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OWNERSHIP STRUCTURE AND BOARD STRUCTURE ON FIRM PERFORMANCE : MODERATING EFFECT OF POLITICAL CONNECTIONS

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ABSTRACT

The purpose of this study was to examine the relationship between ownership structure and board structure as well as the moderation of political connections in Indonesian stock exchange companies using the dummy method. The object of this research uses the necessary data collection methods. This study uses data on companies listed on the Indonesian stock exchange as the research sample. Companies taken from 2016 to 2020. The research sample used was 1748 data from 437 companies that matched the predetermined research criteria and qualifications. The use of SPSS and Smart PLS software to test the sample data of this study.

Keywords : *Firm Performance, Political Connection, Board Structure*

INTRODUCTION

RESEARCH BACKGROUND

The establishment of a company that starts a business will have an impact on the economy of a region by creating jobs that provide income for the community. In addition, the company's income is part of the source of state revenue which is certainly one of the reasons why companies have an impact on the economic sector of a country. At this point it can be seen that the number of companies entering the national and international market sectors is increasing. In this way, the increase in business units will have an impact on market competitiveness. Every company must develop and plan targets to achieve maximum profit so that it can run well and smoothly. Profit achievement is certainly not only for the company but also for the employees. To maintain profit, the company must pay attention to the company's performance where if it goes well then the employee is entitled to a bonus. According to Harrison & Wicks (2013) company performance is the sum of the value of the company through activities that generate profits. The level of the company is determined

from the size of the profit earned which is used as a determinant of whether or not the company level is good. Companies in Indonesia that have been listed on the Indonesia Stock Exchange, generally have a professional management team to manage the company well in terms of capital structure or corporate governance. The decisions that have been set by the management will greatly affect the company. Management negligence in making decisions will of course have a small to large impact on the company (Nopitasari et al., 2018). Corporate governance consists of several parts, one of which is the ownership structure. Ownership structure is a category of shareholders with the number of shares owned by the family (Kalan, 2021). The ownership structure has an important role in the company when in a family company where members of the family have high positions such as directors, company managers or shareholders. Family companies have different characteristics from other companies, one of which is having a different view on information disclosure with other companies (Ahmed Haji, 2014). The issue

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of corporate governance occurs in Indonesia, which has poor corporate governance. This is indicated by the weakness of accounting standards in the company's management process.

RESEARCH PURPOSES

The research objectives achieved in this study include the following :

- a. To intergrate the significant influence of family ownership on company performance.
- b. To intergrate the significant influence of institutional ownership on company performance.
- c. To intergrate the significant influence of managerial ownership on company performance.
- d. To intergrate the significant influence of the board of directors on company performance.
- e. To intergrate the significant influence of the founders on the board of directors on company performance.
- f. To intergrate the significant influence of political connections on company performance.

LITERATURE REVIEW

Corporate Governance is a principles that underlie business management processes and mechanisms to improve and accountability business principles to create long-term value by taking into account the interests of stakeholders in the business based on laws and regulations and the created business values.

Role of Family Ownership

(Kao et al., 2019) suggest that companies with German ownership only show performance when members of the founding

family are on the board of directors. (Tjiang et al., 2018) also stated positively from the founding families on the board that a healthy family enterprise can only be achieved if the independent and the founding families have the same relative control and power. Family ownership is required to oversee and control the effective management by independent directors. In addition, family firms in Taiwan show positive performance when family ownership and management are alive. The higher the family ownership, the higher the company's performance. As a result of ineffective and efficient decision making, it can cause a burden that is detrimental to the company and results in a decrease in company performance.

Role of Institutional Ownership

This ownership is the number of shares of the company in the name of another person but not a personal name. This structure delegates some level of control to managers. Institutional ownership if the level of ownership is high can have a big effect on company performance. As investors, institutional ownership usually owns a large percentage of the company's equity. In addition, they do not make comparisons with individual investors who have sufficient liquidation ability without affecting stock prices. So that the relationship of institutional ownership is not strong with firm value. This is due to the inefficient role of institutional ownership in controlling agents or managers (Musallam, Fauzi & Nagu, 2018).

Role of Managerial Ownership

Managerial ownership is the level of ownership that effectively and efficiently participates in making decisions. At the end of the year, this share ownership will be measured by the proportion of shares. The purpose of managerial ownership research on the performance of Pakistani companies is to find the relationship between ownership and

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performance of 75 companies in developing countries from 2009 to 2013. And the researchers said that they did not find a strong significant effect. The fixed securities approach denies its broad management impact on ownership on firm efficiency (Anand, Katper & Kazi, 2018).

Role of Board of Director

The company's board of directors is part of the resource pool which is a group of people who have a lot of ideas and knowledge by expanding the resources they have. The size of the board of directors in the company as a leader who is authorized to set company policies, select and supervise employees, as well as managers. To become a board of directors, it is necessary to have conditions that are never involved in abnormal engineering practices in managing the company and benefit from BUMN organizations/employees. The size of the board of directors is separated from the board of commissioners because they have different powers in managing the company.

Role of Founder of The Board

(Ismail et al., 2020) stated that Malaysian family companies prioritize their business continuity and continuity. In contrast to (Goh et al., 2014) generations from the same founding family can make significant innovations in business families. Research reviewed by (Kallamu et al., 2016) explains that there is a significant positive and negative relationship between founders on the board of directors and company performance. (Mahmood et al., 2017) also explained that the positive significance of the founders on the board of directors and company performance.

Role of Political Connection

In general, scholars agree that companies with political connections have better performance than political connections can

provide a level of political stability and government effectiveness and provide benefits to companies. Research by Su & Fung (2013), Xu et al. (2015), Badrul Muttakin et al. (2015) and Harymawan et al. (2019) shows a significant positive effect on the relationship of family ownership, founders on the board of directors on company performance.

RESEARCH METODOLOGY

Object of Research

This research uses the documentation method, which means collecting all the necessary data. This study utilizes secondary data published on the Indonesia Stock Exchange (IDX) website. The author uses companies listed on the IDX as research samples, and the companies that are sampled must have financial statements for 5 periods, namely from 2016 to 2020, respectively. This study uses quantitative methods for the analysis of corporate governance on company performance.

1. Dependen Variable

Firm Performance

The company's performance is defined as the company's decision by dividing the company's profits by total assets. If the company's performance is good and dividends increase, the issuer's stock market price will rise, otherwise if the issuer's performance is bad, the stock market price will definitely fall. Therefore, under normal circumstances, the company's performance is a factor that affects stock prices. Company performance can be measured using the Return on Assets (ROA) and Return on Equity (ROE) formulas.

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$$\text{ROA} = \frac{\text{Laba Bersih}}{\text{Total Aset}}$$

$$\text{ROE} = \frac{\text{Laba Bersih}}{\text{Total Ekuitas}}$$

2. Independen Variable

Family Ownership

This family ownership research is the ownership of a listed company that is neither a public nor a state company. Family ownership can be measured by the aggregate percentage of ownership of the ten largest shareholders who each have 5% of the voting rights (Ismail et al., 2020).

Institutional Ownership

Institutional ownership is ownership on behalf of another institution/company to invest in shares. This level of institutional ownership, if the share level is higher, the greater the voting power to get incentive supervision. Institutional ownership can be measured by:

$$\text{Institutional Ownership} = \frac{\text{Institution-controlled shares}}{\text{Total shares outstanding}}$$

Managerial Ownership

Managerial ownership is the ownership of a manager who owns shares. A manager will care about himself if he does not own company stock. Managerial ownership can be measured by the following indicators:

$$\text{Managerial ownership} = \frac{\text{Shares held by managers}}{\text{Total shares outstanding}}$$

Founder on the Board of Directors

Research founders on the company's board of directors who are responsible for managing the company. The number of founders and the number of directors is adjusted to the effectiveness of the company. Founders on the board of directors can be measured by the following indicators:

$$\text{Founder of the board of directors} = \frac{\text{Number of Founders}}{\text{Number of Directors}}$$

Board of Directors Size

A leader who is responsible for and takes care of the company both internally and externally in accordance with company regulations. The size of the board of directors can be measured by the following indicators: Size of the Board of Directors = Total board of directors in the company

Political Connection

Political connection according to Adhikari et al (2016) political connection can be measured by looking at the direct ownership by the government in the company. Political connection can be measured by moderating the cum dummy variable, the presence or absence of political connections in a company is indicated as 1 or 0 respectively.

Leverage

Company debt is the company's ability to meet all payments owed both in the short and long term. Company debt can be measured by the following indicators:

$$\text{Leverage} = \frac{\text{Total Amount of Debt}}{\text{Total Assets}}$$

Firm Size

In this study, the size of the company can be simplified by transforming it into the natural

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logarithm of assets, using the following indicators:

Company Size = Log of total assets

Data Analysis Method

Panel regression data analysis is a method in which research is used to test the effect of the hypothesized variables that have been formulated. The application used is the Statistical Package for the Social Sciences

(SPSS) program and E-views in conducting research testing the influence of the 2 variables. This stage tests descriptive statistics and outlier tests using the SPSS application and in the stage of testing the panel regression model for compatibility with the Hausman test, Chow test, t test, and F test using the E-views application.

RESULTS AND DISCUSSIO

<u>Keterangan</u>	N	Minimu m	Maximu m	Mean	Std. Deviasi
ROA	1748	-4,80	25,96	,0249	,66541
ROE	1748	-543,86	57,69	-,4261	14,23536
<u>Kepemilikan Keluarga</u>	1748	,00	,98	,4455	,32281
<u>Kepemilikan Institusional</u>	1748	-,12	1,00	,6195	,26402
<u>Kepemilikan Manajerial</u>	1748	,00	22,36	,0596	,54981
<u>Ukuran dewan direksi</u>	1748	2,00	16,00	4,8741	1,98338
<u>Pendiri di Dewan Direksi</u>	1748	,00	3,00	,1487	,44845
Leverage	1748	,01	973,41	1,7144	29,94163
<u>Ukuran Perusahaan</u>	1748	22,38	34,89	28,9096	1,89008
Valid N (listwise)	1748				

The results of the statistical test of research variables showing the number of samples, minimum value, maximum value, average, and standard deviation of each variable. The independent variable in this study is family ownership.

From the table above, it can be seen that the maximum value of -543.86 was obtained by PT Leyand International Tbk in 2018, the company is engaged in the operation of power plants. This value reflects that the company's performance is declining.

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Then, the maximum value of 57.69 was obtained by Capitalinc Investment Tbk in 2016,

this number indicates that the company is improving the company's performance well.

CONCLUSION

From the test results it can be concluded that the variables of institutional ownership, family ownership, managerial ownership, founders on the board of directors, size of the board of directors, firm size and leverage have a significant positive effect on firm performance. Meanwhile, political connections have a significant negative effect on company performance.

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