations in this research, which is needed to be mentioned in order to avoid any misinterpretation. Moreover, research limitations are useful for the development of a similar research in the future.

1. This research only focuses on consumer goods industry companies as its sample for the period of six years from 2011 to 2016.

2. This research only uses two types of ownerships, which are institutional, and government ownership.

3. This research only uses three corporate governance mechanisms variables, which are board size, independent board members, and type of auditor.

Recommendations
Based on the results and limitations above, the following recommendations are given for improving this research for future researches:

1. The future research should use bigger samples, for instance by using other industry such as mining industry, agriculture industry, etc. with longer period than six years.
2. The future research should use more than two types of ownerships other than institutional ownership, and government ownership, such as managerial ownership, family ownership, foreign ownership, and many more.

3. The future research should use more than three corporate governance mechanisms variables other than board size, independent board members, and type of auditor, such as audit committee, CEO duality, board’s working experience, women on board and many more.

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