International Journal of Innovation, Creativity and Change. www.ijicc.net
Volume 14, Issue 7, 2020

Corporate Governance Mechanisms and Financial Performance: New Evidence from Indonesian Family Firm

D Agus Harjito[a], Rashidah Abdul Rahman[b], Jamaliah Said[c] [a]Management Department, Universitas Islam Indonesia, Yogyakarta, [b]Faculty of Economics and Administration, King Abdul Aziz University, Jeddah, Saudi Arabia, [c]Accounting Research Institute, Universiti Teknologi Mara, Malaysia, Email: [a]agus_h@uii.ac.id, [b]rabdulwahid@kau.edu.sa, [c]jamaliah533@uitm.edu.my

This study aims to examine the effect of corporate governance mechanisms to the financial performance. The independent variables used in this research are the commissioner, size of Independent Commissioner, size of Board of Directors, Audit Committee, and Institutional Ownership. While Cash Flow Return on Asset (ROA-CF) and Tobin's Q as the dependent variables. The samples used in this research are 86 family firms and they are processed using multiple linear regression. Results of this research indicate that the audit committee and institutional ownership have positive significant effect to both the ROA-CF and Tobin's Q performance. The Board of Directors and Independent Commissioners have positive signification effect to ROA-CF but is not significant to Tobin's Q. While the Board of Directors have positive significant to Tobin's Q performance but has negative significant to ROA-CF.

Key words: *Corporate governance, Tobin's Q, cash flow return on assets, financial performance.*

Introduction

Large companies who have made a separation between ownership and management make the appointment to the professionals to manage the company often face problems because there is no conflict or divergence of interests between owners and managers. Managers have an obligation to the welfare of the owners of the company or the shareholders, but the other managers also have an interest in the welfare of themselves. This problem is known the agency conflict that raises the agency cost. Conflict between managers as agents with company owners occurs because managers do not work one hundred percent for the interests of the owner. Jensen and Meckling (1976) state that the agency conflicts caused partly by the decision-making fund-raising activities and decision-making on how the funds are invested. A system or a concept that can control the conflict as well as easing concerns over the owner of the company which is under the control of management.

Corporate governance aims to increase the accountability of a company as well as prevent major disasters from occurring. The failure of Enron a large organization is due to the weakness of corporate governance. Corporate governance concept itself consists of the main principles namely, transparency, accountability, responsibility, independency, and fairness. Transparency can be interpreted as a disclosure. Accountability is clarity of function, structure and accountability system so that the management company's corporate organs are effective. Responsibility and accountability of companies is are compliance in the management of the company towards healthy corporate principles as well as applicable legislation. Independency is a condition in which the company is managed in a professional manner without any conflict of interest or not in accordance with the legislation in force and the principles of healthy corporate. Fairness (equality and fairness) that is fair and equal treatment in fulfilling the rights of stakeholders arising under the agreement and the legislation in force (OECD, 2004).

The purpose of performance appraisal is to motivate employees to achieve organizational goals and adhere to standards of behavior established by the company in order to produce results as expected. In measuring the financial performance of the company, it takes some financial ratios, such as Tobin's Q ratio. According to Singhal and Parkash (2016), using Tobin's Q as the measurement of company performance it can be seen the market value of the company, reflecting the company's future profits. The ratio considered best in providing information to measure the market value. Tobin's Q is explaining the phenomenon of the company's activities, such as the relationship between ownership and performance management with the company's profits. Other financial ratios is the Cash Flow Return on Asset (ROA-CF) as one measurement of company performance which demonstrates the ability of the company's assets to generate operating profit. ROA-CF more focus on performance measurement and the Vendor is currently tied with the stock (Cornettt *et. al*, 2006).

Several previous studies conducted by them have provedn that with the increasing practice of corporate governance in the company, it can improve the performance of the company. There is a high degree of correlation between the indicators corporate governance mechanisms with the performance and market valuation. With the high level of corporate governance can make a good performance (Handa, 2018). However, results differ addressed by Beiner *et al* (2003) found a negative relationship between the proportion of independent Board of Commissioners and Corporate Performance. Where the Board of Commissioners as well as an indicator of the independent commisioners corporate governance mechanism. So it is interesting to examine the impact of corporate governance practices can affect the company's financial performance, especially in Indonesia as many companies are still made up of managerial family company controlled by a particular family or the characteristic of ownership still concentrated in nature.

The family company has several prominent and unique characteristics that distinguish it from non-family companies in the view of external stakeholders (Nekhili *et al*, 2017; Panwar *et al*., 2013). Family companies differ from non-family companies in the nature of relationships with external stakeholders (Ward and Arnoff, 2010). A family company is a company that if a member of the board of directors owns or controls a minimum of 5% of the votes in the company.

Literature Review and Hypothesis Development

Corporate Governance

The concept of corporate governance is not something new. According to Solomon (2007), this concept has existed and evolved since the concept was introduced in the UK corporations around the middle of the XIX century. The first theory says the corporation as the parent theory of various theories concerning the corporation is equity theory. Subsequently, new theories such as theory of agency (agency theory), the theory of transaction costs (transaction cost theory), and the theory of stakeholders (Ward and Arnoff, 2010) emerged. Jensen and Meckling (1976) describe an agency relationship as a relationship between the owners of the company (the principal) to the agent with the delegation of decision-making authority to the agent. While Berle and Means (1932) argue that the agency theory, the shares are fully owned by the owners (shareholders) and managers (agents) are required in order to maximize shareholder returns. Donnelley (2004)) also reveal that corporate governance is needed to reduce the agency problem between the owner and the manager, and to align the interests of owners of companies with corporate managers.

Corporate governance is a concept that emphasizes the importance of the right of shareholders to obtain information that is accurate, correct and timely. It also shows the company's obligation to disclose all financial information company performance accurately, timely and transparent (Tjager *et al*, 2003). Shleifer and Vishny (1997) stated Ccorporate governance relates to the manner or mechanism to convince the owners of capital in obtaining the return on investment that has been planted. Iskander et al (1999) stated that corporate governance refers to the framework of rules and regulations that enable stakeholders to make the company to maximize the value and return, as well as a means of ensuring the board of directors to act in the best interests of investors.

In Indonesia, understanding and structure of Ccorporate governance has been stated in Article 1 of the Decree of the Minister of State 177 / M-MBU / 2002 dated July 31, 2002 on the application of good corporate governance.The good corporate governance is a process and structure used by the organs of state enterprises to increase the success of business and corporate accountability in order to create shareholder value in the long term by taking into account stakeholder, based on the laws and ethical values as well as obliging state enterprises with assets above 1 trillion and go public, required to form an audit committee and company secretary.

Corporate Governance Mechanisms

Board of Commissioners

Large companies that have implemented corporate governance have practiced a framework that is classified into two models namely one tier board (unitary board model) or a two-tier board models. Indonesia itself adopted a two-tier system of board, since the company established under the laws of Indonesian companies should have two boards, the regulatory body that performs the role of monitoring and management agencies that perform executive roles. The supervisory board clearly separated functions of independent board and executive board (the manager). The supervisory structure of two-tier board has a clear separation between the Board of Commissioners (BoC) and Board of Management. The management board responsible for the company's management is responsible for overseeing the board of directors. The system is to improve and the finances necessary for the purposes of corporate governance. In connection with the existence of two types of structures supervision and management of the company, namely the two-tier boards and unitary board, this principle is generally applicable both to companies that separate the functions of the Board of Commissioners as a supervisory (non-executive directors) and the board as a directors of the company (executive directors), as well as the company that brings together between supervisors and executives of companies in the council (OECD, 2004).

Independent Board of Commissioners

Companies that are already doing corporate governance is required to have an independent Board of Commissioners (IBOC). Its members do not come from the Board of Commissioners, the board of directors or shareholders is strong. Because independent BOC serves as a divider between the interests of shareholders with management. The minimum proportion of independent BOC is 20% of the membership of the Board of Commissioners, who are appointed by the General Meeting of Shareholders. Independent Commissioner Board should not come from shareholders, not part of the board members or members of the Board of Commissioners

Board of Directors

Since Indonesia adopts a two-tier board, the separation of roles between the shareholders as a principal with the manager as agent, lead manager will ultimately have the right to control significant to allocate funds for investors, also explained that the board is the center of control of the company, and the board this is primarily responsible for the health and long-term success of the company (Merendino and Melville, 2019). Beiner et al (2003) suggest that most companies choose the optimal number of boards of directors in the law in Indonesia, an Indonesian company was not given a limit on how much it many should the number of board of directors. Regulations only mention that for a company publicly held corporation that issued the debt acknowledgment shall have at least two members of the director. In general, the role of the board of directors in the corporation is as a bridge between shareholders as the owner of the company and management as the party that will carry out the company's activities. From the governance point of view, the main function of the board of directors is to ensure that the corporation has been carried out by the management in an appropriate manner so that it can achieve the stated corporate objectives (Lukviarman, 2016).

Audit Committee

The audit committee of a company responsible for the company's financial reporting. With the audit committee of management will minimize the possibility of earning management (earnings management) by way of supervision over financial reporting and oversight of the external audit. The audit committee is a committee established by the Board of Commissioners to perform the task of monitoring the company's management. Inan addition, the audit committee are considered as a liaison between the shareholders and the Board of Commissioners with management in order to overcome the problem of the possibility of control or agency. In general there are at least three committees, namely, the audit committee, the remuneration committee and the nominating committee (Green and Homroy, 2018; Lukviarman, 2016). Among the elements of corporate governance, the oversight responsibilities of the board of directors and the audit committee have been emphasized by policy makers, regulators, and researchers (Merendino and Melville, 2019). This kind of emphasis is based on the idea that independent, informed and proactive boards, audit committees are key in protecting the interests of investors. The audit committee focuses on independent auditors and internal financial performance management (Green and Homroy, 2018).

Previous studies state that there is an influence between the size of the audit committee and the accounting and market performance of the company (Khan, Tanveer, and Malik, 2017). According to Bansal and Sharma (2016) board size plays an important role in improving company performance during Tobin's q Q as a measure of market performance or company value. The audit committee has little or no influence on the company's financial performance. This is because the market reaction is not influenced by the audit committee and the market does not value the attributes of the audit committee (Kallamu and Saat, 2015). Therefore, because the position of the audit committee is the most important subcommittee and the fact that previous research has shown that not all audit committees are effective, this study examines the impact of the attributes of the audit committee on company performance.

Institutional Ownership

Institutional ownership is the proportion of share ownership by financial institutions such as insurance companies, mutual fund companies, pension funds companies, investment companies, and banks that have mutual fund business units (mutual funds). Institutional ownership has an important meaning in monitoring management because the existence of ownership by the institution will encourage an increase in more optimal supervision. Such monitoring will certainly guarantee prosperity for shareholders. Institutional investors are considered capable of using earnings information for the period to predict future earnings compared to non-institutional investors. Institutional ownership can increase the value of the company, by utilizing information, and can overcome agency conflicts because with increasing institutional ownership, all company activities will be supervised by the institution or institution (Amin and Hamdan, 2018). According to Kallamu and Saat (2015), institutional shareholders with large share ownership have incentives to monitor corporate decision making. The existence of institutional investors are considered capable of being mechanically effective monitoring in every decision taken by the manager. Institutional ownership has significant importance in monitoring the management due to the existence of institutional ownership will encourage more optimal supervision so that high level of institutional ownership will lead to greater oversight efforts by the institutional investors

Financial Performance

The purpose of the appraisal is to motivate employees to achieve organizational goals and adhere to standards of behavior set by the company before, this is done in order to result in actions and expected results (Kallamu and Saat, 2015). To ensure the achievement of performance goals, managers should designing the size of the desired results. In measuring the financial performance of companies required financial ratios. Najib (2010) stated that there are two groups that consider important financial ratios. The first group are the managers who use financial ratios to measure and track the financial performance over time. The second group is the company's analysts who need the exact size to be able to provide advice and assessment of the client.

A financial performance assessment is one way that can be done by the management in order to meet its obligations to funders and also to achieve the goals set by the company. Profitability analysis can be used to measure the performance of companies that profit motives (El-Chaarani, 2014). The ratio of Return on Assets (ROA) provides information on how efficiently the bank in conducting its business activities. The main objective of the company is to increase the prosperity of the owners or shareholders through increasing the value of the company. Company value is debt market value coupled with equity market value. Company value is a price that is ready to be paid by prospective buyers (investors) when the company is sold (Rose, 2016).

Tobin's Q

Tobin's Q as a measure of company performance on the grounds that the use of Tobin's Q, the company's market value can be known. Market value of the company reflects the company's future profits as current earnings. Market value is influenced by the content of the information asymmetry, the frequency or volume of insider trading and liquidity, while the income flow is not affected by these three things because profits flow in conventional financial statements did not disclose the variables that affect market value (Singhal and Parkash, 2016). So, that the results can be reported returns that are different from those obtained investors. The greater the value of Tobin's Q ratio indicates that the company has good growth prospects and have intingable assets (intangible assets) increases. This is because the company has a high market value will cause more investors are willing to sacrifice to have the company. Companies with a value of Tobin's Q is high brand image usually has a very strong company, while companies that have a value lower Tobin's Q generally are in a highly competitive industry or industries that shrink. Tobin’s q ratio has been extensively used as a proxy for investment opportunities in the finance literature (Singhal and Parkash, 2016).

Cash Flow Return on Assets (ROA-CF)

Cash Flow Return on Assets, usually the abbreviation **ROA (CF)** is used. It is a term that indicates what part of the revenue the enterprise generates from the capital bound in the property. The indicator is derived from the Return on Assets (ROA) indicator. Instead of profit the numerator appoints CF. Calculation is **CF from operations / Assets**. The indicator is one of the indicators based on cash flow. **Use of the Cash Flow Return on Assets in business practice** is used by the CFO in the financial analysis to **analyze ratios**. Cash Flow indicators try to catch the warning signs of potential credit problems and assess the internal financial potential of the enterprise (Siregar and Rahayu, 2017).

Cash Flow Return on Assets (ROA-CF) is one of the Company's performance measurement that indicates the ability of the company's assets to generate operating profit. ROA-CF more focus on performance measurement and ROA-CF vendor currently not tied to stock. Studies that tested the earnings management, corporate governance and true financial performance ever undertaken by Cornett et al (2006) and found the influence of good corporate governance mechanism to decrease discretionary accruals as a measure of earnings management and positively associated with ROA-CF. These results are interpreted as an indication that ROA-CF is a positive function of the indicators of good corporate governance mechanism. Good Corporate governance mechanisms can reduce the urge managers perform earnings management, so ROA-CF reported reflect the real situation.

Hypothesis Development

Board of Commissioners and Financial Performance

Hidayat and Utama (2015) found in their research that the proportion of board family commissioners and family directors have positive impact only to Tobin's Q value, while the proportion of independent directors can increase both Tobin's Q and ROA. While Yu (2006) found that BOC has a negative effect on earnings management that was measured using the Modified Jones models to measure discretionary accruals. Meanwhile, Gabrielsen et al (2012) who examined the relationship between managerial ownership and the information content of earnings and discretionary accruals. Using data from the Danish capital market found a positive relationship but not significant between managerial ownership and discretionary accrual and a negative relationship between managerial ownership as the information contained earnings. With the level of monitoring which affect the company's performance, because the management will act in accordance with the wishes of the stakeholders and expected to improve the effectiveness and efficiency of the company.

The implementation of good corporate governance is reflected in the company's financial statements, where all the policies and decisions of financial companies will be reflected in the financial statements. Based on the concept of finance, the financial statements are needed to measure the results of business and development from time to time and to know the extent to which the company achieved the goal. Analysis of financial performance so far should be done when the company will take a very important and coordinated decision in all involved and responsible in the company (Arora and Sharma, 2016). Thus, the following research hypotheses are as follows:

H1: Board of commissioners have a positive effect on financial performance as measured by Tobins'Q.
H2: Board of commissioners have a positive effect on financial performance as measured by ROA-CF

Board of Independent Commissioners and Financial Performance

Fama and Jensen (1983) state that the nonexecutive directors (independent directors) can act as a mediator in disputes among internal managers and supervise the policies of the board of directors as well as advising the board of directors. While independent commissioner was the best position to carry out the monitoring functions in order to create a company that good corporate governance. According to Haniffa and Cooke (2002), when the greater number of independent directors or dominant it can provide power to the BOC to pressure management to improve the quality of corporate disclosure.

The existence of independent commissioner has been arranged the Jakarta Stock Exchange through the regulations. It is argued that the companies listed in the stock exchange must have an independent commissioner proportionally equal to the number of shares owned by minority shareholders. In these regulations, the requirements of a minimum number of independent commissioner is decided to hold very important role in the company, especially in the implementation of good corporate governance. The independent BOC variables reveal the number of commissioners who come from outside of the company compared with the total existing commissioners.

The independent board of commissioner used in this research is formulated as follows:

IBOC = (Number of independent board of commissioners)/ (Total board of commissioners), where IBOC is the independent board of commissioners proportion. Independent commissioners are members of the Board of Commissioners who are outside the issuer or public company and fulfill requirements. Independent Commissioners must have non-affiliated terms with any party, especially: a) No affiliation with the company's principal shareholders. b) Does not have an association with members of the company's board of directors. c) Does not have any affiliation with other members of the board of commissioners.

Independent Commissioner can act as a mediator in disputes between internal managers and supervise the policies of the board of directors as well as advising the board of directors (El-Chaarani, 2014). The Independent commissioner is a member of the Board of the Commissioners who do not have the financial, management, share ownership and / or related to members of the Board of the Commissioners, Board of the Directors and / or the controlling shareholders or other relationship which can affect its ability to act independently. Based on agency theory, the presence of independent directors is a mechanism that is expected to conduct surveillance and control of conflicts of interest between the controlling shareholders and minority shareholders resulting inefficiencies in the management of the company. The decisions taken by the management to be relevant to the purpose were to maximize the performance of the company. Based on the description, the hypotheses are:

H3: Size of board of independent commissioners has a positive effect on financial performance as measured by Tobins'Q.
H4: Size of board of independent commissioners has a positive effect on financial performance as measured by ROA-CF.

Board of Directors and Financial Performance

Bansal dan Sharma (2016) suggest that the Board of directors is an economic institutions that help solve the agency problem, which is inherent in public companies. The board of directors in charge of running the company's management. According Hermalin and Weisbach (2003), the number of board of directors is usually related to the implications of the policy on restrictions on the number of directors. Hatem (2014) concluded that the board of directors are part of the corporate governance mechanism. This was reinforced by the opinions of Zhou et al. (2018), which confirms that the board of directors is an important governance mechanism, because the board can ensure that managers follow the interests of the council. They also suggested that the board of directors that a large number of less effective than the council of a small size. Other studies such as Beiner, *et al.* (2003) found a negative relationship between the number of board of directors with the Company's performance as measured by Tobin's Q. The company with a large number of boards of directors will make the value of Tobin's Q becomes lower. Besides, the company with corporate governance systems that are not going well are also characterized by a large number of board of directors. Based on these descriptions hypotheses for this study are:

H5: The board of directors have a negative effect on financial performance as measured by Tobins'Q.
H6: The board of directors have a negative effect on financial performance as measured by ROA-CF.

Audit Committee and Financial Performance

Research on the audit committees of which is done by Xie *et al*. (2003) which examines the effectiveness of audit committees in reducing earnings management conducted by the management. Results obtained from this research is the conclusion that the audit committee that comes from outside is able to protect the interests of shareholders of earnings management actions undertaken by management. Effect on accrual managed demonstrated by increasingly frequent audit committee met and influence is shown by the significant negative coefficient. Audit committees have an important role and strategic in terms of maintaining the credibility of the financial reporting process as well as the creation of a monitoring system to maintain adequate company as well as the implementation of good corporate governance (Choi, Han, and Lee, 2014). With the passage of the audit committee function effectively, the control of the company will be better, so the agency conflicts can be minimized. Some previous studies state that there is an influence between the size of the audit committee and the accounting and market performance of the company (Al-Matari, Al-Swidi, and Fadzil, 2014; Khan, Tanveer, and Malik, 2017).

According to Bansal and Sharma (2016) board size plays an important role in improving company performance during Tobin's q as a measure of market performance or company value. In Zhou *et al*. (2018), they explain that the audit committee has little or no influence on the company's financial performance. This is because the market reaction is not influenced by the audit committee and the market does not value the attributes of the audit committee (Kallamu and Saat, 2015). Therefore, the position of the audit committee is the most important subcommittee and the fact that previous research has shown that not all audit committees are effective, this study examines the impact of the attributes of the audit committee on company performance. Thus, the hypotheses for this study are:

H7: The audit committee has a positive effect on financial performance as measured by Tobins' Q.
H8: The audit committee has a positive effect on financial performance as measured by ROA-CF.

Institutional Ownership on Corporate Financial Performance

According to Jensen and Meckling (1976) managerial ownership and institutional ownership are two main corporate governance mechanisms that help control the agency problem. The existence of an institutional investor can show a strong corporate governance mechanisms that can be used to monitor the company's management. While Mohammed (2018) found that the ownership concentration and owner's identity which includes block holders, family ownership, institutional ownership and managerial ownership have relationship with financial performance proxied by Tobin's Q and Return on Asset (ROA). The influence of institutional investors on corporate management can be crucial and can be used to align the interests of management with shareholders. Based on the research results Shleifer and Vishny (1997) show evidence that large shareholders have a mix of roles, so that there is a relationship between Tobin's Q and the fraction of the company's shares owned by the insider. So, the research hypotheses are:

H9: Institutional ownership has a positive effect on financial performance as measured by Tobins'Q.
H10: Institutional ownership has a positive effect on financial performance as measured by ROA-CF.

Research Methodology

Data

The research framework of this study is built in the agency theory perspective. The agency theory posits that a company needs to satisfy owners as shareholders. The corporate governance mechanism factors are seen as the management's efforts to clarify the stakeholders' demands and to gain better firm performance. This study attempts to investigate the effect of corporate governance mechanisms towards firm performance in Indonesia Stock Exchange. The financial performance indicators measured by both accounting-based and market-based. Therefore, the dependent variable – firm performance – is assessed using two criteria that are profitability (return on asset, ROA) and firm value (Tobin's Q). These models are with with prior researches such as Atan, Alam, Said, and Zamri (2018).

ROA is selected as the accounting-based measurement in this study, as it is one of the more popular methods to measure financial and the single most important indicator for investors to measure firm's management performance. It measures net income earned by a firm as a percentage of total asset. In terms of market-based measurements, Tobin's Q is used in this study. Tobin's Q is the measurement of firm value, defined as the ratio of the market value of a firm over the value of firm's physical asset (Singhal and Parkash, 2016). It indicates how the market values a company's existing assets. This means higher valued companies will have higher Tobin's Q value compared to lower valued companies.

The samples are family owned company listed on the Indonesia Stock Exchange in 2013 to 2017. The company which is a family owned company in which data on institutional ownership, BOC, independent commissioners, board of directors and audit committee are available.

Data Analysis

The data in this study was analysed using statistical technics. The calculation process variables of research conducting data analysis, each variable is: 1) Calculating the board of directors with a ratio scale the size of the board of directors, measured by the number of members of the board of directors within the company. 2) BOC, however, is there to supervise management policies. They also advise the BOD who, following the Company Law in Indonesia, are mostly responsible for the company's management and fluent operations. BOC is measured by the number of members of the BOC within the company. 3) Calculating the proportion of independent BOC, namely the percentage based on the total number of members of the BOC both from internal companies and external. 4) Companies Measurement of the audit committee, the Audit Committee is measured by using the number of audit committee members in the company. 5) Calculating the percentage of institutional ownership, institutional ownership = the number of shares owned by institutional investors: the total number of shares outstanding x 100%.

In this study, multiple regression analysis is performed is a statistical method commonly used to examine the relationship between a dependent variable and several independent variables. *Normality test.* To improve the results of the data normality test, the researchers used the Kolmogorov-Smirnov test. In the K-S test, a data is said to be normal if the asymptotic value is significantly more than 0.05, then the data is normally distributed and vice versa, if the p-value is smaller than 0.05, then the data is not normally distributed (Ghozali, 2016). Based on the calculation found that the normality test has a value of 0.130 which means that its natural value (0.130>0.05) and distributed samples have been considered normal.

Multicollinearity Test. The purpose of this test is to test whether the regression model found the correlation between independent variables. If there is a correlation or occurs, it is called a problem of multicollinearity (multicolor). By looking at the tolerance value and variance inflation factor (VIF). Common values used to indicate the presence of multicollinearity are tolerance values <0.10 or equal to VIF values > 10 (Ghozali, 2016). From the multicollinearity test calculation found that the VIF value is not more than 10 and the tolerance value is not less than 0.1. Then it can be stated that multiple linear regression models are free from multicolinerity, so the test results are said to be reliable.

Autocorrelation Test. Autocorrelation test aims to test whether in the linear regression model there is a correlation between confounding errors in the period t-1 (previously). In the Durbin Watson distribution list table with various values α Decision making on whether or not there is autocorrelation is as follows: DW <dl = there is a positive autocorrelation value, dl <DW value <du = cannot be concluded, du <DW value <4-du = no autocorrelation, 4-du <DW <4-dl = cannot be concluded, DW> 4-dl = there is negative autocorrelation (Ghozali, 2016). Based on the autocorrelation test with Durbin-Watson found that the number is 1,835. Determining the value of α with du table = 1.8096 so the results of the value of Dw (1.835)> du (1.8096) and it can be concluded that this multiple linear regression model is free from autocorrelation.

Heteroscedasticity Test. Heteroscedasticity test aims to test whether in the regression model there is a variance inequality from residual one observation to another observation, one way to detect there whether or not heteroscedasticity is to test the park, and see the scatterplot graph between the dependent predictive value of ZPRED and the SRESID residual. If the significance probability value is above the 5 percent confidence level and on the scatterplot graph, the points spread above and below the zero on the Y axis, it can be concluded that theregression model does not contain heteroscedasticity (Ghozali, 2016). This analysis has tested the existence of heteroscedasticity.This results did not show heteroscedasticity.

To use this model, this model has been tested for the existence of classic assumptions such as autocorrelation, heteroscedasticity and multicollinearity. These assumptions did not appear in the data analysis in this study. Therefore, ordinary least square analysis for this data pool can be used. The model used is:

$$TOBIN = \alpha + \beta_1 BOC + \beta_2 IBOC + \beta_3 BOD + \beta_4 AUD + \beta_5 INST + e$$
$$ROA\text{-}CF = \alpha + \beta_1 BOC + \beta_2 IBOC + \beta_3 BOD + \beta_4 AUD + \beta_5 INST + e$$

where:
TOBIN = Financial performance measured by Tobin's Q
ROA-CF = Financial performance measured by cash flow return on assets
BOC = Board of commissioners
IBOC = Size of independent board of commissioners
BOD = The board of directors
AUDIT = Audit Committee
INST = Institutional ownership
α = constant, β = regression coefficient, e = error term

Results and Discussion

This study utilised family companies that were listed on the Indonesia Stock Exchange the period 2013 to 2017, this study obtained from various sources. During this period, this study obtained the population number of 227 family companies. Base on 227 companies, there are 141 samples of aborted because the company's data doses not meet the criteria, accessrories lack of data, and the data outliers occur which could bring bias, and the final sample are 86 companies.

Descriptive Statistics

Table 1 shows the characteristics of the samples used in this study include: number of amples (N), average sample (mean), maximum value, minimum value and standard deviation (σ) for each variable.

Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA-CF (ratio)	430	-.3	1.3	.280	.2442
TOBIN'S Q (ratio)	430	.3	7.5	1.476	1.0599
BOC (person)	430	2	9	4.12	1.500
IBOC (ratio)	430	20.0	75.0	41.453	11.2118
BOD (person)	430	2	10	4.87	1.992
AUD (person)	430	2	5	3.01	.394
INST (ratio)	430	.0	98.6	63.417	22.1502

Based on Table 1 it is known that the amount of data used is 430 samples (86 samples for 5 years). For the dependent variable which consists of variable Cash Flow Return on Asset (ROA-CF) has an average value (mean) of 0.280, a maximum value of 1.30, a minimum value of -0.30 and a standard deviation of 0.2442 means standard ROA-CF variable error is 24 percent of the average. The Tobin's Q variable has a mean value of 1.476, a maximum value of 7.50, a minimum value of 0.30 and a standard deviation of 1.0599, which means that Tobin's Q's standard error variable is 106 percent of the average. Table 1 also shows the value of each independent variable, namely the board of commissioners, independent board of commissioners, BOD, audit committee, and the institutional ownership variables.

Hypothesis Testing

This study tested the hypothesis with multiple regression analysis in accordance with the formulation of the problem, objectives and hypothesis. In this study, multiple regression analysis linking the dependent variable and several independent variables in a single predictive model. This analysis is used to calculate the effect of the board of commissioners, independent commissioners, board of directors, audit committee, and institutional ownership which is the independent variable on Tobin's Q and ROA-CF which is the dependent variable.

Reliability regression model estimation tool is determined by the significance of the parameters in the model is the regression coefficient. Statistical significance tests carried out with t-test. T-tests were used to test the significance of partial regression coefficients of the independent variables (Ghozali, 2016). The calculation result of individual parameter t-statistic can be seen in the following Table 2 and Table 3.

Table 2: Results of regression analysis with Tobin's Q as dependent variable

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-2.635	.688		-3.833	.000
BOC	.022	.108	.014	.203	.839
IBOC	.081	.131	.037	.615	.539
BOD	.386	.095	.281	4.052	.000
AUDIT	.864	.261	.198	3.314	.001
INST	.243	.073	.203	3.330	.001

Table 2 shows that the financial performance (Tobin's Q) is influenced by the board of commissioners, independent commissioners, board of directors, audit committee and institutional ownership by the regression equation as follows:

Tobin's Q = -2,635 + 0.022 BOC + 0.081 IBOC + 0.386 BOD + 0.864 AUDIT +

0.243 INST + e

Table 3: Results of regression analysis with ROA-CF as dependent variable

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-6.597	.957	-	-6.891	.000
BOC	.397	.149	.178	2.668	.008
IBOC	.471	.182	.151	2.586	.010
BOD	-.600	.130	-.309	-4.608	.000
AUDIT	.892	.354	.145	2.524	.012
INST	.676	.101	.393	6.680	.000

From the results of Table 3 can be concluded that the financial performance as measured by ROA-CF is effected by the board of commissioners, independent commissioners, board of directors, audit committee and institutional ownership by the regression equation as follows:
ROA-CF = -6,597 + 0,397 BOC + 0,471 IBOC – 0,600 BOD + 0,892 AUDIT +

0,676 INST + e

Partial t-test results showed that the board of commisioners (BOC) does not have a significant effect on Tobin's Q with a probability of 0.839, but it has a significant positive effect on ROA-CF with probability equal to 0.008. While the variable independent commissioner (IBOC) does not have a significant effect on Tobin's Q with a probability level of .539, and also has positively significant effect on ROA-CF with a probability level of 0,010. The variable of board of directors (BOD) has significant positive effect on Tobin's Q with a probability value of 0.000, but it has a significant negative effect on ROA-CF with probabliitas 0,000. While the audit committee variables and institutional ownership equally significant positive effect on Tobin's Q and ROA-CF with a probability value of 0.001 and 0.001 at Tobin's Q and has a probability value of 0.012 and 0.000 for ROA-CF respectively.

Conclusion

The purpose of this study is to examine the effect of corporate the corporate governance mechanisms on financial performance as measured by Tobin's Q and ROA-CF. The sample in this study is a family owned company that is listed on the Indonesia Stock Exchange period 2013-2017. This study concluded that board of directors, audit committee and institutional ownership have significant positive effect on Tobin's Q. While board of commissioner and independent commissioner do not have a significant effect on Tobin's Q. Meanwhile the results of the processing data measured by ROA-CF can be concluded that board of commissioner, independent commissioner, audit commitee and institutional ownership have significant positive effect on ROA-CF. While board of director has a significant negative impact on ROA-CF

For companies are advised to apply corporate governance mechanism for being able to control the parties involved in the management of the company, so it can reduce the agency problem (agency problem), because it can bring together the different interests or goals of all parties within the company. The mechanism of optimal management of the companies will create a good condition of the company, will eventually achieve enterprise efficiency.

REFERENCES

Al-Matari, E. M., Al-Swidi, A. K., dan Fadzil, F. H. B. (2014). The effect of board of directors characteristics, audit committee characteristics and executive committee characteristics on firm performance in oman: An empirical study. *Asian Social Science*, Vol. 10 No. 11, pp. 149–171.

Amin, A. A., and Hamdan, A. A. (2018), Evaluating the effect of ownership structure on firm performance: Evidence from Saudi Arabian listed companies. *Journal of Economic Cooperation and Development*, Vol. 39 No. 3, pp. 65-92.

Arora, A., and Sharma, C. (2016). Corporate governance and firm performance in developing countries: Evidence from India. *Corporate Governance International Journal of Business in Society*, Vol. 16 No. 2, pp. 67-91.

Atan, R., Alam, Md. M., Said, J and Zamri, M. (2018). The impacts of environmental, social, and governance factors on firm performance: Panel study of Malaysian companies", *Management of Environmental Quality: An International Journal*, Vol. 29 No. 2, pp.182-194.

Beiner, S., Drobetz, W., Schmid, F., and Zimmerman, H. (2003). Is board zise an independent corporate governance mechanism. *European Financial Management*, 2006, Vol. 12 No. 2, pp. 249-283.

Berle, A. and Means, G. (1932). *The modern corporation and private property*. Commerce Clearing House, New York.

Carcello, J. V., Carl W. H., Klein, A. and Neal, T.L. (2006). Audit committee financial expertise. Competing Corporate Governance Mechanisms, and Earnings Management, *the Accounting Review*, Vol. 78 No. 1, pp. 95-117.

Choi, Y. K., Han, S. H., dan Lee, S. (2014). Audit committees, corporate governance, and shareholder wealth: Evidence from Korea. *Journal of Accounting and Public Policy*, Vol. 33 No. 5, pp. 470–489.

Cornett, M. M., Marcus. A. J., Saunders, A and Tehranian, H. (2006). Earnings management, corporate governance, and True Financial Performance. *Journal of Banking and Finance,* Vol. 31 No.6, pp. 1771-1794.

Donnelley, R. G (2004). Family business review. *Journal of the Family Firm Institute*, Vol. 1 No. 4, pp. 122-141.

Dulewicz, V, and Peter. H (2004), Does the Composition and Practice of Boards of Directors Bear Any Relationship to the Performance of Their Companies", *Corporate Governance an International Review*, Vol.12 No. 3, pp. 263-280

El-Chaarani, H. (2014). The impact of corporate governance on the performance of Lebanese banks, The International Journal of Business and Finance Research, Vol. 8 No. 4, pp. 12-21.

Fama, E. F and Jensen, M. C. (1983), Separation of ownership and control. *Journal of Law and Economics,* Vol. 26: pp. 301-325.

Gabrielse, G., Gramlich, and Plenborg, T. (2012). Managerial ownership, information content of earnings, and discretionary accruals in a non-US setting. *Journal of Business Finance and Accounting*, Vol. 29, pp. 967–988.

Ghozali, I. (2016). *Aplikasi analisis multivariate dengan program SPSS* (*Multivariate Analysis with SPPS Program)*, Semarang: Universitas Diponegoro.

Green, C. P., and Homroy, S. (2018). Female directors, board committees and firm performance. *European Economic Review*, Vol. 102, pp.19–38.

Handa, R. (2018), Does Corporate Governance Affect Financial Performance: A Study of Select Indian Banks*, Asian Economic and Financial Review, Asian Economic and Social Society*, Vol. 8 No. 4, pp. 478-486.

Haniffa, R., and Cooke. T. (2002). Culture, corporate governance and disclosure in Malaysian corporations. *Econpaper*, Vol. 38 No. 3, pp. 317-349.

Hatem, B. S, (2014), Determinants of firm performance: A comparison of European. *International Journal of Economics and Finance*, Vol. 6 No 10, pp. 243-257.

Hoque, M. Z., Islam, R., and Ahmed, H, (2013). Corporate Governance and Bank Performance: The Case of Bangladesh. SSRN Electronic Journal, 125, 120-136.

Hermalin, B. E., and Weisbach, M. S. (1991), The effects of board composition and direct Incentives on firm performance, *Financial Management*, Vol. 20, pp. 101-112

Hidayat, A. A and Utama, S. (2015). Board Characteristics and Firm Performance: Evidence from Indonesia, *International Research Journal of Business Studies*, Vol. 8 No. 03, pp. 136 – 154.

Iskander, M., Gerald. M., Dale. F. G and Sean. H (1999). Corporate restructuring and governance in East Asia. *Finance & Development*, Vol. 36 No.1, pp. 22 - 45.

Jensen, M. C, and Meckling, W.H. (1976), Theory of the firm: Managerial behavior, agency cost and ownership structure. *Journal of Financial Economics,* Vol 3, pp: 305-360.

Jensen, M. (1993). The modern industrial revolution, exit, and the failure of internal control systems. *Journal of Finance*, Vol. 48, pp. 831-880.

Kallamu, B. S, and Saat, N. A. M. (2015). Audit committee attributes and firm performance: evidence from Malaysian finance companies. *Asian Review of Accounting*, Vol *23* No. 3, pp. 206–23.

Khan, A., Tanveer, S., and Malik, U. (2017). An empirical analysis of corporate governance and firm value: Evidence from KSE-100 Index. *Accounting*, Vol. *3* No.2, pp. 119–130.

Klein, A. (2002). Audit committee, board of director, characteristics economics. *Journal of Accounting and Economics,* Vol. 33, No. 3, pp. 375-400

Lukviarman, N. (2016). *Corporate Governance*. Solo: Era Adicitra Intermedia.

Merendino, A., and Melville, R. (2019). The board of directors and firm performance: empirical evidence from listed companies. Corporate Governance, Vol. 19 No. 3, pp. 508-551

Mohammed, A. M, (2018). The Impact of Ownership Structure on Firm Performance: Evidence from Jordan. *Academy of Accounting and Financial Studies Journal*, Vol. 22 No. 5, pp. 1-9.

Nekhili, M., Nagati, H., Chtioui, T., dan Rebolledo, C. (2017). Corporate social responsibility disclosure and market value : Family versus nonfamily firms. *Journal of Business Research*, Vol. *77* No. 2, pp. 41–52.

Organisation for Economic Co-operation and Development. (2004). *OECD Principles of Corporate Governance*, Paris, pp. 8-10.

Panwar, R., Paul, K., Nybakk, E., Hansen, E., and Thompson, D. (2013). The legitimacy of CSR actions of publicly traded companies versus family-owned companies. *Journal of Business Ethics*, Vol. *125* No.3, pp. 481–496.

Rose, C. (2016). Firm performance and comply or explain disclosure in corporate governance. *European Management Journal*, Vol. 34 No. 3, pp. 202–222.

Shleifer, A and Vishny, R. W. (1986). Large shareholders and corporate control. The *Journal of Political Economy*, Vol. 94 No. 3, Part 1, pp. 461-488.

Shleifer, A and R. W. Vishny (1997). A survey of corporate governance. *The Journal of Finance*, Vol. 52 No. 2, pp. 737-783.

Singhal, R., and Parkash, M. (2016). Tobin's q ratio and firm performance. *International Research Journal of Applied Finance*, Vol. 7 No. 4, pp. 1-7.

Siregar, H and Rahayu, D, (2017). Corporate governance and financial performance. *Jurnal Manajemen Bisnis*, Vol. 27 No 1, pp. 90-99.

Solomon, J. (2007). *Corporate governance and accountability*, England: John Wiley & Sons, Ltd.

Tjager, I. N., Alijoyo, H. R. D., dan Sembodo, B. (2003), *Corporate governance*: Threat and opportunity for Indonesian Business community. Jakarta: Forum *Corporate Governance* in Indonesia (FCGI).

Ward, J. L. and Arnoff, C. E. (2010). Family business governance: Maximizing family and business potential. *A Family Business Publication.* Vol. 5, pp. 36-49

Wang, K.T., & Shailer, G. (2017). Family ownership and financial performance relations in emerging markets. International Review of Economics & Finance, Vol. 51, pp. 82-98.

Xie, B., Davidson., W. and Dadalt, P.J. (2003). Earning management and corporate governance: The roles of the board and the audit committee. *Journal of Corporate Finance*, Vol. 9, pp. 295-316.

Yermack, D (1996). Higher market valuation of companies with a small board of directors, *Journal of Financial Economics*, Vol. 40, pp. 185-211.

Young, S (2000). The increasing use of non-executive directors: Its Impact on UK board structure and governance arrangements. *Journal of Business Finance and Accounting,* Vol. 27, pp. 1311-1342.

Yu, F (2010). Corporate governance and earnings management, working paper. Journal of Financial Economics, 88, pp. 245-271

Zhou, H., Owusu-ansah, and Maggina, A. (2018), Board of directors, audit committee, and firm performance: Evidence from Greece. Journal of International Accounting and Taxation, Vol. 31, pp. 10-21.