

# Beyond Compliance: The Role of Corporate Governance Strategy in Enhancing Firm Value

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# Beyond Compliance: The Role of Corporate Governance Strategy in Enhancing Firm Value

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## ABSTRACT

This study aims to examine the influence between board size, female directors, commissioner independence, majority ownership, foreign ownership, audit committee size, and firm size on firm value. This study uses secondary data in the form of annual reports of non-financial companies from the Indonesia Stock Exchange for the period 2020-2023. The sample of this study used purposive sampling and obtained 54 companies as samples from 15 industrial sectors. Data analysis used to test the hypothesis is panel data regression analysis using the E-views 9 program. Based on the research results that have been obtained, it is known that the size of the board of directors and foreign ownership has a positive and significant effect on firm value. Female directors, commissioner independence, majority ownership, and company size have a negative and significant effect on firm value, while the size of the audit committee has no effect on firm value. The implication of this study is that companies in their efforts to increase firm value should pay attention to the number of directors, the number of female directors, the number of independent commissioners, and diversify shares.

**Keywords:** board size, corporate governance, firm value, foreign ownership, majority ownership

## INTRODUCTION

In today's demanding and competitive business trends, the significance of corporate governance in shaping the value of a company cannot be ignored. Corporate value is an important tool for companies to enhance reputation and attract investors in the capital market (Dang, Huu & Nguyen, 2023). Corporate governance is applied to a company to create a good relationship, trust, and goals that provide benefits for all parties involved so that all problems can be handled and anticipated (Shawaaba, Maulani, Nirmala & Subekti, 2022). This factor directly affects the performance and value of a company.

Investors are more likely to be interested and trust to invest their money in companies that demonstrate good governance standards (Rahman & Subagio, 2021). A well-managed company is more transparent in its operations and financial statements, thereby increasing credibility and reducing the risk of fraud or unethical behavior. This includes the structure of how a company's objectives are determined, the means of achieving those objectives, and the monitoring of achieving those objectives. It also includes the duties among stakeholders including decision-making rules and procedures. A company that runs smoothly will have good company value and vice versa (Chandra et al., 2023)

51 The value of a company in the stock market is strongly influenced by the 55 specific characteristics of the company itself such as its size and the presence of an independent board of commissioners. Firm characteristics, among other determinants of firm value, increase the firm's experience in the business (Samara & Nassar, 2023). Large firms generally have high firm value due to their capacity to diversify, access capital markets, and cope with market fluctuations. Larger firms benefit from their size and diversification, allowing them to borrow at a smaller cost and exhibit stronger resilience in economic challenges, ultimately increasing profitability (Shikumo, Oluoch & Wepukhulu, 2023). Investors tend to prefer to put their money in large companies rather than small companies because the risk of bankruptcy is lower and the performance is more consistent (Adriansyah, Purnomo, Lestari & Margaretha, 2023).

Corporate governance has traditionally been viewed as a compliance mechanism to safeguarding shareholder interests, and it is strategically designed as important driver for increasing company value. The board of directors as one of the components in corporate governance is closely related to firm value. The board of directors has the role of running a company in operational and decision-making activities. The board of directors is also responsible for ensuring transparent and accountable governance to achieve long-term goals. The board of directors must ensure that managers perform their duties with the intention of providing optimal value for shareholders (Fatma & Chouaibi, 2021).

46 The board of directors can be divided into two based on gender, namely male and female. The presence of female directors on the board needs to be considered as their role contributes to the quality of corporate governance. Female directors have a more conservative approach to decision-making while men are more aggressive. The presence of female directors can provide unique experiences and new perspectives for directors and improve governance and decision-making performance (Fatma & Chouaibi, 2021). a good internal control system. The existence of an independent board of commissioners supports the principles of good governance (GCG) and protects the interests of those who have invested in the company (Sibarani, Nova, Simanjuntak, Asriyati & Napitupulu, 2023).

Governance mechanisms such as board composition and ownership structure can be important factors in firm value (Fatma & Chouaibi, 2021). One aspect of the ownership structure is majority ownership, where most of the shares are owned or controlled by shareholders. Majority ownership by certain shareholders is often associated with control over the company.

Foreign ownership is also an important component of corporate governance (Dang et al., 2023). Foreign investors have different characteristics from local investors where they operate independently and could monitor the company (Ryu et al., 2021). Foreign investors can be a monitoring tool in corporate governance either directly or indirectly.

The audit committee functions as a transparent and effective internal control system in corporate governance related to firm value. Internal control reflects the risk management capabilities of a company and is an integral part of modern governance mechanisms (Zhu & Song, 2021). Companies with strong internal control systems such as audit committees are better positioned to minimize risks and prevent fraudulent activities, thereby increasing investor confidence and increasing the value of the company.

7 Company size serves as a measuring tool that can play an important role in determining the relationship between governance and firm value (Dang et al., 2023). The size of the company, be it large or small, has different management procedures. Management and the board must be adjusted to the size of the company itself. Larger companies will have a more complex management structure and more complicated supervision.

The explanation above as a whole illustrates that the interrelationship between effective corporate governance and firm characteristics, such as size, board composition, and internal control systems, can shape firm value that will contribute to its sustainable success in a dynamic business environment so that this research becomes very relevant. This research is a novelty from the research of Dang et al. (2023). The novelty of this study is the addition of the audit committee size variable, based on research of Jagirani, Chee & Kosim (2023)

## LITERATURE REVIEW

Based on the theoretical basis, factors such as board size, female directors, commissioner independence, majority ownership, foreign ownership, audit committee size and company size can affect firm value. Previous research shows mixed results, such as the results of research by Fatma & Chouaibi (2021), Almaqtari et al. (2022), and Bezawada (2020) which show that firm value is negatively affected by the size of the board of directors, research by Chin et al. (2019) shows that company value is positively affected by the size of the board of directors. The results of Huy & Duc's (2015) research show that firm value is negatively affected by female directors, research by Dang et al. (2023), Pucheta-Martínez et al. (2018) and Zulvina & Adhariani (2019) show that company value is positively influenced by female directors. Research by Setiyawati et al. (2017) indicates that company value is positively influenced by the independence of commissioners. Research by Aulya et al. (2022) indicates that company value is negatively influenced by the independence of commissioners. The results of research by Dang et al. (2023), Oluwagbemiga et al. (2014) and Sualekhhattak & Hussain (2017) show that firm value is positively influenced by majority ownership. The results of Fatma & Chouaibi(2021)'s research show that firm value is negatively influenced by majority ownership. The results of research by Dang et al. (2023), Tangke et al. (2021) and Ryu et al. (2021) show that firm value is positively influenced by foreign ownership. The results of research by Jagirani et al. (2023), Özcan (2021), Onasis & Robin (2016) and Djashan & Agustinus (2020) show that firm value is positively influenced by audit committee size. The results of research by Bakhtiar et al. (2021) shows that company value is negatively influenced by the size of the audit committee. The results of research by Dang et al. (2023), Samara & Nassar (2023) and Fatma & Chouaibi (2021) show that company value is positively affected by company size. The results of Musa & Yahaya(2023)'s research show that firm value is negatively affected by firm size. Therefore the authors create the following framework:

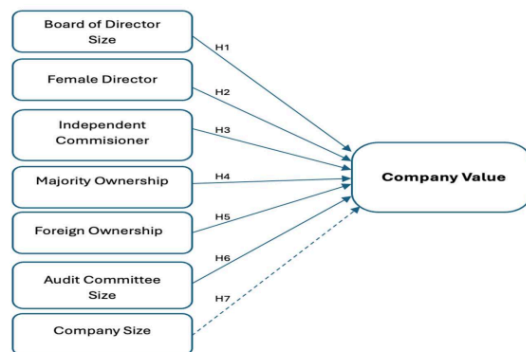


Figure 1. Conceptual Framework

### Hypothesis Development

Fatma & Chouaibi(2021)'s research shows that company value is negatively affected by the size of the board of directors. These results are consistent with Almaqtari et al. (2022) and Bezawada (2020) show that firm value is negatively affected by board size. Research by Chin et al. (2019) shows that firm value is positively affected by board size. Based on the discussion above, the following hypothesis is proposed:  $H_1$ : Board of directors size affects firm value

Research by Huy & Duc (2015) shows that company value is negatively affected by female directors. Research by Dang et al. (2023) shows that company value is positively affected by female directors. These results are consistent with Zulvina & Adhariani (2019) and Pucheta-Martínez et al. (2018) which shows that company value is positively affected by female directors. Based on the discussion above, the following hypothesis is proposed:  $H_2$ : Female directors affect firm value

Research by Setiyawati et al. (2017) and Rahmawati (2021) show that firm value is positively affected by commissioner independence. Research by Aulya et al. (2022) shows that company value is negatively affected by the independence of commissioners. Based on the discussion above, the following hypothesis is proposed:  $H_3$ : Commissioner independence affects firm value.

Research by Dang et al. (2023) shows that firm value is positively affected by majority ownership. These results are supported by Oluwagbemiga et al. (2014) and Sualekhkhattak & Hussain (2017) which show that firm value is positively affected by majority ownership. Fatma & Chouaibi(2021)'s research shows that firm value is negatively affected by majority ownership. Based on the discussion above, the following hypothesis is proposed:  $H_4$ : Majority ownership affects firm value.

The results of research by Dang et al. (2023) indicates that firm value is positively affected by foreign ownership. Consistent with Tangke et al. (2021) and Ryu et al. (2021) which indicates that firm value is positively affected by foreign ownership. Based on the discussion above, the following hypothesis is proposed:  $H_5$ : Foreign ownership affects firm value.

Research by Jagirani et al. (2023) explains that firm value is positively affected by the size of the audit committee. These results are supported by Özcan (2021), Onasis & Robin (2016) and Djashan & Agustinus (2020) which show that firm value is positively influenced by the size of the audit committee. Research by Bakhtiar et al. (2021) explains that company value is negatively affected by the size of the audit committee. Based on the discussion above, the following hypothesis is proposed:  $H_6$ : Audit committee size affects firm value.

Research by Dang et al. (2023) shows that firm value is positively affected by firm size. These results are supported by Samara & Nassar (2023) and Fatma & Chouaibi (2021) which indicate that firm value is positively affected by firm size. Research by Musa & Yahaya (2023) shows that firm value is negatively affected by firm size. Based on the discussion above, the following hypothesis is proposed:  $H_7$ : firm size affects firm value.

### METHODS

### Variable and Variable Measurement

The variables and measurements used in this study intend to determine the relationship between the independent variable and the dependent variable, each of which is described as follows:

**Table 1. Variable Identification and Measurement**

Type Variables	Name Variables	Symbol	Definition of Operational Variables	Reference
Dependent Variable	<i>Firm Value</i>	Tobin's Q	$\frac{MV \text{ Ekuitas} + \text{Total Hutang}}{\text{Total Aset}}$ MV Equity = Shares outstanding x December 31 <i>closing price</i>	Dang et al. (2023)
Independent Variable	Board of Directors Size	BDS	Total number of directors	Dang et al. (2023)
	Female Directors	FBD	Number of female directors	Dang et al. (2023)
	Independent Commissioner	BDI	Number of independent commissioners	Dang et al. (2023)
	Majority Ownership	LRO	Proportion of shares with minimum 5% ownership	Dang et al. (2023)
	Foreign Ownership	FRO	Proportion of shares owned by foreign parties	Dang et al. (2023)
	Audit Committee Size	ACS	Number of audit committees	(Musa & Yahaya, 2023)
Control Variables	Company Size	SIZ	Logarithm of total assets	Dang et al. (2023)

### Sampling Method

The sampling method used for this research is *purposive sampling*. The data collection method used is a *secondary data collection method* where data is obtained from sources that have published the data. The data source of this research was obtained from the Indonesia Stock Exchange *website* (<https://www.idx.co.id>) and *the website of each company* sampled. The sample in this study included 216 periods of financial statements, consisting of 54 non-financial companies from a population of 696 financial companies listed on the Indonesia Stock Exchange from 2020 to 2023.

**Table 2. Sampling Criteria**

Description	Total
Non-financial companies that are consistently listed on the Indonesia Stock Exchange from 2020 to 2023	450
Non-financial companies that do not publish financial statements in Rupiah currency units consecutively from 2020 to 2023	(56)

Non-financial companies that are not managed by female directors consecutively from 2020 to 2023	(258)
Non-financial companies that are not managed by independent commissioners in a row from 2020 to 2023	(52)
Non-financial companies that are not partially owned by foreign parties consecutively from 2020 to 2023	(27)
Non-financial companies that do not present complete data	(3)
Companies that are eligible to be sampled	54
Number of Years	4
Number of Observations	216

If the sample is grouped by industry, it becomes 15 industries, namely automotive components, basic materials, consumer services, food and beverages, food retail and basic necessities, heavy construction and civil engineering, industrial goods, industrial services, multi-sector parent, oil, gas and coal, pharmaceuticals and health research, property and real estate, retail, telecommunications, and transportation infrastructure. Based on this grouping, it can be seen that the sample in the property and real estate industry and industry is the most, namely 11 companies (20.37%), and the sample in the health industry is the least, namely two companies (3.7%). The sample grouped by industry sectors, explained in the following table:

**Table 3. Industry Sector Sample Categories**

No.	Industry	Number of Companies	Percentage
1	Manufacture	11	20.37%
2	Property and real estate	11	20.37%
3	Infrastructure	10	18.52%
4	Non-primary consumer goods	6	11.11%
5	Primary consumer goods	6	11.11%
6	Raw goods	5	9.26%
7	Energy	3	5.56%
8	Health	2	3.70%

## RESULT AND DISCUSSION

### Descriptive Statistical Analysis

Descriptive statistical analysis is carried out through the calculation of the average variation (mean), median, and standard deviation of each dependent, independent, and control variable with the aim of summarizing the data so that it can provide an easy-to-understand description and information.

**Table 4. Descriptive Statistics Results**

Variables	Mean	Median	Maximum	Minimum	Std. Dev
Tobin's Q	1.267480	1.019778	6.162167	0.215835	0.874068
BDS (People)	5.277778	5.000000	10.000000	2.000000	1.930578
FBD (Person)	1.458333	1.000000	6.000000	1.000000	0.861651
BDI (People)	1.800926	2.000000	5.000000	1.000000	0.916109
LRO	0.726073	0.730100	0.993500	0.321100	0.160277
FRO	0.325689	0.205500	0.994900	1.00E-05	0.317861
ACS (Person)	3.087963	3.000000	7.000000	3.000000	0.469184
SIZ	12.63310	12.66034	14.64902	10.74209	0.776850

Source: Data processed using E-views

Firm value (Tobin's Q) has an average value of 1.267480, a median of 1.019778 and a standard deviation of 0.874068. The maximum value of Tobin's Q is 6.162167 owned by PT Impack Pratama Indsutri Tbk and the minimum value is 0.215835 owned by PT Greenwood Sejahtera Tbk. The size of the board of directors (BDS) has an average value of 5.277778 people, a median of 5.000000 people and a standard deviation of 1.930578 people. The maximum value of BDS is 10,000000 people owned by Ciputra Development Tbk and the minimum value is 2,000000 people owned by Metro Realty Tbk.

Female directors (FBD) has an average value of 1.458333 people, a median of 1.000000 people and a standard deviation of 0.861651 people. The maximum value of FBD is 6,000000 people owned by Tempo Scan Pacific Tbk and the minimum value is 1,000000 people owned by PT Wahana Interfood Nusantara Tbk. Commissioner independence (BDI) has an average value of 1.800926 people, a median of 2.000000 people and a standard deviation of 0.916109 people. The maximum value of BDI is 5.000000 people owned by PT Jasa Marga Tbk and the minimum value is 1.000000 people owned by PT Wahana Interfood Nusantara Tbk.

Majority ownership (LRO) has an average value of 0.726073, a median of 0.730100 and a standard deviation of 0.160277. The maximum value of LRO is 0.993500 owned by Multifiling Mitra Indonesia Tbk and the minimum value is 0.321100 owned by PT MNC Asia Holding Tbk. Foreign Ownership (FRO) has an average value of 0.325689, a median of 0.205500 and a standard deviation of 0.317861. The maximum value of FRO is 0.994900 owned by Multifiling Mitra Indonesia Tbk and the minimum value is 1.00E-05 owned by Destinasi Tirta Nusantara Tbk.

The audit committee (ACS) has an average value of 3.087963 people, a median of 3.000000 people and a standard deviation of 0.469184 people. The maximum value of ACS is 7,000000 people owned by PT Telkom Indonesia (Persero) Tbk and the minimum value is 3,000000 people owned by PT Wahana Interfood Nusantara Tbk. Company size (SIZ) has an average value of 12.63310, a median of 12.66034 and a standard deviation of 0.776850. The maximum value of SIZ is 14.64902 owned by Astra International Tbk and the minimum value is 10.74209 owned by Metro Realty Tbk.

#### Research Regression Model

The panel data regression model previously used by Dang et al. (2023) can be written as follows:

$$= \text{TOBINS}'Q \ 7.132604 + 0.043510\text{BDS} - 0.062722\text{FBD} - 0.062065\text{BDI} - 0.950562\text{LRO} + 0.243356\text{FRO} - 0.019409\text{ACS} - 0.413253\text{SIZ}$$

Description:

TOBINS' = company value  
BDS = board size



FBD	= female directors
BDI	= commissioner independence
LRO	= majority ownership
FRO	= foreign ownership
ACS	= audit committee size
SIZ	= company size
εit	= Error

### Individual Test (T-test)

The test is conducted whether each independent variable has a significant effect on the dependent variable. The decision-making criteria if  $\text{sig.t} < 0.05$ ,  $H_0$  is rejected and if  $\text{sig.t} > 0.05$ ,  $H_0$  is accepted.

**Table 5. Regression T-test Results**

Variables Independent	Dependent Variable		
	Firm Value		
	Coefficient	Probability	Conclusion
Constant	7.132604	-	-
BDS	0.043510	0.0033	Positive Significant
FBD	-0.062722	0.0486	Negative Significant
BDI	-0.062065	0.0039	Negative Significant
LRO	-0.950562	0.0024	Negative Significant
FRO	0.243356	0.0207	Positive Significant
ACS	-0.019409	0.6080	No Effect
SIZ	-0.413253	0.0006	Negative Significant

Source: Data processed using E-views

$H_1$ : The size of the board of directors affects the value of the company.

The size of the board of directors (BDS) has a probability value of 0.0033 < 0.05 (alpha 5%) which shows a significant effect. The coefficient is 0.043510. The results of this study concluded that there is a positive and significant influence between the size of the board of directors on firm value. Large companies managed by many directors tend to have better company performance, thereby increasing the overall company value. This is because the large number of directors involved allows for more comprehensive and strategic decision making. Many directors provide many perspectives in making decisions so that they become effective.

$H_2$ : Female directors have an effect on firm value.

Female directors (FBD) has a probability value of 0.0486 < 0.05 (alpha 5%) which shows a significant effect. The coefficient is -0.062722. The results of this study conclude that there is a negative and significant influence between female directors on firm value. Female directors tend to be more cautious in decision-making, which can contribute to the stability of the company and an increase in firm value. The presence of female directors also has a negative impact as more female directors are perceived to reduce the attractiveness of the company in the eyes of investors due to an overly cautious approach to taking risks, potentially resulting in lost business opportunities. Too large a presence of female directors will have more negative than positive impacts.

$H_3$ : Independent Commissioner affects firm value.

Commissioner independence (BDI) has a probability value of  $0.0039 > 0.05$  (alpha 5%) which shows a significant effect. The coefficient is  $-0.062065$ . The results of this study concluded that there is a negative and significant influence between the independence of commissioners on firm value. Independent commissioners play an important role in maintaining transparency and accountability, which in turn can increase investor confidence and firm value. The results of this study actually show that the presence of too many independent commissioners can trigger too strict supervision, thus limiting management's ability to take the necessary risks in business. The presence of independent commissioners can have a positive impact but if it is too large, it will have more negative impacts

*H<sub>4</sub>: Majority ownership affects firm value.*

Majority ownership (LRO) has a probability value of  $0.0024 > 0.05$  (alpha 5%) which shows a significant effect. The coefficient is  $-0.950562$ . The results of this study conclude that there is a negative and significant influence between majority ownership on firm value. Majority shareholders can bring stability and strategic focus to the company, with the power to make quick and effective decisions. This study highlights the negative side of majority ownership, where majority shareholders can ignore the interests of minority shareholders and are more concerned with personal gain. This unfairness can lead to conflicts of interest, potentially lowering firm value as minority shareholders feel marginalized.

*H<sub>5</sub>: Foreign ownership affects firm value.*

Majority ownership (LRO) has a probability value of  $0.0024 > 0.05$  (alpha 5%) which shows a significant effect. The coefficient is  $-0.950562$ . The results of this study conclude that there is a negative and significant influence between majority ownership on firm value. Foreign investors tend to bring better governance practices, especially in terms of transparency and accountability. Foreign investors often have higher standard expectations of company performance and operations, so they act as a stronger monitoring system compared to domestic investors. As a result, foreign-owned companies tend to be more disciplined in their operations and follow good governance principles.

*H<sub>6</sub>: Audit committee size affects firm value.*

Audit Committee Size (ACS) has a probability value of  $0.6080 < 0.05$  (alpha 5%) which shows an insignificant effect. The results of this study conclude that there is no significant influence between the size of the audit committee on firm value. The main function of the audit committee in addition to maintaining the credibility of the Company's financial statements is to ensure that the financial statements are prepared in accordance with applicable accounting standards. Although credible financial statements are important for the sustainability of the company, this does not automatically improve management or operational performance. The credibility of financial statements is more related to aspects of regulatory compliance and good governance, but does not directly increase the value of the company in the stock market.

*H<sub>7</sub>: Company size affects leverage.*

Company size (SIZ) has a probability value of  $0.0006 < 0.05$  (alpha 5%) which shows a significant effect. The coefficient is  $-0.413253$ . The results of this study conclude that there is a negative and significant influence between company size on firm value. Large companies usually have more resources and the ability to survive in the long run. This study highlights the weaknesses of large companies, such as increased complexity in operational supervision and reduced transparency, which make large companies less attractive to investors. Investors tend to be more cautious of large companies that may have higher risks in terms of management and operations.

## CONCLUSION

Based on the results of the tests above, the following conclusions are obtained:

1. The board of directors' size variable has a positive effect on firm value
2. Female director's variable has a negative effect on firm value
3. The commissioner independence variable has a negative effect on firm value
4. The majority ownership variable has a negative effect on firm value
5. Foreign ownership variable has a positive effect on firm value
6. The audit committee size variable has no effect on firm value
7. The firm size variable has a negative effect on firm value

## IMPLICATIONS

Based on the results of the research that has been carried out, there are benefits obtained as implications for financial managers and investors who are taken into consideration in making decisions. Some of the implications obtained are as follows:

1. For companies and managers

Companies need to strategize in developing higher board effectiveness. In order to do so, companies have to treat governance as a strategic priority, rather than compliance obligation. The results of this study are expected to provide insight and understanding of factors such as board size, female directors, commissioner independence, majority ownership, foreign ownership and company size that affect firm value in more depth so that managers will pay attention to these variables and be able to manage company value better to attract investors.

The size of the board of directors, board's expertise and board diversity can support the firm value. The number of directors should be increased while still being adjusted to the size of the company. The number of female directors should be balanced in the board of directors to increase company value because female directors are still needed in the company as a supervisory function.

The number of independent commissioners should not be too large to increase firm value. The number of independent commissioners should also be balanced in the company as a supervisory function of the board of directors. Share ownership should not be concentrated in one individual to avoid conflicts of interest that can reduce firm value. Shares should be owned by several individuals by offering shares to other individuals.

Shares should also be partly owned by foreign investors to increase the value of the company. Management encouraged to invite foreign investors to invest in the company. The size of the company should not be too large so that the company value can increase.

2. For investors

The results of this study will be useful for investors in terms of choosing the right company as an investment object because this research is expected to be able to provide a better understanding for investors regarding firm value. Investors can consider the size of the board of directors, female directors, commissioner independence, majority ownership, foreign ownership and company size because these factors can affect company value. Investors should choose companies with many directors, have a small number of female directors, few independent commissioners, unconcentrated share ownership, foreign-owned shares, and small company size.

## LIMITATIONS AND SUGGESTIONS

57 Based on the results of the research conducted, this study has limitations, namely the variables used in this study there are only 7 variables consisting of the size of the board of directors, female directors, independence of commissioners, majority ownership, foreign ownership, audit committee size, and company size. Based on the limitations encountered during the research described above, the suggestion for future researchers in the same field is to add a research period and add other variables that can affect firm value such as *CSR Score* (H. Y. Chen et al., 2024) and *ESG Score* (Y. Chen & Zhang, 2024).

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