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CORPORATE GOVERNANCE , DEBT POLICY AND PROFITABILITY RELATIONSHIP

Herry Subagyo
Fakultas Ekonomi dan Bisnis, Universitas Dian Nuswantoro
Jl Nakula 1 No. 5-11 semarang, telp/fax (024) 3567010, e-mail: herry.subagyo @dsn.dinus.ac.id

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ABSTRACT

This study examines the relationship of Corporate Governance with Debt Policy, and Profitability, especially in corporate that conduct IPOs on the Indonesia Stock Exchange for the 2018-2019 period. Corporate Governance uses proxies of the Board of Commissioners, Independent Commissioners, Institutional Investors, and Insider Ownership which is predicted to affect Debt Policy and Profitability Using a purposive sampling technique, obtained 108 samples, the analyst uses multiple regression with the IBM SPSS 23 program. The findings show that Insider Ownership and the Board of Commissioners have a positive effect on profitability, Institutional Investors and Independent Commissioners are not proven to affect profitability. Corporate governance variables that are proven to influence Debt Policy are Insider Ownership, Institutional Investors, and Independent Commissioners.
Keywords: Insider Ownership, Institutional Investors, Independent Commissioners, Board Commissioner,

1. Introduction

Good Corporate Governance (GCG) is the principle underlying the management mechanism and corporate accountability in maintaining long-term business sustainability. The purpose of GCG is to expect opportunistic behavior and reduce agency problems involving management and majority shareholders [1]. GCG is also concerned with monitoring strategic decisions and eliminating the problem of asymmetric information on stakeholders [2]. Thus, GCG is an effort to maximize shareholder value through organizational management mechanisms by minimizing agency problems [3] [4]. (FCGI) Forum For Corporate Governance In Indonesia (2003) states that GCG is a set of rules that establish relationships between shareholders, management, creditors, government, employees, and other stakeholders, regarding their rights and obligations. GCG requires structures and tools in order to balance the interests of management and shareholders, conduct effective supervision, and encourage companies to use resources more efficiently[5] Thus, GCG is a system that regulates, manages, and oversees sustainable business processes to generate performance, without neglecting stakeholders.

One structure that plays a role in controlling the company's operations is the Board of Commissioners. This board works as a shareholder representative whose function is to oversee the management carried out by management [6]. To maintain corporate independence, it is necessary to have an independent commissioner. The existence of an independent commissioner can provide better advice to management because they have competence, experience, and an extensive network. The existence of independent commissioners can provide better advice to management because they have competence, experience, and a wide network. According to the agency concept, the company is a

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collection of contracts between interested stakeholders, because the difference in interests has the potential to cause conflicts. Agency conflicts arise when management prioritizes its own interests and ignores the interests of investors. They also explained that conflicts of interest also occur when there is no protection for minority shareholders, and the controlling shareholder makes it possible to ignore the interests of minority shareholders [7]. This condition is certainly not under the principle of fairness. To overcome this solution, agency theory proposes the concept of management share ownership. It expect insider ownership to eliminate conflict because management behaves as the owner of the company. This alignment of interests can eliminate conflicts between company owners and management. According to the agency perspective, agency conflicts also occur between majority and minority shareholders, majority shareholders gain informational benefits [8], to monitor managers' decisions to protect their investments. The agency concept, majority shareholder can increase debt capacity so that it is riskier to eliminate the minority. Increasing debt is one effective way to take over minority shareholders [9].To avoid behavior that is detrimental to the interests of minority shareholders, external shareholders who have gained power can control, namely institutional ownership. Institutional ownership is shares owned by other companies or institutions. some previous research about the relationship between GCG and profitability uses various proxies for implementing GCG Researchers use the board of commissioners, independent commissioners, and audit committees, as proxies for GCG implementation associated with profitability, for example, [14] [5].[15] The results of the research show that there is an inconsistent relationship between GCG and profitability. Meanwhile, other studies use institutional investors and managerial ownership as proxies for GCG and their relationship to profitability. For example, [16][17] the results of his research explain the inconsistent tendency of the relationship with profitability. While research on the relationship between GCG and debt policy shows inconsistent results, for example: [18] the results of the study found a positive relationship between institutional investors and independent commissioners with debt policy, whereas, [19] in his research using state ownership had a negative effect on debt policy, the same found by [20], explains that companies with GCG have low debt.

The inconsistency the findings of the relationship between GCG and profitability, and the debt policy, inspired the author to re-examine this research. The weak implementation of good corporate governance also motivated this research on Indonesian companies, as in the report on the results of a survey by the Asian Corporate Governance Association (ACGA) with a sample of 11 Asian countries, Indonesia occupies the lowest position. (Asian Corporate Association, 2018). Companies that they will reflect implement GCG in their performance and sustainable growth. The accuracy of choosing alternative sources of financing and considering the risks of all parties can also measure the use of the GCG concept [21]. The research determines the dependent variable of profitability and debt policy, the reason that it will reflect good governance in financial performance and debt policy, which can increase risk. While the independent variables as GCG proxies are the Board of Commissioners, Independent Commissioners, Managerial Ownership, and institutional investors. The Board of Commissioners is the representative of the shareholders, and functions as a supervisor for the management of the company carried out by the management. According to the National Committee for Governance Policy (KNKG, 2006), the Board of Commissioners is the highest internal control mechanism which is collectively responsible for supervising and providing input to management, as well as ensuring that it ran the good company. Independent commissioners are members of the board of commissioners who are unaffiliated with the company's internal parties. Members of the board of commissioners who have nothing to do with the internal company. This member of the board of commissioners can guarantee the company operates by legal standards. In addition, independent commissioners can also provide better advice to management because of their experience, expertise, and network.

The agency concept explains that the company is a set of contracts between the owner of the company (principal) and management (agent), the owner delegates authority to the agent to manage the company to prosper or prosper the owner of the company [22]. According to the agency's perspective, there are unequal interests between company owners and management, which often leads to conflicts. The conflict arises because there is a tendency for management to manage and decide not to prioritize the interests of the company owners by the contract but to prioritize their interests [7]. To eliminate this conflict, it developed managerial ownership, which encourages management to own company shares, thus management will behave.

Institutional investors are shares owned by not individuals but companies or other institutions that actively control the company's operational activities. The number of shares owned by institutional investors is relatively large, so it is effective in controlling the company's decision-making. Institutional investors are a group of investors who have extensive business experience and networks so that they can analyze and assess the business decisions made by management[13].

The relationship between the Board of Commissioners and Profitability, and leverage.

The indicator of GCG implementation is the formation of a Board of Commissioners as a representative of the owner of the company, the Board of Commissioners functions as the highest internal controller who is collectively responsible for supervising and providing input to management, as well as ensuring that the company runs properly (KNKG, 2006). Effective supervision will encourage efficient use of resources [5], it is also explained that good GCG practices have a positive effect on financial performance. Implementing GCG implementation with the presence of the board of commissioners has a positive effect on profitability, and diversity in the board of commissioners has a positive effect on profitability [23]. They often constrain large board size in the agreement process in decision-making, including in deciding about debt policy [24] in his research, which also found positive results of the relationship between board size and debt policy. Other empirical evidence also explains the relationship of the board of commissioners with funding decisions [25][16]. In addition, creditors will have more confidence in the board's existence of commissioners as effective supervisors in deciding about funding [26]. Based on the explanation of the pattern of the relationship between the board of commissioners and profitability and debt policy, I propose the following hypothesis:

H1: The Board of Commissioners has a positive effect on profitability.
H2: The Board of Commissioners affects debt policy.

Independent Commissioner's Relationship with Profitability, and Debt Policy.

Members of the board of commissioners are individuals who have nothing to do with the company's internal parties. With the existence of an independent board, they can play a role in keeping the company operating according to the rules. Independent commissioners play a role in advising management, according to their experience, expertise, and network [27] [28] empirical evidence of the role of independent commissioners explains this board affects profitability and debt policy, research conducted by [14] shows the relationship of an independent board to profitability, but has no effect on debt policy, while the results of other studies find the opposite, that independent commissioners affect debt policy [16]. Based on empirical evidence, the research proposes the following hypotheses:

H3: Independent Board of Commissioners has a positive effect on profitability.
H4: Independent Board of Commissioners affects Debt Policy.

Relationship of Insider Ownership with Profitability and Debt Policy.

The agency concept explains that insider ownership can eliminate conflicts because management is also the owner of the company. This alignment can then impact decisions taken, including debt policy [Hansen]. It is also explained that debt policy can reduce agency problems, meaning that companies can combine insider ownership and debt policies to minimize agency costs. Several studies have shown a negative relationship between insider ownership and debt policy [29]([30][31]. The other side explains that the alignment of interests also has a positive impact on financial performance [32]. Based on the empirical evidence as explained, this research proposes the following hypothesis: :

H5: Insider Ownership has a positive effect on profitability
H6: Insider ownership affects debt policy.

Institutional Investor Relations with Profitability, and Debt Policy.

Institutional investors are a group of investors who have extensive business experience and networks so that they can analyze and assess business decisions made by management [13]. The large number of shares owned by institutional investors is very effective in controlling management decisions. Institutional investors also can take over ownership if performance is inefficient. This situation can force managers to work more efficiently [11][12]. The effectiveness of these supervisors will affect profitability

[33]. Meanwhile, the relationship between institutional investors and debt policy shows that institutional investors determine the debt policy [34]. while [11] found an inverse relationship between institutional investors and capital structure. Based on the empirical evidence as explained, this research proposes the following hypothesis: :

H7: Institutional investors have a positive effect on profitability.
H8: Institutional Investors affect Debt Policy.

2. Research Method

This research design places profitability (ROA) and Debt Policy (DEBT) as dependent variables. Meanwhile, Good Corporate Governance is proxies by four components that are placed as independent variables, namely: Insider Ownership (INSD), Institutional Investors (INST), Board of Commissioners (BOARD), and Independent Commissioners (INDP). The sample used is a company that conducts an IPO on the Indonesia Stock Exchange, the period 2017-2019. Using purposive sampling, I got 108 samples.

2.1. Regression Model

This study uses multiple regression analysis, this tool is used to determine and measure whether the independent variables ISND, INST, BOARD, and INDP statistically affect the dependent variables ROA and DEBT, at the set level (5%). The statistical program used is IBM SPSS series 23. The regression equation is formulated as follows:

$ROA = \alpha 1 + \beta 1\ INSD + \beta 2\ INST + \beta 3\ BOARD + \beta 4\ INDP + e1$ .... (1)
$DEBT = \alpha 2 + \beta 5\ INSD + \beta 6\ INST + \beta 7\ BOARD + \beta 8\ INDP + e2$ .... (2)

Information:

α = Constant
β = Coefficients
INSD = Insider Ownersip
INST = Institution Investor
BOARD = Board Commissioners
INDP = Independent Commissioners
DEBT = Debt Policy
ROA = Profitability.

2.2. Operational Definition.

This study uses operational definitions and variable measurement indicators as shown in Table I, Insider Ownership (INSD) is the percentage of shares owned by directors, managers, and executives of the company. Institutional Investor (INST) is the percentage of shares owned by non-individuals, for example, A company, financial institution and government company, Board of Commissioners (BOARD), measured by the number of members of the board of commissioners, Independent Commissioner (INDP), measured by the number of independent commissioners. While Return on Assets measured the dependent variable Profitability (ROA), Debt Policy (DEBT), measured by the proportion of long-term debt.

Table I :
Operational Definition

No	Variable	Operational Definition	Measurement
1	Insider Ownership (INSD)	Percentage of shares owned by directors, managers, and executives [35].	shareholding of management / total number of shares
2	Institution Investor (INST)	Percentage of shares owned by other companies, financial institutions, and the state. [35].	Shares owned by institution investors / total number of share
3	Board Commissioners (BOARD)	Number of the board commissioners [36]	Number of the board commissioners
4	Independent Commissioners	Number of Independent commissioners[19]	Number of Independent commissioners / total number of commissioners

	(INDP)		
5	Profitability (ROA)	Return On Assets	Net Profit / Total Assets
6	Debt Policy (DEBT)	Long term debt to total assets [37]	Long term Debt / Total Asset

3. **Results and Discussion.**

Table II is the descriptive statistics variable used in the study, which includes the minimum, maximum, mean, and standard deviation values. The institutional investor variable (INST) has a mean value of 0.5956 and a standard deviation of 0.259. The insider ownership variable means 0.090, with a standard deviation of 0.175. This number shows that the variation in the insider ownership value is relatively large compared to the mean. Variable Board of Commissioners (BOARD), the mean is 3.675 with a standard deviation of 1.557, the maximum value of this variable is 10.00 and the minimum value is 2.00, the highest distance. Meanwhile, the independent commissioner variable (INDP) has a mean value of 0.402 with a standard deviation of 0.086, and the debt policy variable (DEBT) with a mean of 0.391 with a standard deviation of 0.219. The mean profitability variable is 0.042 with a standard deviation of 0.041, the minimum value is negative -0.07 and the maximum value is 0.12.

Table II

Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
INST	108	,00	,94	,595	,259
INSD	108	,00	,70	,090	,175
BOARD	108	2,00	10,00	3,675	1,557
INDP	108	,25	,60	,402	,086
DEBT	108	,01	,86	,391	,219
ROA	108	-,07	,12	,042	,041
Valid N (listwise)	108				

Table III results from the regression model hypothesis test (1) which places profitability (ROA) as the dependent variable, and the variables Insider Ownership (INSD), institutional investors (INST), Board of Commissioners (BOARD), and Independent Variables (INDP) as independent variables. . I explained the relationship between the independent variable and the variable as follows.

Table III
Model Regression (1)

Model (1)	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	,013	,027		,486	,628
INST	,026	,020	,164	1,309	,193
INSD	,089	,030	,380	3,028	,003
BOARD	,009	,002	,348	3,744	,000
INDP	-,071	,043	-,149	-1,639	,104
Dependent Variable: ROA					

3.1. Board of Commissioners and Profitability.

The board of commissioners as one of the GCG proxies predicted to affect profitability, as stated in the hypothesis (H1), the board of commissioners has a positive effect on profitability, this statement is based on the position of the board of commissioners as a representative of the company owner, the board of commissioners functions as the highest internal controller who is collectively responsible for supervising and providing input to management, as well as ensuring that the company runs properly (KNKG, 2006). Based on the test results show that statistically, the Board of Commissioners has a positive effect on profitability, this can see from the regression coefficient of 0.09 with a significance of 0.00 < 0.05, this result proves that the previous prediction stated in the hypothesis (H1) that the Board of Commissioners affects positive on profitability, these findings support previous research conducted by [38]

3.2. Independent Commissioner with Profitability.

Independent Commissioners are individuals who have nothing to do with the company's internal parties. Independent commissioners play a role in advising management, according to their experience, expertise, and network ([28]). They predicted the ability and expertise to affect the company's financial performance, as stated in the hypothesis (H3), that the independent commissioner has a positive effect on profitability. Based on the results of hypothesis testing, shows that the independent commissioner does not affect profitability. It does not prove GCG to affect profitability. This finding does not support the previous research conducted by [16] but supports the research conducted by [38].

3.3. Institutional Investors and Profitability.

This study predicts institutional investors as a component of GCG that affects profitability. As shown in the hypothesis statement (H5), this prediction is based on the role of institutional investors who have a significant voice to influence management decisions. The effectiveness of these supervisors will affect profitability. Based on the results of hypothesis testing, shows that it does not prove institutional investors affect profitability. It can see this from the regression coefficient of 0.26 with a significance value of 0.193 > 0.05. This number means that it does not prove institutional investors, as GCG proxies affect profitability as previously predicted. The results do not support previous research which found a positive relationship between institutional investors and profitability.

3.4. Relationship between Insider Ownership and Profitability.

The relationship between Insider Ownership and Profitability in the hypothesis (H7) that insider ownership has a positive effect on profitability, this statement is based on the agency concept, which explains that insider ownership can eliminate conflicts of interest. According to the test results, Insider Ownership has a positive effect on profitability. The regression coefficient is 0.089 with a significance of 0.03 <0.05. This result means that management, who is also the owner, will behave like the main owner as described in the agency concept ([7]. The results of the previous research conducted by [32][39].

Table IV
Model Regression (2)

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	,212	,139		1,526	,130
INST	-,209	,101	-,265	-2,061	,042
INSD	-,410	,150	-,352	-2,726	,008
BOARD	-,004	,013	-,027	-,285	,776
INDP	,837	,222	,352	3,777	,000

Dependent Variable: DEBT

3.5.Commissioners and Debt Policy.

The relationship between the Board of Commissioners and Debt Policy stated in the hypothesis (H2), that the Board of Commissioners affects Debt Policy, the board of commissioners is a representation of the main owner of the company, as the owner of the board of commissioners will certainly play an active role in supervising management decisions including debt policy. Creditors also believe more in the board's existence of commissioners as supervisors in deciding about funding based on the results of statistical tests showing that not prove that the board of commissioners affects debt policy, this can see by the regression coefficient of -0.007 with a significance of 0.616 > 0.05, thus the hypothesis that stated that the Board of Commissioners' influence on the Debt Policy not proven. The negative coefficient (-0.007) shows that there is a negative relationship between the number of commissioners and debt policy. The results do not support the statement that there is a relationship between the board of commissioners and debt policy.

3.6. Independent Commissioner and Debt Policy.

The relationship between the Independent Commissioner and Debt Policy in the hypothesis (H4) that the Independent Commissioner affects Debt Policy, the reason is that the independent Commissioner plays a role in maintaining and advising management, especially in funding policies[28]. Based on the results of the regression test, shows that they proved the Independent Commissioner to have influenced debt policy. I can see this from the regression coefficient of 0.665 with a significance of 0.006 <0.05. This result is in line with previous research which states that creditors will have more confidence in the existence of a commissioner as an effective supervisor in funding decisions [26] This study also supports previous research conducted by [38]

3.7. Insider Ownership and Debt Policy.

The relationship between Insider Ownership and Debt Policy on the hypothesis (H6) that Insider Ownership affects Debt Policy, based on the agency concept that Insider ownership can influence management not to behave opportunistically, including in debt policy [7]. Based on the results of the regression test, shows that Insider Ownership proved to affect debt policy, we can see this from the regression coefficient - 0.44 with a significance of 0.008. This finding means that stock ownership by management will encourage management to be careful in using debt. They inversely related the results of previous research stating that Insider Ownership is to debt policy[30][31]

3.8. Institutional Investors and Debt Policy.

The relationship between Institutional Investors and Debt Policy stated in Hypothesis (H8), that Institutional Investors affect debt policy, the reason being that institutional investors have experienced, and extensive business networks so that they can analyze and assess business decisions made by management, including in funding decisions. Based on the results of the regression test, shows a regression coefficient of -0.211 with a significance of 0.048 <0.05, a negative coefficient (-0.211) means that insider ownership is inversely related to debt policy institutional investors play a role in controlling the use of debt. This finding supports previous research which states that insider ownership plays a significant role in debt policy [34] and [11] finds an inverse relationship between institutional investors and debt policy.

4. **Conclusion.**

The results of the discussion of the hypothesis testing of the corporate governance relationship as proxies by the Board of Commissioners, Independent Commissioners, Insider ownership, and institutional investors with profitability and debt policy can conclude. Based on the results of testing the correlation between corporate governance and profitability, it can conclude that of the four variables that are predicted to affect profitability, only two variables proved Insider ownership and the board of commissioners, while independent commissioners and institutional investors not proven to affect profitability. The relationship between insider ownership and profitability is by the agency concept, which states that insider ownership can eliminate management's opportunistic behavior. In the organizational structure, the board of commissioners is the highest internal controller who is collectively responsible for supervising and advising management, to ensure the company runs properly (KNKG, 2006), effective supervision will encourage efficient use of resources [5], The results of the discussion of the related corporate governance and debt policy can be concluded that insider ownership, institutional investors, and independent commissioners proved to influence debt policy. The board of commissioners does not affect debt policy. Insider ownership and institutional investors hurt debt policy, these results show the prudence of management and institutional investors in using debt, these findings are in line with the trade-off theory which states that the use of debt has an optimal point, companies will try to reduce debt levels when over-leveraged when conditions are stable, the debt will be adjusted to the average long-term debt [41]. This finding is also by the agency concept related to opportunistic behavior by management, including in terms of the use of debt, management will position its business at a measurable level of risk.

The results contribute to supporting the agency theory related to management's share ownership. This study also supports the trade-off theory related to debt policies carried out by management.

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