

The Influence of Corporate Governance and Ownership Structure on Firm Performance

Christian Yonas Sunarko¹, Werner R. Murhadi^{2*}, and Deddy Marciano³

¹ Master of Management Program, University of Surabaya, Surabaya, Indonesia

² Management Department, University of Surabaya, Surabaya, Indonesia

³ Management Department, University of Surabaya, Surabaya, Indonesia

* Corresponding author

Abstract

This study investigates the critical interplay among corporate governance mechanisms, ownership structure, and firm performance in Indonesia's manufacturing sector, a vital component of the post-pandemic emerging-market economy. It addresses a significant literature gap by empirically testing whether internationally prescribed governance norms function as intended in a local environment characterized by concentrated ownership and distinct institutional realities, where the universal applicability of agency theory remains underexplored. Utilizing a quantitative panel data methodology, the analysis is based on a robust final sample of 510 firm-year observations from manufacturing companies listed on the Indonesia Stock Exchange (IDX). The findings reveal a divergence from conventional expectations. While larger board size and higher ownership concentration significantly diminish accounting-based performance (ROA), the presence of independent commissioners and institutional ownership adversely affects market-based valuation (Tobin's Q). Scientifically, this integrated analysis contributes to theory by challenging universal governance prescriptions, highlighting the prevalence of principal-principal conflicts and the potential inefficacy of symbolic governance adoption in specific institutional settings. The research underscores the imperative of developing context-sensitive governance frameworks.

Keywords—board size; company performance; independent board of commissioners; institutional ownership; ownership concentration

I. INTRODUCTION

Corporate governance now greatly shapes business sustainability and stakeholder welfare by guiding how managerial actions align with shareholder interests. Demands for transparency are rising amid Industry 4.0, and shareholder activism is changing, both of which are affecting governance processes. Researchers have widely studied how forms of ownership (managerial, concentrated, and institutional) and governance traits (board size, independence, and audit committee activity) relate to firm performance, measured by market-based indicators (Tobin's Q) and accounting-based metrics (Return on Assets, ROA). Yet, results remain highly contradictory despite numerous studies.

These inconsistencies frequently have their roots in particular institutional, legal, and cultural settings, making them more than just an academic conundrum. Previous research reveals striking differences: institutional owners can act as active monitors or passive traders; independent boards can provide constructive monitoring or merely serve as symbolic compliance; and board size may enhance or undermine effectiveness. Indonesian-specific research tells a unique story about how local practices, such as the choice of independent commissioners or the actions of concentrated owners, can produce outcomes that deviate from global trends. These dynamics are particularly evident in Indonesia's manufacturing sector, which is the backbone of the country's economy. However, little is known about the combined impact of ownership and governance systems

in the nation's distinct post-pandemic environment. This indicates a substantial research gap, as the pandemic affected market valuations, challenged governance resilience, and disrupted operations, potentially rendering earlier findings less applicable.

Therefore, the main research question of this study is: How do particular ownership structures and corporate governance systems affect the financial and market performance of Indonesian manufacturing companies in the post-COVID-19 era?

There are three main ways that this study differs from earlier research. First, by focusing solely on Indonesia's manufacturing industry in the post-pandemic era, this approach provides contextual specificity and timeliness. Second, instead of addressing ownership and governance separately, it uses an Integrated Analytical Framework: specifically, it analyzes the interactive effects between types of ownership (managerial, concentrated, and institutional) and governance mechanisms (board size, the existence of an independent board, and audit committee meeting frequency) on business success. Lastly, by directly addressing the contradictory findings found in Indonesian research and empirically examining these connections within a cohesive, modern paradigm, it seeks to resolve contextual discrepancies.

The research will make important contributions. It will test and may improve stewardship and agency theories in an emerging-market, non-Western context. The study will examine the interaction of ownership and governance, showing whether specific ownership arrangements reduce or worsen agency issues in Indonesia. This will deepen theoretical understanding by including institutional variation. The research will also provide empirical evidence on the 'one-size-fits-all' challenge of corporate governance, examining whether universal recommendations work in Indonesia's context. The study's ultimate goal is to bridge the gap between local operational realities and global governance principles by offering policymakers, investors, and company boards practical insights. This will offer a strong basis for creating corporate governance structures that are more efficient and specifically designed to improve business performance in Indonesia's manufacturing industry.

II. LITERATURE REVIEW

The contested terrain of corporate governance

Corporate governance is the framework that directs and controls businesses, encompassing rules and laws that govern management decisions to enhance performance (Claessens and Yurtoglu, 2013). Its mechanisms involve external (market, culture) and internal (employees, suppliers) stakeholders. A key component is managing disputes between principals and agents to lower agency costs (Fama, 1970). Following high-profile corporate scandals, governance reforms have gained urgency globally (Mallin, 2016).

Agency theory provides the theoretical basis, holding that conflicts arise from the separation of ownership and control, resulting in agency costs that can lower firm value (Jensen & Meckling, 1976). Corporate governance serves as a mediator between these conflicting interests (Bashir et al., 2020).

However, debate persists on how governance models affect performance. Existing literature is fragmented, with contradictory findings anchored in specific institutional contexts. This study fills three gaps: first, it examines how ownership and governance mechanisms interact; second, it focuses on Indonesia's manufacturing sector in the post-COVID-19 era; third, it addresses contradictory findings across Indonesian studies, offering originality by testing universal governance recommendations in Indonesia's specific institutional setting.

Theoretical framework and hypothesis development

According to agency theory, good corporate governance is a set of regulations and controls designed to balance the interests of principals and agents. This balancing act lowers agency costs and enhances company performance. Each hypothesis in this study tests whether specific ownership structures or governance methods strengthen or weaken this alignment. Together, these hypotheses form a model. The model investigates whether internal governance structures and ownership patterns achieve the main goal of governance: aligning interests, lowering agency costs, and improving firm performance as measured by Tobin's Q and ROA.

The effect of board of commissioners size on firm performance

The effectiveness of supervision, a fundamental governance element, is highlighted in Hypothesis 1 (Board Size). According to agency theory, boards are meant to monitor management on behalf of shareholders. However, the board's dynamics and structure affect how well this monitoring function operates.

Larger boards of commissioners are less effective at decision-making, according to research on Singaporean and Malaysian businesses (Mak & Kusnadi, 2005). Increasing the board's size may lead to coordination, communication, and decision-making issues (Chen, 2010; Murhadi et al., 2024). It gets harder to schedule meetings, lead insightful conversations, and reach an agreement as boards grow. The phenomenon known as "process loss," in which group productivity declines despite greater membership, occurs in larger groups because each member has fewer opportunities for meaningful contribution, leading to less detailed discussion of complex subjects.

Large boards often create bureaucracy. Decision-making is slow, making it hard for businesses to react quickly to opportunities or market changes. This lack of agility is a major competitive disadvantage. Social loafing arises: members feel less accountable, assuming others will scrutinize management recommendations. Dispersed accountability weakens effort and critical oversight. As a result, the board's supervisory capacity declines, potentially worsening agency issues. Research shows that in Indonesia, large boards with insufficient capacity lead to poorer management supervision (Azaria et al., 2021).

H1: Larger boards are thought to harm company performance.

The effect of an independent board of commissioners on firm performance

The process of impartial oversight and accountability is highlighted in Hypothesis 2 (Independent Board). According to agency theory, the main cause of agency costs is the dispute between management and shareholders. Theoretically, independent commissioners—those not connected to the company's management or controlling shareholders—are in a position to provide impartial oversight, ensuring management decisions are in the best interests of all shareholders.

The independent board of commissioners significantly improves performance, according to Itan & Chelencia (2022) and Kyere & Ausloos (2021). By preventing potential conflicts and ensuring management accountability, independent directors serve as a balancing mechanism that, in theory, should lead to better decision-making. Their presence on the board is said to improve accountability and transparency, fostering public and investor trust and enhancing the company's standing and appeal as an investment.

It is important to remember that research in this field is controversial. Some Indonesian research yields conflicting results, suggesting that independent boards may sometimes serve as symbolic compliance rather than effective oversight, despite global patterns that often support the benefits of independence. By empirically examining this link within Indonesia's particular institutional environment, this study directly addresses this issue.

H2: Independent boards of commissioners are suspected to have a positive effect on company performance.

The effect of audit committee meeting frequency on firm performance

The process of ongoing monitoring and control is highlighted in Hypothesis 3 (Audit Committee Meeting Frequency). According to agency theory, management opportunism is enabled by the knowledge asymmetry between managers and shareholders. One way to lessen this disparity is through increased scrutiny, such as frequent audit committee meetings.

According to research, audit committee meetings have a beneficial effect on performance (Yameen et al., 2019; Itan & Chelencia, 2022). Because frequent meetings reduce anomalies in financial statement recording, their frequency has a substantial, favorable impact on the organization's performance. There are more opportunities to examine financial data, examine accounting procedures, and monitor internal controls when there are more meetings. This continuous monitoring helps ensure the integrity of financial information available to shareholders.

Regular meetings also enable continuous assessment of the organization's internal control systems and risk management strategies, which are essential for identifying and managing major financial risk exposures. When problems emerge that call for more action, they can be resolved quickly by following established meeting procedures. The need for strong internal checks and balances to ensure management accountability and safeguard shareholder interests is operationalized through the frequency of audit committee meetings.

H3: It is believed that the frequency of audit committee meetings improves business performance.

The effect of managerial ownership on firm performance

The focus of Hypothesis 4 (Managerial Ownership) is on using incentives to align managers' interests with those of shareholders. By suggesting that managers' personal financial motivations converge with those of shareholders when they are also owners, this hypothesis directly answers the main agency problem. The convergence-of-interest hypothesis of Jensen & Meckling (1976) states that ownership reduces the tendency for managerial opportunism by aligning managerial and shareholder interests.

The claim that share ownership motivates managers to act in shareholders' best interests is supported by research showing that management ownership significantly improves ROA (Itan & Chelencia, 2022). Because they now suffer the direct consequences of such actions, managers with ownership stakes are less inclined to participate in wasteful spending, such as extravagant benefits or unsuccessful "empire-building" acquisitions. Instead of prioritizing job security or personal pay, managers, as owners, have direct financial incentives to work hard and make judgments that enhance shareholder value. This is consistent with the findings of Fama & Jensen (1983) and Morck et al. (1988) that managers with low ownership levels typically pursue strategies focused solely on their own interests rather than maximizing shareholder value.

H4: It is believed that managerial ownership improves business performance.

The effect of ownership concentration on firm performance

The possibility of principal-principal disputes is highlighted in Hypothesis 5 (Ownership Concentration). Ownership concentration creates a new agency problem: disputes between majority and minority shareholders, whereas agency theory has always concentrated on manager-shareholder conflicts. This theory highlights a potential governance weakness in which dominant shareholders could abuse their power for personal gain at the expense of minority shareholders and the business.

According to research, ownership concentration significantly lowers Tobin's Q and ROA (Queiri et al., 2021). This occurs because the majority owners' propensity to maximize wealth through linked activities, such as internal acquisitions that serve their own interests rather than those of the company (Murhadi & Wijaya, 2023). As a result, majority owners may take actions that harm minority shareholders and ultimately affect the organization's success.

"Shareholder self-serving mergers and acquisitions," in which big shareholders pursue purchases that benefit them individually while failing to improve—or even actively harming—the company's overall performance, can be enabled by high ownership concentration. The lack of convergence of interests between majority and minority owners results in a unique agency dilemma (Vintilă & Gherghina, 2014). This idea highlights the need for governance mechanisms to prevent the expropriation of minority rights and aligns with the broader objective of good governance theory: to defend the interests of all stakeholders, not just those of dominant owners.

H5: Ownership concentration is considered to negatively impact business performance.

The effect of institutional ownership on firm performance

Hypothesis 6 (Institutional Ownership) emphasizes the importance of outside oversight and knowledge. Knowledgeable institutional investors serve as proactive external observers, enhancing governance quality and transparency. Their presence compels businesses to adopt better practices, using market discipline to complement internal governance measures and attract experienced capital.

According to Alkurdi et al. (2021) and Queiri et al. (2021), institutional ownership significantly improves ROA and Tobin's Q. For firms with low transparency, institutional investors act as active monitors. It is important to recognize, however, that institutional investors are diverse. Research from China shows that stable institutional investors with long-term horizons have more positive effects on corporate governance. These investors enhance the quality of environmental disclosure compared to unstable, short-term investors (Li, 2022).

Institutional investors can help close governance gaps. Their positive monitoring effect is more noticeable when corporate governance is weak (Abedin et al., 2022). However, government influence may make institutional ownership less effective at improving financial transparency in state-owned businesses. In Indonesia, this is important, where state ownership remains significant.

H6: Institutional ownership is hypothesized to positively affect business performance.

In summary, these hypotheses form a testable model from agency theory. Each hypothesis shows how corporate governance may influence firm performance:

- H1 (Board Size) tests if board structure helps or hinders effective oversight.
- H2 (Independent Board) and H3 (Audit Committee Meetings) test if monitoring and accountability reduce information gaps and hold management responsible.
- H4 (Managerial Ownership) tests if shared ownership aligns interests and lowers agency costs.
- H5 (Ownership Concentration) tests if majority shareholders create governance problems by extracting private benefits.
- H6 (Institutional Ownership) tests if outside owners add market discipline and governance expertise.

This study examines these mechanisms together in Indonesia's manufacturing sector after the pandemic. It tests agency theory in an emerging market. The study addresses whether universal governance prescriptions succeed or fail in specific environments, offering theoretical nuance and practical guidance for more effective governance frameworks in Indonesia.

III. RESEARCH METHODOLOGY

The variables in this study consist of the dependent variable, namely firm performance, measured through ROA and Tobin's Q. Meanwhile, the independent variables that are indicators of GCG and ownership structure are Board Size (BS), Independent Board (IB), frequency of audit committee meetings (FM), managerial ownership (MO), ownership concentration (OC), and institutional ownership (IO). Meanwhile, firm size (FS) and leverage (LEV) are used as control variables. Board size is the total number of commissioners serving on the boards of manufacturing sector companies. The Independent Board of Commissioners is the percentage of independent commissioners to the total number of commissioners on the boards of manufacturing sector companies. Audit committee meeting frequency refers to the total number of audit committees holding meetings in manufacturing sector companies. Managerial ownership is the percentage of managers who hold shares relative to the total outstanding common shares in manufacturing companies. Ownership concentration refers to the percentage of shares held by the top 5 shareholders in manufacturing companies. Institutional ownership refers to the percentage of shares held by institutions, calculated by dividing the total outstanding shares of manufacturing sector companies by the total outstanding shares. Leverage is measured by dividing a company's total debt by its total assets. The calculation is performed using the log of a company's total assets. Firm size is calculated using the log of a company's total assets.

This study uses a sample of all manufacturing companies listed on the Indonesian Stock Exchange. The data used in this research are panel data, so they must follow the requirements for panel data testing. Testing is conducted to determine whether the model to be interpreted is a standard, fixed, or random model.

Common Effect Model

$$FP_{it} = \beta_0 + \beta_1.BS_{it} + \beta_2.IB_{it} + \beta_3.FM_{it} + \beta_4.MO_{it} + \beta_5.OC_{it} + \beta_6.IO_{it} + \beta_7.FS_{it} + \beta_8.LEV_{it} + \mu_{it} \quad (1)$$

Fixed Effect Model

$$FP_{it} = \beta_{0it} + \beta_1 \cdot BS_{it} + \beta_2 \cdot IB_{it} + \beta_3 \cdot FM_{it} + \beta_4 \cdot MO_{it} + \beta_5 \cdot OC_{it} + \beta_6 \cdot IO_{it} + \beta_7 \cdot FS_{it} + \beta_8 \cdot LEV_{it} + \alpha_1 \cdot D_1 + \mu_{it} \quad (2)$$

Random Effect Model

$$FP_{it} = \beta_{0it} + \beta_1 \cdot BS_{it} + \beta_2 \cdot IB_{it} + \beta_3 \cdot FM_{it} + \beta_4 \cdot MO_{it} + \beta_5 \cdot OC_{it} + \beta_6 \cdot IO_{it} + \beta_7 \cdot FS_{it} + \beta_8 \cdot LEV_{it} + \mu_{it} + \varepsilon_{it} \quad (3)$$

To determine which model to interpret, the Chow and Hausman tests were conducted.

IV. RESULT / FINDING

The final sample used in this study consisted of 510 years of observations. Table 1 shows the correlation of variables for companies in Indonesia.

Table 1. Correlation between variables

	Board Size	Ind. Board	Freq. Meeting	Managerial Ownership	Ownership Con.	Institutional Ownership	Firm Size	Lev
Board Size	1.000	-0.048	0.086	-0.143	-0.152	0.143	0.610	-0.059
Independent Board	-0.048	1.000	0.035	-0.056	0.034	0.070	0.136	0.008
Freq. Meeting	0.086	0.035	1.000	-0.067	-0.036	0.094	0.234	0.068
Managerial Ownership	-0.143	-0.056	-0.067	1.000	-0.143	-0.610	-0.096	-0.013
Ownership Concentration	-0.152	0.034	-0.036	-0.143	1.000	0.162	-0.191	-0.044
Institutional Ownership	0.143	0.070	0.094	-0.610	0.162	1.000	0.216	0.047
Firm Size	0.610	0.136	0.234	-0.096	-0.191	0.216	1.000	-0.048
Leverage	-0.059	0.008	0.068	-0.013	-0.044	0.047	-0.048	1.000

According to Table 1, there is no multicollinearity among the variables for companies in Indonesia.

Table 2. Chow and Hausman result

Chow Test for RoA	Statistics	df	Probability
Cross-section F	6.999	(101.4)	0.000
Cross-section Chi-square	519.092	101	0.000
Chow Test for Tobins Q			
Cross-section F	18.463	(101.4)	0.000
Cross-section Chi-square	884.209	101	0.000
Hausmann for RoA	6.157	8	0.630
Hausmann for Tobins Q	32.742	8	0.000

To determine the best model, the Chow and Hausman tests were conducted, as presented in Table 2. From Table 2, it can be concluded that the research models selected after testing are the random effect model (ROA) and the fixed effect model (Tobin's Q).

Table 3. Regression results

Variable	ROA		Tobins Q	
	Coef. Regression	t-stat	Coef. Regression	t-stat
Constant	-0,585667	-2,686038	21,79695	3,071589
Board Size	-0,017662	-3,706361***	0,067076	1,035418
Independent Board	-0,028061	-0,516747	-1,148076	-1,744137*
Freq. Meeting	0,001537	1,246025	0,015342	0,705257
Managerial Ownership	-0,042482	-0,548517	-1,955673	-0,620531
Ownership Concentration	-0,141056	-2,166471**	-0,518253	-0,355258
Institutional Ownership	0,008118	0,227351	-0,982490	-1,920365*
Firm Size	0,030096	4,056622***	-0,665804	-2,821163**
Leverage	-0,094611	-5,453941***	0,866430	3,853888***
R-Squared	0,107480		0,844842	
Adj. R. Squared	0,093228		0,802561	
F-Stat	0,000000***		0,000000***	

Note: * significant at 10%; ** significant at 5%; *** significant at 1%

This study investigated how specific corporate governance mechanisms and ownership structures collectively influence the financial and market performance of Indonesian manufacturing companies after COVID-19. The research addressed six hypotheses, examining the effects of board size, independent board composition, audit committee meeting frequency, managerial ownership, ownership concentration, and institutional ownership on firm performance. Performance was measured using Return on Assets (ROA) and Tobin's Q, accounting- and market-based metrics, respectively. The findings show a nuanced, context-dependent relationship between governance mechanisms and performance, with results varying across performance measures and compared with both global and local studies. This discussion interprets each finding in detail and presents the conclusions drawn for each hypothesis.

V. DISCUSSION

The effect of board of commissioners size on firm performance

The finding that board size has a significant negative impact on ROA (H1 supported for accounting performance) aligns with the expectation that larger boards create inefficiencies in oversight. This result is consistent with agency theory. Effective monitoring requires cohesive and coordinated decision-making bodies. In Malaysian and Singaporean contexts (Mak & Kusnadi, 2005), and in later research (Palaniappan, 2017; Wijaya et al., 2020; Murhadi et al., 2024), larger boards face more communication breakdowns and coordination difficulties. Delays in decision-making can compromise their supervisory capacity. The "process loss" phenomenon is relevant in the Indonesian manufacturing context. Here, group output can decline despite more members. As boards become too large, members may engage in "social loafing," expecting others to provide management scrutiny. This dilutes oversight and increases agency problems (Azaria et al., 2021). The finding reinforces the efficiency-of-oversight concept that underpins H1. Smaller boards allow for smoother information flows, more effective coordination, and timely decisions that improve operational profitability.

However, the finding that board size does not affect Tobin's Q (H1 not supported for market performance) presents an interesting contrast. This divergence between accounting and market measures suggests that while operational inefficiencies from large boards manifest in profitability metrics, market investors may perceive compensating benefits. Larger boards may offer enhanced networking capabilities, broader external relationships, and access to diverse expertise, which investors value for long-term strategic positioning (Wijaya et al., 2020; Kyere & Ausloos, 2021). This interpretation aligns with resource dependence theory, which posits that boards serve a boundary-spanning role connecting the firm with critical external resources. The insignificant market impact may also reflect investor recognition that larger boards provide minimal marginal oversight benefits beyond a certain threshold, with monitoring capacity not translating directly into market-valued performance enhancements (Queiri et al., 2021; Wijaya et al., 2023). Conclusion for H1: Board size

negatively affects operational efficiency (ROA) but does not influence market valuation (Tobin's Q), suggesting that investors balance governance inefficiencies against potential networking benefits.

The effect of an independent board of commissioners on firm performance

The finding that independent board composition does not affect ROA (H2 not supported for accounting performance) challenges the conventional agency theory prediction. Agency theory holds that independent directors enhance monitoring and improve operational performance. This result resonates with critical perspectives that question whether independence alone ensures effectiveness. As Van Pelt (2013) and Queiri et al. (2021) argue, independent commissioners may be too busy with multiple directorships. They may also lack sufficient access to company-specific information about business operations and market positioning. Consequently, their contributions to company development remain limited. The control function of independent boards cannot be effectively executed when directors lack the time, information, or industry expertise needed for meaningful oversight.

Furthermore, this finding reflects potential "symbolic compliance" in the Indonesian context. Companies may appoint independent commissioners solely to meet regulatory minimum requirements, rather than to leverage their substantive expertise. When independence is a box-ticking exercise rather than a genuine governance enhancement, the expected mitigation of agency conflicts fails to materialize. As a result, operational performance remains unaffected. This interpretation aligns with studies questioning the efficacy of board independence in emerging markets. Such markets may have institutional voids and concentrated ownership structures that undermine director autonomy (Gunawan et al. 2023). More strikingly, independent board composition has a significant negative impact on Tobin's Q (H2 contradicts the market performance hypothesis). This finding directly engages with the conflicting results observed in prior Indonesian studies and provides empirical resolution to the tension between positive global trends and negative local findings. The negative market valuation suggests that investors perceive independent commissioners as lacking the experience, industry knowledge, and strategic insight to meaningfully contribute to company goals (Gunawan et al., 2023; Queiri et al., 2021; Azaria et al., 2021; Khoe et al., 2023). When independent commissioners cannot effectively supervise management, their presence may signal governance weakness rather than strength. As Azaria et al. (2021) note, a large independent board becomes merely a burden for the company if its presence is not accompanied by tangible benefits. Conclusion for H2: Independent boards do not enhance operational performance and, in fact, diminish market valuation, suggesting that, in the Indonesian manufacturing context, independence without expertise and information access represents a governance cost rather than a benefit. This finding underscores the "one-size-fits-all" dilemma: universal prescriptions for board independence may fail in specific institutional environments where structural conditions undermine director effectiveness. effectiveness.

The effect of audit committee meeting frequency on firm performance

The finding that audit committee meeting frequency has no significant effect on either ROA or Tobin's Q (H3 not supported) challenges assumptions about the relationship between monitoring intensity and governance outcomes. This result aligns with research questioning whether meeting frequency adequately captures audit committee effectiveness (Rahmat et al., 2009; Kyere & Ausloos, 2021; Boshnak, 2021). The critical insight is that meeting minimum standards cannot guarantee the quality of oversight or the substantive contribution of committee deliberations. Frequent meetings may indicate reactive problem-solving rather than proactive governance, or reflect underlying financial reporting complexities that require excessive attention.

Moreover, a high frequency of audit committee meetings can paradoxically be associated with decreased company performance (Kyere & Ausloos, 2021; Itan & Chelencia, 2022; Altin, 2024). This counterintuitive relationship may arise because frequent meetings signal underlying control weaknesses or financial reporting problems that require intensive committee attention. Alternatively, excessive meeting demands may overburden committee members, reducing the time available for other value-adding activities or leading to meeting fatigue that diminishes deliberation quality. Conclusion for H3: Meeting frequency alone is an insufficient proxy for audit committee effectiveness. The quality of committee composition, member expertise, information access, and deliberation processes likely matter more than the quantity of meetings. This finding reinforces the need for governance research to move beyond structural proxies toward examining substantive governance processes.

The effect of managerial ownership on firm performance

The finding that managerial ownership does not affect either ROA or Tobin's Q (H4 not supported) challenges the convergence-of-interest hypothesis at the heart of agency theory. According to Jensen & Meckling (1976), managerial ownership should align managers' and shareholders' interests, thereby reducing agency costs and improving performance. However, this study's results suggest that the incentive-alignment effect may be contingent on the magnitude of ownership. As Mandaci & Gumus (2010) and Rasyid & Linda (2021) observe, when managerial ownership percentages remain small, managers holding shares receive only limited benefits from the policies and risks they undertake as managers.

Since managers receive only limited benefits as shareholders, their interests as shareholders take a back seat to their interests as managers. With little personal financial stake in the company's performance, the disciplinary effect of ownership is lost. Managers may be less active in policymaking that benefits the majority shareholders. Their primary interests—such as job security, compensation, and perks—may diverge from those of minor shareholders. In addition, managers may reduce their ownership when stock prices rise. This profit-taking behavior keeps them from maintaining long-term alignment with shareholders.

Conclusion for H4: Managerial ownership fails to influence performance when ownership levels remain below a threshold that creates meaningful alignment of interests. This finding qualifies agency theory predictions by highlighting the importance of ownership magnitude rather than mere ownership presence. In the Indonesian manufacturing context, where managerial ownership is typically low, this mechanism appears ineffective as a governance tool.

The effect of ownership concentration on firm performance

Ownership concentration significantly reduces ROA (H5 supported for accounting performance), supporting the principal-principal agency problem. This result confirms the theory: majority shareholders may use their control for private benefits at the cost of minority shareholders and firm performance (Queiri et al., 2021; Al-Farooque et al., 2020; Yasser & Mamun, 2015). Concentrated ownership harms operational performance in several ways.

First, the majority shareholders influence the selection of supervisory and executive board members, appointing individuals aligned with their preferences rather than those possessing optimal qualifications. This appointment power compromises board independence and creates opportunities for executive control that serve the interests of the majority rather than corporate welfare. Second, the majority shareholders may manipulate company performance reporting to facilitate transactions benefiting themselves at the minority's expense. Third, they can increase their shareholding through dilutive share issuances and acquire minority shareholders with compensation not commensurate with market conditions and company performance—effectively expropriating minority wealth.

However, the finding that ownership concentration does not significantly impact Tobin's Q (H5 not supported for market performance) introduces nuance. This divergence between accounting and market measures likely reflects the complexity of ownership structures. As Vintilă & Gherghina (2014) suggest, concentration can be dispersed among shareholders with differing interests, making convergence difficult. When no dominant shareholder or cohesive block controls, harmful expropriation mechanisms may be limited, reducing negative market valuation effects. In summary, ownership concentration hampers operational efficiency through principal-principal agency conflicts, but market valuation remains stable when ownership is fragmented among divergent shareholders. This finding highlights that ownership configuration, not just concentration, matters.

The effect of institutional ownership on firm performance

The finding that institutional ownership has an insignificant effect on ROA (H6 not supported for accounting performance) challenges assumptions about institutional investors' monitoring role. As Elyasiani & Jia (2010), Ogabo et al. (2021), and Murhadi & Wijaya (2023) document, institutions may play passive roles, acting primarily as traders rather than active monitors of company activities. Rather than intervening in corporate governance to enhance long-term performance, institutions may hold or sell shares in line with their portfolio

objectives, seeking to construct high-performing portfolios through selection and trading rather than engagement.

According to Utomo et al. (2019), institutional investors often forgo the benefits of management monitoring in pursuit of long-term performance. They instead seek short-term benefits from the information they obtain. This short-term orientation undermines any potential governance advantages of institutional ownership. Trading strategies replace stewardship activities. Institutions may have information advantages that enable profitable trading. They avoid the costs that come with active monitoring and engagement.

More concerning, institutional ownership has a significant negative impact on Tobin's Q (H6 contradicts market performance). This finding reveals the darker side of institutional involvement, particularly when institutions function as majority shareholders. As Wijaya et al. (2020) note, institutions can play dual roles, potentially using their power to extract private benefits. Worse, institutions may use their control to profit by acquiring group companies with internal funds, thereby expropriating the interests of majority shareholders at the expense of minority shareholders. This tunneling behavior—transferring resources from the firm to controlling shareholders—undermines minority shareholder confidence and depresses market valuation.

Conclusion for H6: Institutional ownership fails to enhance operational performance due to passive, trading-oriented behavior and negatively affects market valuation when institutions use control rights for expropriation rather than value creation. This finding highlights that institutional investors are not homogeneous: their governance impact depends critically on investment horizons, engagement strategies, and the extent to which they prioritize short-term trading gains versus long-term stewardship. In the Indonesian manufacturing context, where institutional investors may prioritize portfolio objectives over governance engagement, their presence can represent a governance liability rather than an asset.

Control variables and overall research integration

The control variable findings further enrich the understanding of governance-performance relationships. Leverage's significant negative effect on ROA but positive effect on Tobin's Q illustrates the dual nature of debt: while high leverage imposes financial burdens that constrain operational performance (Queiri et al., 2021; Wijaya & Herlambang, 2021), it also signals creditor confidence that investors interpret positively through signaling theory (Azaria et al., 2021). Similarly, firm size has a positive effect on ROA but a negative effect on Tobin's Q, revealing the tension between operational scale economies and investor risk perceptions. Larger companies benefit from market share and production efficiencies (Azaria et al., 2021) while facing greater risks that deter investors seeking smaller-company growth opportunities (Wijaya & Herlambang, 2021).

Returning to the primary research question—how specific corporate governance mechanisms and ownership structures collectively influence financial and market performance—this study reaches several integrated conclusions. First, governance mechanisms affect accounting-based and market-based performance differently, underscoring the importance of multi-dimensional performance measurement. Second, the effectiveness of governance mechanisms is contingent upon institutional context, with findings diverging meaningfully from global patterns due to Indonesia's unique governance environment. Third, ownership structures can both mitigate and exacerbate agency problems, with concentrated and institutional ownership demonstrating potential for both expropriation and monitoring.

These findings collectively show that universal governance prescriptions require contextual adaptation. The one-size-fits-all approach fails when institutional conditions—such as information asymmetry for independent directors, threshold effects for managerial ownership, and expropriation opportunities for concentrated owners—undermine theoretically predicted relationships. For Indonesian manufacturing companies in the post-pandemic era, board structures, ownership configurations, and monitoring mechanisms should be calibrated to the specific institutional environment, rather than relying on global best practices.

VI. CONCLUSION AND RECOMMENDATION

The current study aims to explore the impact of corporate governance practices and ownership structure on the financial and market performance of Indonesian manufacturing firms in the post-COVID-19 environment. The results partially support the proposed hypotheses, accepting and rejecting them. The results show that board

size and ownership concentration have a significant negative impact on Return on Assets, suggesting that the inefficiency of the board, due to its large size, and the principal-principal problem, due to high ownership concentration, affect the firm's profitability. On the other hand, independent boards of commissioners and institutional ownership negatively affect Tobin's Q, suggesting that investors view these practices as corporate governance failures rather than successes. Meanwhile, the number of audit committee meetings and management ownership have no significant impact on the two performance measures, contradicting assumptions about the efficacy of structural governance. These results, in part, address the theoretical inconsistencies raised in the above literature review, indicating that, in post-pandemic Indonesia, governance structures that theoretically improve performance can, in fact, have negative consequences. Moreover, the significance of the control variables, which showed that leverage had negative effects on ROA but positive effects on Tobin's Q, while size had positive effects on ROA but negative effects on Tobin's Q, reinforces the idea that firm-specific financial and operational characteristics remain important performance determinants.

The research significantly contributes to corporate governance theory, especially agency theory, by questioning its universal assumptions and setting its boundaries in emerging markets. The negative influence of independent boards on market valuation and their lack of influence on profitability contrast with agency theory predictions. This resolves the theoretical contradiction and shows that independence without expertise and information access is a cost, not a benefit, in Indonesia's unique corporate context. The negative impact of ownership concentration on profitability extends the principal-principal conflict in agency theory, suggesting the main conflict in emerging markets is between controlling and minority shareholders, not managers and shareholders. From a methodological perspective, the simultaneous investigation of accounting-based and market-based performance measures reveals that governance's impact on these measures varies; accordingly, future research should incorporate multiple performance measures to reflect the full scope of corporate governance's impact. From a practical perspective, the results of this study indicate the need for strategic optimization rather than mere compliance, with firms needing to focus on the importance of expertise and engagement of independent commissioners rather than quota fulfillment, regulators needing to go beyond box-ticking regulations and adopt policies that foster true competence and engagement, and investors needing to be wary of high concentration of ownership and symbolic independence of boards as potential signals of underlying value destruction in Indonesian manufacturing firms.

The limitations of this study suggest further research opportunities. First, the focus on manufacturing organizations limits its relevance to sectors such as services, finance, and technology, where governance may differ due to different levels of tangibility and capital. Second, although the study examines key variables of organizational governance, it excludes other important variables such as gender diversity on boards, CEO duality, foreign ownership, board expertise, and digital governance. Future research should include these variables. Third, using structural proxies for governance mechanisms instead of process quality limits understanding of how these mechanisms actually work. In the future, qualitative case studies should be used to clarify the mechanisms behind quantitative findings. Finally, this study focused on one country and examined only the post-pandemic period. This narrow focus limits understanding of the broader economic context and the cycles that influence governance and performance. Future research should use longitudinal methods to study these effects across ASEAN's diverse legal environments.

ACKNOWLEDGEMENT

The authors would like to thank the editor and anonymous reviewers for their comments, which improved the quality of this article.

REFERENCES

- Abedin, S. H., Haque, H., Shahjahan, T., & Kabir, M. N. (2022). Institutional Ownership and Firm Performance: Evidence from an Emerging Economy. *Journal of Risk and Financial Management*, 15(12), 567. <https://doi.org/10.3390/jrfm15120567>
- Alkurdi, A., Hamad, A., Thneibat, H., & Elmarzouky, M. (2021). Ownership structure's effect on financial performance: An empirical analysis of Jordanian listed firms. *Cogent Business & Management*, 8(1), 1939930. <https://doi.org/10.1080/23311975.2021.1939930>

- Altin, M. (2024). Audit committee characteristics and firm performance: a cross-country meta-analysis. *Management Decision*. <https://doi.org/10.1108/MD-04-2023-0511>
- Azaria, D., Murhadi, W. R., & Sutejo, B. S. (2021). Board diversity and financial performance in Indonesia. *Journal of Entrepreneurship & Business (JEB)*, 2(2), 86–95. <https://doi.org/10.24123/jeb.v2i2.4537>
- Bashir, Z., Bhatti, G. A., Javed, A. (2020). Corporate governance and capital structure as driving force for financial performance: evidence from non-financial listed companies in Pakistan. *Business Review*, 15(1), 108-133. <https://doi.org/10.54784/1990-6587.1013>
- Boshnak, H. A. (2021). Corporate governance mechanisms and firm performance in Saudi Arabia. *International Journal of Financial Research*, 12(3), 446–465. <https://doi.org/10.5430/IJFR.V12N3P446>.
- Chen, Y. (2010). *Agency issues and the effects of corporate governance mechanisms on agency costs in Chinese listed companies*. Cardiff University (United Kingdom).
- Claessens, S., & Yurtoglu, B. B. (2013). Corporate governance in emerging markets: A survey. *Emerging Markets Review*, 15, 1–33. <https://doi.org/10.1016/j.ememar.2012.03.002>
- Elyasiani, E., & Jia, J. (2010). Distribution of institutional ownership and corporate firm performance. *Journal of Banking & Finance*, 34(3), 606–620. <https://doi.org/10.1016/j.jbankfin.2009.08.018>
- Fama, E. F. (1970). Efficient capital markets: A review of theory and empirical work. *The Journal of Finance*, 25(2), 383–417. <https://doi.org/10.7208/9780226426983-007> .
- Fama, E. F., & Jensen, M. C. (1983). Agency problems and residual claims. *The Journal of Law and Economics*, 26(2), 327–349. <https://dx.doi.org/10.2139/ssrn.94032>
- Gunawan, G., Wijaya, L. I., & Ernawati, E. (2023). The Effect of Corporate Governance on Firm Performance in the Manufacturing Sector in Indonesia and Singapore. *20th International Symposium on Management (INSYMA 2023)*, 21–26. https://doi.org/10.2991/978-94-6463-244-6_5.
- Itan, I., & Chelencia, V. (2022). The Mediating Role of Capital Structure in Corporate Governance on Firm Performance of Family Companies. *J. Ecodemica J. Ekon. Manaj. Dan Bisnis*, 6, 306–318. <https://doi.org/10.31294/eco.v6i2.13027>
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360. <https://dx.doi.org/10.4159/9780674274051-006>
- Khoe, J. P., Sutejo, B. S., & Murhadi, W. R. (2023). Corporate Governance of Firm Performance in the Non-Financial Sector for the 2017–2021 Period. *Proceedings of the 20th International Symposium on Management (INSYMA 2023)*, 20, 93–98. https://doi.org/10.2991/978-94-6463-244-6_17
- Kyere, M., & Ausloos, M. (2021). Corporate governance and firms financial performance in the United Kingdom. *International Journal of Finance & Economics*, 26(2), 1871–1885. <https://doi.org/10.1002/ijfe.1883>
- Li, Z., Zhang, T., Zhao, X., & Zhu, Y. (2022). Monitoring or Colluding? Institutional Investors' Heterogeneity and Environmental Information Disclosure Behavior. *Frontiers in psychology*, 13, 911901. <https://doi.org/10.3389/fpsyg.2022.911901>
- Mak, Y. T., & Kusnadi, Y. (2005). Size really matters: Further evidence on the negative relationship between board size and firm value. *Pacific-Basin Finance Journal*, 13(3), 301–318. <https://dx.doi.org/10.1016/j.pacfin.2004.09.002>
- Mallin, C. A. (Ed.). (2016). *Handbook on corporate governance in financial institutions*. Edward Elgar Publishing.
- Mandaci, P., & Gumus, G. (2010). Ownership concentration, managerial ownership and firm performance: Evidence from Turkey. *South East European Journal of Economics and Business*, 5(1), 57–66. <https://doi.org/10.2478/v10033-010-0005-4>

- Morck, R., Shleifer, A., & Vishny, R. W. (1988). Management ownership and market valuation: An empirical analysis. *Journal of Financial Economics*, 20, 293–315. [https://dx.doi.org/10.1016/0304-405X\(88\)90048-7](https://dx.doi.org/10.1016/0304-405X(88)90048-7)
- Murhadi, W. R., Handoyo, A., & Ernawati, E. (2024). The Good Corporate Governance: Case Study in Indonesia and Philippines. *JBTI: Jurnal Bisnis: Teori Dan Implementasi*, 15(1), 1–15. <https://doi.org/10.18196/jbti.v15i1.19871>
- Murhadi, W. R., & Wijaya, L. I. (2023). The Effect of Corporate Governance and Ownership Structure on Company Performance. *Proceedings of 2023 MAG Scholar Conference in Business, Marketing & Tourism*, 107 - 110. <https://magscholar2022.wixsite.com/magscholarconference>
- Ogabo, B., Ogar, G., & Nuipoko, T. (2021). Ownership structure and firm performance: the role of managerial and institutional ownership-evidence from the UK. *American Journal of Industrial and Business Management*, 11(7), 859–886. <https://doi.org/10.4236/ajibm.2021.117053>
- Palaniappan, G. (2017). Determinants of corporate financial performance relating to board characteristics of corporate governance in Indian manufacturing industry: An empirical study. *European Journal of Management and Business Economics*, 26(1), 67–85. <https://doi.org/10.1108/EJMBE-07-2017-005>
- Queiri, A., Madbouly, A., Reyad, S., & Dwaikat, N. (2021). Corporate governance, ownership structure and firms' financial performance: insights from Muscat securities market (MSM30). *Journal of Financial Reporting and Accounting*, 19(4), 640–665. <https://doi.org/10.1108/JFRA-05-2020-0130>
- Rahmat, M., Mohd Iskandar, T., & Mohd Saleh, N. (2009). Audit committee characteristics in financially distressed and non-distressed companies. *Managerial Auditing Journal*, 24(7), 624–638. <https://doi.org/10.1108/02686900910975350>
- Rasyid, R., & Linda, M. R. (2019). Ownership structure, capital structure and firm performance: A case in Indonesia. *Third Padang International Conference On Economics Education, Economics, Business and Management, Accounting and Entrepreneurship (PICEEBA 2019)*, 61–71. <https://doi.org/10.2991/piceeba-19.2019.84>
- Utomo, L. O., Murhadi, W. R., & Ernawati, E. (2019). Pengaruh ownership structure terhadap firm financial performance pada perusahaan sektor non-keuangan yang terdaftar di Bursa Efek Indonesia periode 2012-2016. *CALYPTRA*, 8(1), 1101–1110.
- Van Pelt, T. (2013). The effect of board characteristics on dividend policy. *Unpublished Working Paper*, 1–62.
- Vintilă, G., & Gherghina, Ș. C. (2014). The impact of ownership concentration on firm value. Empirical study of the Bucharest Stock Exchange listed companies. *Procedia Economics and Finance*, 15, 271–279. [https://doi.org/10.1016/S2212-5671\(14\)00500-0](https://doi.org/10.1016/S2212-5671(14)00500-0)
- Wijaya, L. I., & Herlambang, A. (2021). The Effects of Corporate Governance on the Performance of Manufacturing Sector Companies on the Indonesia and Philippines Stock Exchanges. *Proceedings of the 18th International Symposium on Management (INSYMA 2021)*, 39-44. <https://doi.org/10.2991/aebmr.k.210628.008>
- Wijaya, L. I., Welson, W., & Murhadi, W. R. (2020). Ownership structure, good corporate governance, and firm performance in the Indonesian capital market. *Proceedings of the 17th International Symposium on Management (INSYMA 2020)*, 256-260. <https://doi.org/10.2991/aebmr.k.200127.052>
- Wijaya, L. I., Yupita, D. A., Marciano, D., Zunairoh, Z., & Silalahi, M. A. R. (2023). The Influence of Corporate Governance on Firm Performance in Indonesia and Taiwan Stock Exchanges. *Proceedings of the 20th International Symposium on Management (INSYMA 2023)*, 39–45. https://doi.org/10.2991/978-94-6463-244-6_5
- Yameen, M., Farhan, N. H., & Tabash, M. I. (2019). The impact of corporate governance practices on firm's performance: An empirical evidence from Indian tourism sector. *Journal of International Studies*, 12(1). <https://doi.org/10.14254/2071-8330.2019/12-1/14>
- Yasser, Q. R., & Mamun, A. Al. (2015). Effects of ownership concentration on firm performance: Pakistani evidence. *Journal of Asia Business Studies*, 9(2), 162–176. <https://doi.org/10.1108/JABS-07-2014-0047>