CORPORATE GOVERNANCE PERCEPTION INDEX AND FIRM PERFORMANCE IN INDONESIA

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Abstract

The unique business environment and inconclusive findings make it interesting to conduct investigations related to corporate governance and performance in Indonesia. The investigation is carried out on all firms on the Indonesia Stock Exchange, which The Indonesian Institute for Corporate Governance has surveyed for almost two decades (2001 to 2019). The test results find a significant relationship between corporate governance and firm performance. This study underscores the importance of stakeholders in making a collective contribution to the firm. A series of tests have been carried out to validate these findings, and the results remain robust. This finding has important contributions and implications for regulators and firms, especially in developing countries.

Keywords: Good Corporate Governance; Perception Index; Firm Performance; Emerging Market, Indonesia.

JEL Classification: G34, G32, G12.

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INTRODUCTION

Based on the perspective of agency theory (Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976), corporate governance is needed because of the different interests between principals and agents (Adegbite, 2015). The implementation of good corporate governance, in this case, is required to minimize agency conflicts that occur.

Good corporate governance can be helpful in the monitoring function so that management can make effective decisions (Shahid & Abbas, 2019). This effectiveness can be demonstrated by lower default risk (Ali, Liu, & Su, 2018), efficiency (Peng, Zhang, Zhong, & Li, 2021), and good performance (Li, Crook, Andreeva, & Tang, 2021; Peng et al., 2021; Uyar, Fernandes, & Kuzey, 2021). The application of good governance can create good corporate value through monitoring, information dissemination/production, investor recognition (Lehmann, 2019), and media coverage (Carlini, Cucinelli, Previtali, & Soana, 2020). On the other hand, weak governance structures create financial instability (Ballester, González-Urteaga, & Martínez, 2020) and lead to business collapse (Li et al., 2021).

Although the analysis related to corporate governance has been carried out massively by previous studies, this investigation still needs to be carried out with several considerations. *First*, the analysis of the components of corporate governance is generally based on ownership structure and board structure (Ballester et al., 2020). The role of the element of governance in corporate results over time is complex, whereas investigations are often too short and concentrate on board composition (Cadbury, 2002). It is necessary to investigate governance with different proxies (Ballester et al., 2020). *Second*, governance effects are not always as strong in predicting financial distress (Li et al., 2021) and are not even found in firm value as is the case in Australia (Huang, Lu, & Wee, 2020). *Third*, testing

on financial and non-financial samples outside the United States also needs to be carried out (Ballester et al., 2020). In conditions in Asian countries, with samples in Singapore and Malaysia, there is little evidence of the relationship between corporate governance and firm value (Mak & Kusnadi, 2005).

Indonesia is an interesting object to investigate regarding corporate governance, with at least three considerations. *First*, this country is a perfect proxy for developing countries in Asia, considering its still weak corporate governance (ACGA, 2018, 2020). *Second*, Indonesia adheres to a civil law system. Asian firms in common law and civil law countries have different governance characteristics that will then affect firm policies (Kim, Kiymaz, & Oh, 2020). *Third*, the asymmetric information problem (Satrio, 2021) is the main reason why investigations related to governance and firm performance are interesting in this country.

There are at least two main contributions to this article. *First*, this study broadens the understanding of corporate governance in developing countries faced with high asymmetric information and family-dominated ownership. *Second*, the investigation was conducted using the corporate governance perception index (CGPI) approach surveyed by The Indonesian Institute for Corporate Governance (IICG). This independent survey institute was founded on the initiative of the Indonesian Transparency Society, practitioners, professionals in the business world, and community leaders. IICG has been trusted to conduct corporate governance surveys in Indonesia for two decades. Governance with the IICG indicator was carried out in this study by considering the importance of more reliable indicators (Ballester et al., 2020; Cadbury, 2002).

Although previous studies also used CGPI indicators (Wahyudin & Solikhah, 2017), this study provides the latest empirical evidence that differs from previous studies by at least twofold. *First*, an investigation with a long observation period since the survey by IICG was conducted from 2001 to 2019. *Second*, testing using the latest baseline model (Kuzey, Uyar, Nizaeva, & Karaman, 2021). The test was conducted involving several control variables that are important to consider regarding corporate governance (Anwer, Azmi, & Mohamad, 2021; Ararat, Claessens, & Yurtoglu, 2021; Ararat & Yurtoglu, 2021; Hayat & Hassan, 2017; Liu, Lei, & Buttner, 2020; Lu & Wang, 2021; Sarkar & Selarka, 2021) and firm performance (Ballester et al., 2020; García-Ramos & Díaz, 2021; Modigliani & Miller, 1963).

This article is organized as follows. The second part presents the conceptual framework and the development of the hypothesis in this study. The third section provides an overview of the methodology. The analysis and discussion will be discussed in the fourth and fifth sections. Finally, the sixth section contains conclusions and implications.

LITERATURE REVIEW

The importance of delegating authority and responsibility in managing the firm to professionals (Berle & Means, 1933) causes the firm to be faced with agency problems because of differences in interests (agency theory (Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976)). The management, in this case, acts as an agent who serves the interests of the principal, who, of course, also has rights and responsibilities that he carries himself personally (Friedman, 1970). This condition shows that the handover of management, in addition to its positive impact, also creates new problems because it does not avoid the problem of pursuing personal interests by the executive (self-interest (Eisenhardt, 1989) and self-serving (Goranova & Ryan, 2014)). This condition is exacerbated by conditions where decision-makers are relatively not at risk

for errors in decision-making (Jensen & Meckling, 1976).

Agency conflicts can be minimized if there is good corporate governance implementation. In addition to reducing agency conflicts, the application of good corporate governance is carried out as an effort to achieve the firm's primary goal, namely maximizing shareholder wealth (shareholder theory (Friedman, 1970)) and still paying attention to the interests of stakeholders (stakeholder theory (Freeman, 1984; Freeman & Evan, 1990)). However, there is no consensus on the role of governance in changing the financial performance of firms, especially in developing countries. The effect of governance, in this case, is not always strong in predicting financial distress (Li et al., 2021), and no role is found in firm value (Huang et al., 2020). Differences in empirical evidence can be caused by differences in the business environment of each country and different indicators. For example, in samples from Singapore and Malaysia, there is minimal evidence related to corporate governance and firm value (Mak & Kusnadi, 2005).

Investigations related to corporate governance need to be carried out using different indicators (Ballester et al., 2020). In this case, investigations based on stakeholder perceptions can be carried out with three aspects of assessment (governance structure, governance process, and governance outcome) can be considered an alternative. The importance of this perception by stakeholders can refer to stakeholder theory (Freeman, 1984; Freeman & Evan, 1990) which explains the importance of the firm's attention to their stakeholders. Although the main core of this theory is corporate social responsibility, this theory is worthy of explaining corporate governance.

Referring to stakeholder theory (Freeman, 1984; Freeman & Evan, 1990), the firm bears the responsibility to the public, but this relationship is also a collective contribution. The firm is a collective contribution by multi-constituencies such as employees, creditors, suppliers, and the community who strive to achieve a common goal, namely the firm's success (Keay, 2010). Different interests among stakeholder groups in this matter will influence and be influenced by firm decisions and activities. The ultimate effect of stakeholders is on the firm's overall performance. Stakeholders, in this case, have the power to threaten the firm in several ways (Boaventura, Bosse, Mascena, & Sarturi, 2020). Stakeholder and regulatory pressures affect the firm's reputation, environmental performance, and financial performance (Baah et al., 2021).

The perception of good corporate governance, in this case, is expected to support the firm's performance, both from the point of view of the firm's market value and financial performance. This logic refers to stakeholder theory (Freeman, 1984; Freeman & Evan, 1990) and several studies related to the positive benefits of good governance for firms (Ali et al., 2018; Ballester et al., 2020; Lehmann, 2019; Li et al., 2021; Peng et al., 2021; Shahid & Abbas, 2019; Uyar et al., 2021). Based on that, this study hypothesizes that a higher perception of stakeholders related to corporate governance tends to increase the firm's performance.

RESEARCH METHODS

This study was conducted on all firms listed on the Indonesia Stock Exchange surveyed by IICG. There are 168 firms that have volunteered to be surveyed by IICG from 2001 to 2019. The sample investigated was 83 firms during the period based on the criteria for firms that have been listed on the Indonesian Stock Exchange (IDX) and have complete data required in this study. Firms not listed on the Stock Exchange are excluded from the sample due to differences in regulations and corporate governance. CGPI data is obtained from IICG, stock price

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data from IDX, and other data is obtained by extracting it from each firm's financial statements.

Unbalanced panel data is used to investigate corporate governance and firm performance. Regression testing uses common effects (CE), fixed effects (FE), and random-effects (RE) models. The best model is determined first using the Chow, Hausman, and Breusch Pagan Lagrangian multiplier tests. Every regression modeling is carried out by using a robust standard error that is robust to the violation of assumptions in the statistical model.

The analysis was carried out systematically, starting with the baseline model and then continuing with the full model. The baseline model refers to a recent study of firm performance (Kuzey et al., 2021) by considering board size, board gender diversity, independent directors, free float, firm size, and leverage in the test. This analysis with several factors was carried out also considering previous studies. An investigation into leverage is necessary because, apart from being beneficial to firm performance (Modigliani & Miller, 1963), leverage can substitute good governance (Anwer et al., 2021; Hayat & Hassan, 2017; Lu & Wang, 2021). Firm size (Sheikh & Alom, 2021) and board size (Eisenberg, Sundgren, & Wells, 1998) have a significant role in the firm. Board size has a role in more careful decision-making (Eisenberg et al., 1998).

Consideration of gender diversity in testing is also necessary because there is no clear pattern of the influence of board size in particular concerning to risk in Asia and Europe (Ballester et al., 2020). Gender diversity contributes to board dynamics and corporate governance reform (Ararat et al., 2021), negative effects on credit risk (Ballester et al., 2020), and better performance (Ararat & Yurtoglu, 2021; Liu et al., 2020; Lu & Wang, 2021; Sarkar & Selarka, 2021). In addition, board features and firm characteristics should also be considered in his study of firm performance. Financial performance depends on a complex configuration of several board features (such as board independence) and firm characteristics (such as size (García-Ramos & Díaz, 2021; Murhadi, 2021) and leverage (García-Ramos & Díaz, 2021; Murhadi, 2021; Nurazi, Zoraya, & Wiardi, 2020). The following equation shows the baseline model of this study:

$$FP_{i,t} = \beta_{0i,t} + \beta_1 Bsize_{i,t} + \beta_2 Divers_{i,t} + \beta_3 Bindep_{i,t} + \beta_4 FF_{i,t} + \beta_5 Fsize_{i,t} + \beta_6 Leverage_{i,t} + \varepsilon_{i,t} \quad \text{.....(1)}$$

where financial performance (FP) is measured by two approaches, namely market-based (Tobin's Q) and firm-based financial performance (EBITM, ROA, Efficiency). The market value used to measure Tobin's Q in each firm is determined precisely based on the date of the announcement of the CGPI score. The announcement date is based on publication in SWA magazine and awarding date. The board of directors (Bsize) is measured based on the number of members of the board of directors, while gender diversity (Divers) and board independence (Bindep) are determined based on the proportion of women and independent directors on the board of directors respectively. Free float (FF) shows the percentage of shares traded. The firm's characteristics were investigated through the size of the firm (FSize) and the proportion of funding (Leverage). The overall definition and measurement of variables are summarized in Table 1.

The main objective of this study is to investigate the relationship between perceptions of corporate governance and firm performance in Indonesia. The full model testing in this study was carried out by considering the governance indicators (CGPI) in the baseline model testing. The test of the influence of governance on firm value considers the previous study (Carvalho, Dal'Bó, & Sampaio, 2021), which shows that firm value cannot predict corporate governance practices. There is

no reverse causation in the analysis of governance practices as a determinant of firm value. The full model in this study is as follows:

$$FP_{i,t} = \beta_{0i,t} + \beta_1 Bsize_{i,t} + \beta_2 Divers_{i,t} + \beta_3 Bindep_{i,t} + \beta_4 FF_{i,t} + \beta_5 Fsize_{i,t} + \beta_6 Leverage_{i,t} + \beta_7 CGPI_{i,t} + \varepsilon_{i,t} \ldots\ldots (2)$$

RESULTS AND DISCUSSION

Result

Descriptive statistical results

Table 2 presents descriptive statistics on the variables in this research model. The results show that firms in Indonesia generally have diverse financial performance, both from market indicators (Tobin's Q) and from an accounting point of view (EBITM, ROA, efficiency). Perception scores related to implementing corporate governance in Indonesia range from 10.01 to 94.94.

The Pearson correlation is presented in Table 3 with a threshold level of significance of 0.05. The test results show a significant correlation of CGPI on firm performance with Tobin's Q, EBITM, and Efficiency indicators, showing corporate governance's role in firm performance. There is a relatively strong correlation also seen in the control variables of this study. The variance inflation factor test was carried out to ensure no multicollinearity problems in the regression model, and the results showed that none of the tests showed problems.

Table 1. Variables and Measurements

Abbreviation	Measurement
Dependent Variables:	
Firm Performance	
Tobin's Q	Firm value: The market value of equity and book value of debt is then divided by total assets.
EBITM	Earnings before interest and tax (EBIT) margin: EBIT divided by revenue.
ROA	Return on assets: EBIT divided by total assets
Efficiency	Asset turnover: Revenue divided by total assets.
Independent Variables:	
CGPI	Corporate governance perception index.
Control Variables:	
Bsize	Board size: Number of directors.
Bdivers	Board gender diversity: Proportion of female directors on the board of directors.
Bindep	Board independence: Proportion of independent directors on the board.
FF	Free float: Percentage of shares traded.
Fsize	Firm size: Natural logarithm of total assets.
Leverage	Leverage: Total liabilities divided by total assets.

Table 2. Descriptive Statistics

	Mean	Std. Dev.	Min	Max
Tobin's Q	1.4410	1.0684	0.1033	9.2286
EBITM	0.3907	0.4592	(1.0838)	4.6693
ROA	0.1118	0.1144	(0.3063)	0.6108
Efficiency	0.5553	0.5427	0.0000	4.5891
CGPI	76.1884	16.7639	10.0100	94.9400
Bsize	6.5931	2.5880	0.0000	15.0000
Bdivers	0.0770	0.1093	0.0000	0.6000
Bindep	0.3575	0.1989	0.0000	1.0000
FF	0.0470	0.7127	0.0000	11.7561
Fsize	30.6876	2.0316	25.6093	34.8872
Leverage	0.6445	0.2665	0.1033	1.9228

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Table 3. Pearson Correlation Results

	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]
[1] Tobin's Q	1										
[2] EBITM	0.0200	1									
[3] ROA	0.4686*	0.1981*	1								
[4] Efficiency	0.2496*	-0.4235*	0.4452*	1							
[5] CGPI	0.1229*	0.2511*	0.0608	-0.2236*	1						
[6] Bsize	-0.0517	0.3282*	-0.096	-0.2314*	0.3277*	1					
[7] Bdivers	-0.1374*	0.1932*	-0.1241*	-0.2095*	0.0863	0.2592*	1				
[8] Bindep	-0.0650	0.1226*	-0.1614*	-0.2956*	0.4058*	0.2424*	0.1167*	1			
[9] FF	-0.0500	-0.0253	-0.0148	-0.0156	-0.0298	-0.0446	0.0685	-0.0209	1		
[10] Fsize	-0.1025	0.4277*	-0.2023*	-0.5233*	0.4974*	0.7099*	0.0993	0.3351*	-0.0772	1	
[11] Leverage	-0.2309*	0.3045*	-0.4234*	-0.4738*	0.0552	0.2800*	0.3205*	0.1287*	0.0025	0.4197*	1

Regression results

This study divides firms into two subsamples, namely financial and non-financial firms. This separation is carried out because financial firms have different business natures and regulations, especially in the Indonesian context. Investigations on non-financial firms are carried out by considering industry effects to control for different characteristics between firms. Tests on all samples were also carried out using year dummies to capture time-related effects.

The initial testing stage was preceded by determining the best model among CE, FE, and RE. This test uses two main indicators, namely the Chow and Hausman tests. A reference is then used to the Breusch and Pangan LM test to confirm the test results.

Eight equations are to be tested, namely four each for the baseline and full model. Tests in equations 1 and 5 examine the effect on firm value with Tobin's Q indicator. Equations 2 and 6 examine the effect on profitability with net income indicators before interest and taxes are considered. Similar to equations 2 and 6, equations 3 and 7 examine the impact on the firm's ability to generate profits but with different indicators, namely net income after tax. Finally, equations 4 and 8 examine their effect on firm efficiency with asset turnover indicators.

The recap of the baseline model test results in this study is summarized in Table 4. Except for the second equation, all equations show that the FE model is appropriate. The test results in equations 1 and 3 show a positive leverage direction coefficient (β= 1.5412 and 0.2072), which are significant at 0.01 and 0.05 levels. These results indicate the role of debt in predicting the value of non-financial firms and the firm's ability to generate profits. The higher the use of debt in the firm's capital structure can increase the firm's profit and value. On the other hand, higher leverage causes the firm's inefficiency (β= -01699). This result confirms the trade-off of using debt in the firm.

Although not seen in all firm performance indicators, FF and Fsize also play an essential role in non-financial firms. The efficiency of these sectors in Indonesia seems to be strongly influenced by the firm's size and public sentiment in the capital market. Furthermore, size and board independence play an essential role, especially in financial firms in Indonesia. The positive and significant direction coefficient at the level of 0.05 proves that larger board size and board independence can support an increase in firm profits, while gender diversification has a limited role in increasing firm value (β= 0.2956, sig. 0.1). However, the larger the board members, the lower the firm's efficiency (β= -0.0029, sig. 0.05).

The association between good corporate governance perception on firm

performance is presented in Table 5. Tests on equations 2 and 3 that test the effect of CGPI on profitability with EBITM and ROA shows direction coefficient 0.0142 and 0.0065, significant at 0.1 and 0.05 levels. These results indicate that better non-financial corporate governance can encourage the firm's financial performance to generate profits. The more stable corporate governance will also cause the firm to be more efficient in utilizing its assets (β= 0.0175, sig. 0.01). These results confirm the importance of corporate governance in boosting the firm's financial performance.

However, the insignificant CGPI indicator on firm value (Tobins' Q) indicates that a good perception of corporate governance has not significantly improved the firm's value. This lack of public trust regarding the perception of governance is also shown in financial firms in Indonesia. The results of the CGPI test in equations 6 to 8, which are all insignificant, indicate that the implementation of good corporate governance in financial firms does not have a significant role in supporting increased profits and efficiency in firms in this sector.

To ensure robust results, retesting is carried out considering the percentile on the CGPI score. The test results summarized in Table 6 show consistency with the test results in Table 5. Non-financial firms with better corporate governance indicators can boost financial performance, with profit indicators (β= 0.4939 and 0.2395) which are significant at the 0.05 and 0.01 levels. The more stable corporate governance can also support the efficient use of non-financial firm assets in generating sales (β= 0.4276, sig. 0.05). However, good corporate governance has not contributed well to increasing firm value for non-financial and financial firms.

Table 4. Regression Results on The Baseline Model

	Non-Financial Firm				Financial Firm			
	Tobin's Q [1]	EBITM [2]	ROA [3]	Efficiency [4]	Tobin's Q [5]	EBITM [6]	ROA [7]	Efficiency [8]
Bsize	0.2242	0.0305	0.0009	-0.0152	0.0101	0.0376**	0.0011	-0.0029**
	(0.1888)	(0.0224)	(0.0130)	(0.0149)	(0.0111)	(0.0174)	(0.0011)	(0.0012)
Bdivers	0.3263	0.1881	0.2229	0.1078	0.2956*	0.5506	0.0444	0.0111
	(2.5109)	(0.1989)	(0.1492)	(0.2483)	(0.1424)	(0.3711)	(0.0260)	(0.0091)
Bindep	0.9445	-0.4162	-0.1830	0.2041	-0.0981	0.5988**	0.0230	-0.0525*
	(0.9830)	(0.3318)	(0.1212)	(0.2647)	(0.2367)	(0.2113)	(0.0144)	(0.0290)
FF	-0.0397	0.0039	-0.0113***	-0.0158**	-0.3456	-3.5414	-0.3733	-0.3064*
	(0.0293)	(0.0059)	(0.0028)	(0.0061)	(2.2653)	(4.3300)	(0.3041)	(0.1722)
Fsize	-0.5668	-0.0037	0.0165	-0.1787***	-0.2364	-0.2791	-0.0325	-0.0226**
	(0.3921)	(0.0331)	(0.0564)	(0.0501)	(0.1536)	(0.4338)	(0.0307)	(0.0090)
Leverage	1.5412***	0.2973	0.2072**	-0.1699**	-0.2861	1.0463	0.0639	0.0533
	(0.5069)	(0.3497)	(0.0837)	(0.0725)	(0.3974)	(1.9955)	(0.1363)	(0.0569)
Constant	15.7732	-0.0158	-0.4864	6.1750***	9.1431*	8.5717	1.0737	0.8585**
	(11.0810)	(0.7074)	(1.6948)	(1.5642)	(5.0739)	(12.9475)	(0.9253)	(0.2937)
Industry Effect	Yes	Yes	Yes	Yes	No	No	No	No
Period Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Chow Test (p-value)	0.0000	0.0050	0.0000	0.0000	0.0000	0.0000	0.0166	0.0000
Hausman Test (p-value)	0.0000	0.9086	0.0000	.	.	.	0.0000	0.0000
Breusch and Pagan LM test (p-value)	1.0000	0.0166	0.0233	0.0000	1.0000	1.0000	1.0000	1.0000
CE/FE/RE model	FE	RE	FE	FE	FE	FE	FE	FE

Note: The number in parentheses after the coefficient indicates the robust standard errors value. The symbols ***, **, and * respectively show significance at 0.01, 0.05, and 0.1.

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Table 5. Regression Results on The Full Model

	Non-Financial Firm				Financial Firm			
	Tobin's Q [1]	EBITM [2]	ROA [3]	Efficiency [4]	Tobin's Q [5]	EBITM [6]	ROA [7]	Efficiency [8]
Bsize	0.2221	0.0016	0.0208**	0.1111***	-0.0055	0.0376**	0.0011	-0.0029**
	(0.1828)	(0.0221)	(0.0097)	(0.0276)	(0.0179)	(0.0168)	(0.0010)	(0.0013)
Bdivers	0.2253	0.3924	0.1070	-1.1517***	-0.3425	0.5042	0.0403	0.0045
	(2.5306)	(0.2556)	(0.1170)	(0.2768)	(0.4743)	(0.3543)	(0.0250)	(0.0099)
Bindep	0.9210	-0.5878*	-0.1884*	-0.3614	-0.4865	0.6291**	0.0258*	-0.0481**
	(0.8996)	(0.3212)	(0.1062)	(0.2736)	(0.3271)	(0.2190)	(0.0142)	(0.0217)
FF	-0.0389	0.0132*	0.0018	-0.0404***	-3.0600	-2.5633	-0.2852	-0.1672
	(0.0289)	(0.0077)	(0.0032)	(0.0086)	(2.0967)	(3.7927)	(0.2586)	(0.1280)
Fsize	-0.5957	-0.0086	-0.0161	-0.1110***	0.0603	-0.2797	-0.0325	-0.0227**
	(0.4842)	(0.0262)	(0.0122)	(0.0280)	(0.0433)	(0.4289)	(0.0302)	(0.0090)
Leverage	1.5472***	0.1385	0.0024	0.1020	0.0975	1.0628	0.0654	0.0557
	(0.5243)	(0.3471)	(0.1190)	(0.1457)	(0.3509)	(2.0259)	(0.1378)	(0.0548)
CGPI	0.0093	0.0142*	0.0065**	0.0175***	-0.0175**	0.0117	0.0011	0.0017
	(0.0447)	(0.0079)	(0.0025)	(0.0063)	(0.0071)	(0.0133)	(0.0009)	(0.0016)
Constant	15.8967	-0.6826	-0.0329	1.8558**	0.6386	7.5086	0.9779	0.7072**
	(11.5252)	(0.6369)	(0.2888)	(0.7650)	(1.0772)	(12.2527)	(0.8579)	(0.2692)
Industry Effect	Yes	Yes	Yes	Yes	No	No	No	No
Period Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Chow Test (p-value)	0.0000	0.0051	0.0000	0.0000	0.0000	0.0000	0.0172	0.0000
Hausman Test (p-value)	0.0000	0.9993	0.2175	0.1662	0.4648	.	.	.
Breusch and Pagan LM test (p-value)	1.0000	0.1512	0.2086	1.0000	1.0000	1.0000	1.0000	1.0000
CE/FE/RE model	FE	CE	CE	CE	CE	FE	FE	FE

Note: The number in parentheses after the coefficient indicates the robust standard errors value. The symbols ***, **, and * respectively show significance at 0.01, 0.05, and 0.1.

Table 6. Robustness Check

	Non-Financial Firm				Financial Firm			
	Tobin's Q [1]	EBITM [2]	ROA [3]	Efficiency [4]	Tobin's Q [5]	EBITM [6]	ROA [7]	Efficiency [8]
Bsize	0.2243	0.0044	0.0216**	0.1204***	-0.0025	0.0347**	0.0009	-0.0031**
	(0.1884)	(0.0206)	(0.0092)	(0.0272)	(0.0179)	(0.0151)	(0.0009)	(0.0014)
Bdivers	0.3702	0.4140	0.1211	-1.1806***	-0.3447	0.4856	0.0390	0.0073
	(2.6730)	(0.2527)	(0.1121)	(0.2836)	(0.4386)	(0.3637)	(0.0257)	(0.0099)
Bindep	0.9599	-0.6645**	-0.2303**	-0.3695	-0.5036	0.5893**	0.0222	-0.0530*
	(0.9150)	(0.3352)	(0.1105)	(0.2776)	(0.3524)	(0.2162)	(0.0136)	(0.0277)
FF	-0.0398	0.0162**	0.0032	-0.0375***	-2.8184	-2.4841	-0.2841	-0.2447*
	(0.0289)	(0.0079)	(0.0032)	(0.0087)	(2.1985)	(3.5864)	(0.2481)	(0.1366)
Fsize	-0.5547	-0.0166	-0.0205	-0.1108***	0.0507	-0.3095	-0.0350	-0.0244**
	(0.4521)	(0.0284)	(0.0128)	(0.0288)	(0.0377)	(0.4363)	(0.0307)	(0.0096)
Leverage	1.5353***	0.1751	0.0222	0.1032	0.0215	1.1513	0.0727	0.0594
	(0.5440)	(0.3529)	(0.1195)	(0.1536)	(0.3265)	(2.0593)	(0.1399)	(0.0603)
P.CGPI	-0.1228	0.4939**	0.2395***	0.4276**	-0.4071*	0.3829	0.0323	0.0224
	(1.2946)	(0.2348)	(0.0794)	(0.1967)	(0.2348)	(0.2855)	(0.0205)	(0.0185)
Constant	15.4814	0.4032	0.4533	2.9570***	0.0345	9.1966	1.1264	0.8950***
	(12.2845)	(0.6493)	(0.2796)	(0.8039)	(1.1378)	(12.8496)	(0.9107)	(0.2983)

Table 6. *Continue …*

	Non-Financial Firm				Financial Firm			
	Tobin's Q [1]	EBITM [2]	ROA [3]	Efficiency [4]	Tobin's Q [5]	EBITM [6]	ROA [7]	Efficiency [8]
Industry Effect	Yes	Yes	Yes	Yes	No	No	No	No
Period Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Chow test (p-value)	0.0000	0.0094	0.0000	0.0000	0.0000	0.0000	0.0150	0.0000
Hausman test (p-value)	0.0000	0.9995	0.0001	0.0000	0.4559	.	.	.
Breusch and Pagan LM test (p-value)	1.0000	0.2952	0.4850	0.0000	1.0000	1.0000	1.0000	1.0000
CE/FE/RE model	FE	CE	FE	FE	CE	FE	FE	FE

Note: The number in parentheses after the coefficient indicates the robust standard errors value. The symbols ***, **, and * respectively show significance at the levels of 0.01, 0.05, and 0.1.

Discussion

The research framework in this study is based on agency and stakeholder theory. The dominant perspective of governance drivers worldwide has been placed on agency theory (Adegbite, 2015). Stakeholder theory is used as a reference by considering the CGPI indicators in this study and the strength of stakeholders in suppressing the firm (Baah et al., 2021; Cadbury, 2002).

The full model test in this study found interesting results in the relationship between corporate governance and firm value. A favorable perception of corporate governance in Indonesia cannot boost the increase in firm value and is even worse for financial firms. This result confirms (Huang et al., 2020) in their study in Australia.

There are at least three explanations for this result. *The first* is related to systemic risk. Financial firms, like banking firms, will have a higher systemic risk when external and internal governance mechanisms complement each other. Evidence of this was found in Europe (Addo, Hussain, & Iqbal, 2021). Similar evidence also appears in the United States: stronger corporate governance increases the risk of bankruptcy in financial institutions (Ali, Hussain, & Iqbal, 2021). *Second*, strict corporate governance practices reduce trust in firm investments (Shahid & Abbas, 2019). *Third*, it takes time for the effects of implementing good corporate governance to become the difference between which firms should be valued and which are not. This will be exacerbated by markets with a thin market category, as is the case in Indonesia, which is strongly influenced by trade transactions by foreign parties who are not always logical (Satrio, 2022).

Although negative associations were found and have been confirmed by the results of previous studies, the results of this test should still be interpreted with caution. Differences in indicators, firm characteristics, and laws of each country, in this case, can illustrate differences in the test results. Careful interpretation of the relationship between corporate governance and firm value in this study also considers CGPI the main indicator of governance used. This indicator that reflects the perception of corporate governance, published by a trusted institution in Indonesia, is not without its weaknesses. Not all firms in Indonesia that voluntarily participate in this assessment program seem to be the main weakness.

This study finds robust evidence of the relationship between perceptions of governance and firm performance in non-financial firms. This result is certainly not surprising. There are at least two exciting interpretations related to CGPI in this study. *First*, the higher the CGPI score, the

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more stable corporate governance is, which in turn will have a role in supporting the firm's performance. *Second*, stakeholders who have a positive perception of the firm will provide support so that the firm's performance will be affected.

I assume these key findings from two perspectives: agency and stakeholder theory. Based on agency theory, this study analyzes the role of corporate governance on firm performance. The principle is that conflicts of interest that inevitably occur between parties in the firm can be managed properly by applying good corporate governance principles. Furthermore, from the stakeholder's point of view, firms that are collective contributions of multi-constituencies need to work together to achieve a common goal, namely the firm's success. The implementation of good governance can guarantee quality management by taking into account the common interests of stakeholders.

CONCLUSION AND RECOMMENDATION

Massive testing has been carried out regarding corporate governance in relation to firm performance. However, the relationship between these two factors still deserves to be investigated by considering the components of governance analysis in previous studies, the complexity, the inconsistency of research results, and the lack of evidence in developing countries. To answer this question, this study: (1) takes a sample of all firms in IDX that IICG has surveyed for almost two decades and (2) investigated based on agency and stakeholder theory. The rationale is that corporate governance is crucial in suppressing agency problems (agency theory) and stakeholders are the dominant parties in the symbiosis of mutualism in the business environment that need serious attention (stakeholder theory).

This study confirms the hypothesis that corporate governance has a relationship with changes in firm performance. Although it fails to prove a positive relationship between the role of good governance and firm value in Indonesia, this research study emphasizes the importance of implementing good corporate governance in improving performance from the financial point of view of non-financial firms. This implies that implementing good corporate governance and stakeholder perceptions of these issues are essential factors in firm performance, especially for firms in developing countries.

This study enriches the body of knowledge on the benefits of implementing corporate governance, especially in developing countries. The main practical implication of this study is that firms must still ensure that the implementation of corporate governance runs steadily without neglecting the interests of stakeholders. Although stakeholders' positive perception of corporate governance negatively affects the stock market performance of financial firms, firms in this industry still need to strengthen the implementation of their governance. Stakeholders may not be interested in firms with poor governance, and of course, this will also impact the firm's financial performance if it is not taken seriously.

Like previous research, this study also has limitations that open up future researchers' analysis opportunities. Although this research has been based on the latest baseline model and governance testing based on stakeholder perceptions, issues are still open to question. Stakeholder perceptions of corporate governance can be investigated by comparing each country's common law and civil law legal systems concerning institutional theory.

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