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Exploring the Correlation Between Corporate Governance and Financial Performance of Listed Companies in Indonesia's Stock Market

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KEY W O R D S
corporate governance, financial performance, indonesia, stock market, qualitative research

A B S T R A C T
This study explores the correlation between corporate governance practices and the financial performance of listed companies on Indonesia's stock market. Utilizing a qualitative research method through a comprehensive literature review, the study synthesizes various academic articles, corporate reports, and financial analyses to identify the key factors that influence corporate governance in Indonesia. The research highlights the importance of transparent management, board structure, shareholder rights, and audit practices in enhancing the financial performance of companies. A significant focus is given to the role of institutional investors, regulatory frameworks, and the impact of cultural factors on governance practices. The findings suggest that robust corporate governance mechanisms are positively correlated with higher financial performance, as they contribute to better decision-making processes, improved risk management, and increased investor confidence. However, challenges such as inconsistent enforcement of regulations and the influence of family-owned businesses in Indonesia's corporate sector remain prevalent. The study concludes with recommendations for improving corporate governance frameworks in Indonesia to ensure more sustainable financial performance. This study contributes to the existing literature by offering insights into the specific dynamics of corporate governance within the Indonesian context, providing valuable implications for policymakers, corporate managers, and investors.

1. INTRODUCTION

Corporate governance plays a pivotal role in ensuring that organizations are managed with integrity, accountability, and transparency. It directly influences the decision-making processes within corporations, which, in turn, affect their overall financial performance. In emerging markets like Indonesia, where corporate governance practices have evolved significantly in recent years, understanding its impact on financial performance is crucial for investors, regulators, and policymakers. Indonesia's stock market has grown rapidly, and as of today, it stands as one of the largest in Southeast Asia. However, concerns regarding corporate governance practices, including the influence of family-owned businesses, lack of transparency, and regulatory inefficiencies, remain widespread. As the country continues to integrate into the global market, the need for robust corporate governance systems has never been more pressing (Monks & Minow, 2011).

Despite the growing body of literature on corporate governance and financial performance, studies focusing specifically on Indonesia's stock market remain limited. Previous studies have primarily concentrated on developed economies, with few examining the distinct challenges faced by emerging markets such as Indonesia. Additionally, while some research has established a general link between corporate governance and financial performance, the specific dynamics in the Indonesian context have not been explored in depth. This gap necessitates further investigation into how local governance practices uniquely affect the financial outcomes of publicly listed companies in Indonesia (Akbar et al., 2012).

The importance of corporate governance in improving financial performance is well acknowledged globally; however, for Indonesia, strengthening these practices is crucial in ensuring sustained economic growth and attracting foreign investments. A deeper understanding of the correlation between corporate governance and financial performance will contribute to policy reforms and help Indonesian companies enhance their competitiveness on both a national and global scale (Wahyuni & Kee Ng, 2012).

Numerous studies have explored the relationship between corporate governance and financial performance in developed economies. For instance, studies by (Jackling & Johl, 2009) demonstrated the critical role of governance structures in corporate performance. In the Asian context, studies such as those by (Claessens & Yurtoglu, 2013) have focused on the impact of ownership structures and market maturity on governance. However, research specifically addressing the Indonesian context is sparse, and the few available studies, such as those by (Ryan et al., 2010), focus primarily on the legal and regulatory frameworks, leaving the impact of governance mechanisms on financial outcomes underexplored.

This study aims to fill the existing research gap by offering an in-depth analysis of the correlation between corporate governance and financial performance in Indonesia's stock market. Unlike previous studies, this research adopts a qualitative approach, using a detailed literature review of both global and local academic sources, government regulations, and corporate reports. This will provide a unique insight into how Indonesia's unique socio-economic factors, regulatory environment, and market structure impact corporate governance practices and, consequently, financial performance (Queiri et al., 2021).

The primary objective of this study is to explore the relationship between corporate governance and financial performance among publicly listed companies in Indonesia. Specifically, it aims to identify the governance factors that significantly influence financial outcomes. Additionally, the study seeks to evaluate the effectiveness of existing governance structures in promoting corporate success in Indonesia. The findings of this study will contribute to the broader understanding of corporate governance in emerging markets and provide valuable recommendations for improving governance practices in Indonesia. It is hoped that the insights derived from this research will assist policymakers, corporate managers, and investors in fostering better governance frameworks and achieving long-term financial stability (Saccomanni & Romano, 2022).

This research offers significant value to various stakeholders. For policymakers, it provides evidence-based recommendations for strengthening corporate governance regulations. For corporate managers, the study highlights the governance practices that are most beneficial for improving financial performance. Finally, for investors, the study offers insights into how corporate governance affects the risks and returns of investing in Indonesian companies. By fostering better governance standards, the research will contribute to enhancing the overall efficiency, sustainability, and competitiveness of the Indonesian stock market.

2. METHOD

This study adopts a qualitative research approach to explore the correlation between corporate governance and financial performance of listed companies in Indonesia's stock market. Qualitative research is particularly well-suited for this type of inquiry as it enables an in-depth understanding of the complex and context-specific relationships between governance mechanisms and corporate outcomes. This study is descriptive in nature, aiming to provide a comprehensive and nuanced understanding of the subject matter by synthesizing existing literature, corporate reports, and regulatory frameworks. It does not involve quantitative data collection or statistical analysis, but rather focuses on exploring the underlying factors and dynamics that link corporate governance with financial performance (Paniagua et al., 2018).

Data Sources

The data for this study were primarily obtained from secondary sources. The study relies on an extensive review of relevant academic literature, government regulations, corporate governance codes, and publicly available financial reports of listed companies in Indonesia. Academic papers, journal articles, and books were accessed through various databases, including JSTOR, ScienceDirect, and Google Scholar. Additionally, corporate reports and governance frameworks from Indonesian-listed companies were examined, along with official publications from Indonesia's Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX). These sources provide insights into the governance structures, practices, and financial performance metrics of companies operating in the Indonesian market.

Data Collection Techniques

The data collection for this research was conducted through a thorough literature review, a widely used method in qualitative research. The following steps were involved in the data collection process:

Literature Review: Academic articles, books, and research papers related to corporate governance and financial performance were systematically reviewed. Special attention was given to studies focusing on the Indonesian context and emerging markets.
Document Analysis: Financial reports and corporate governance disclosures from listed companies on the Indonesia Stock Exchange (IDX) were analyzed to identify patterns and relationships between governance practices and financial performance.
Regulatory Framework Analysis: Reports from Indonesia's Financial Services Authority (OJK) and other regulatory bodies were reviewed to understand the governance standards and legal frameworks in place, and how these influence corporate behavior and financial outcomes (Szabó & Sørensen, 2017).

Data Analysis Method

Data analysis in this study follows a thematic analysis approach. Thematic analysis is suitable for qualitative research as it allows for the identification of key themes, patterns, and relationships within the data. The following steps were employed in the analysis process:

Data Coding: Initial readings of the collected documents and literature helped identify significant themes and patterns related to corporate governance and financial performance. These themes were then coded to organize the data.
Theme Development: After coding, the themes were further refined to capture specific factors that affect financial performance in the context of Indonesian corporate governance. These themes included board structure, shareholder rights, transparency, regulatory frameworks, and ownership structures.
Cross-Referencing: The identified themes were cross-referenced with the financial performance indicators of companies, as reported in their financial statements, to establish correlations between governance practices and financial outcomes.
Interpretation and Synthesis: The final step involved synthesizing the findings from the literature, document analysis, and regulatory framework review to provide a comprehensive interpretation of the relationship between corporate governance and financial performance (Szabó & Sørensen, 2017).

Validity and Reliability

To ensure the validity and reliability of the findings, the research relied on multiple sources of data, including peer-reviewed articles, government reports, and corporate disclosures. The use of various sources allowed for triangulation, which enhances the robustness and credibility of the results. Additionally, all data sources were carefully selected based on their relevance, timeliness, and authority (Cai & Zhu, 2015).

Ethical Considerations

Since this study primarily involves secondary data collection, ethical concerns related to participant privacy and consent are minimal. However, due credit was given to all sources through proper citation, ensuring that intellectual property rights are respected. Furthermore, all information used in the study was taken from publicly available sources, ensuring compliance with ethical research standards(Vanclay et al., 2013).

3. RESULT AND DISCUSSION

The analysis of the relationship between corporate governance and the financial performance of listed companies in Indonesia's stock market reveals a complex yet significant correlation. Through the extensive review of academic literature, corporate reports, and regulatory frameworks, several key factors emerge that influence how governance structures impact financial outcomes in this emerging market (Claessens & Yurtoglu, 2013).

One of the primary findings of this study is the central role of board composition and independence in determining a company's financial performance. In many of the analyzed companies, the presence of independent directors on the board was found to have a positive impact on financial performance. This is consistent with global research which suggests that independent directors, by providing objective oversight, reduce agency problems and improve decision-making processes. However, in the Indonesian context, the influence of independent directors is often diluted by the significant presence of family ownership, which remains a dominant feature of many listed companies. Family-controlled businesses tend to concentrate decision-making power, reducing the board's ability to provide independent and effective oversight. This concentration of power often leads to a lack of transparency and may adversely affect the company's financial performance in the long term (Claessens & Yurtoglu, 2013).

Another important aspect identified in the analysis is the role of shareholder rights. The Indonesian corporate governance framework has made significant strides in improving shareholder protection in recent years. However, practices such as the lack of minority shareholder representation and the limited enforcement of shareholder rights remain prevalent in many companies. The uneven distribution of power among shareholders often hampers effective governance, which, in turn, negatively impacts the financial performance of companies. In this context, companies that uphold stronger shareholder rights and better shareholder engagement tend to show better financial performance, as they are more likely to attract investments and maintain investor confidence (Shahid & Abbas, 2019).

Transparency and disclosure are also crucial elements in shaping the financial performance of Indonesian listed companies. Despite the regulatory efforts by the Financial Services Authority (OJK) to improve disclosure practices, many companies still provide limited and sometimes misleading financial information. This lack of transparency creates uncertainty in the market, affecting investor confidence and, ultimately, the company's ability to raise capital at favorable terms. On the other hand, companies with higher levels of transparency, which adhere to international accounting standards and provide timely, accurate financial reports, tend to perform better financially. This finding reinforces the idea that good corporate governance, particularly transparency, not only reduces financial risks but also enhances a company's reputation, attracting more investors and improving overall financial outcomes (Shahid & Abbas, 2019).

The regulatory environment also plays a significant role in influencing corporate governance practices in Indonesia. The government has enacted various reforms aimed at improving corporate governance standards, including the introduction of mandatory corporate governance codes and stronger penalties for non-compliance. However, the effectiveness of these regulations is often compromised by inconsistent enforcement and the influence of informal networks within corporate structures. While larger corporations, especially those with foreign investments, tend to comply more rigorously with governance standards, smaller and family-owned companies often bypass these regulations, leading to weaker governance and suboptimal financial performance (Becher & Frye, 2011).

Furthermore, the socio-cultural context of Indonesia plays a unique role in shaping corporate governance practices. In Indonesia, a strong emphasis on hierarchical relationships and family ties often affects the decision-making processes within corporations. This cultural aspect can create conflicts between management and the board, especially in family-owned businesses, where the desire for control and succession planning often overshadows corporate governance principles. The influence of such cultural factors on corporate governance can result in inefficiencies, misaligned interests, and ultimately, a negative impact on financial performance. In contrast, companies that have embraced more modern governance practices, with a focus on professional management and board independence, tend to exhibit better financial performance and greater sustainability (Lassala et al., 2017).

Despite these challenges, the research also highlights a growing trend toward improving corporate governance among Indonesian-listed companies. International pressures, particularly from foreign investors and global financial institutions, are encouraging companies to adopt more robust governance practices. As a result, companies that have actively pursued governance reforms, such as enhancing board independence, improving transparency, and strengthening shareholder rights, have shown a positive correlation with financial performance. These companies are not only better positioned to navigate the challenges of the Indonesian market but also to compete effectively on the global stage (Sparrow et al., 2020).

The findings of this study suggest that there is a positive, though complex, correlation between corporate governance and financial performance in Indonesia's stock market. The study highlights the importance of board independence, shareholder rights, transparency, regulatory frameworks, and socio-cultural factors in shaping the effectiveness of corporate governance. However, it also reveals the challenges faced by Indonesian companies, particularly those with family ownership and in smaller industries, in adhering to best governance practices. To enhance financial performance and sustainability, it is crucial that Indonesian companies continue to evolve their governance structures in line with global standards while taking into account the local socio-cultural dynamics and regulatory environment (Kornilaki & Font, 2019).

The findings also underline the urgent need for stronger enforcement of governance regulations and for fostering a corporate culture that values transparency, accountability, and ethical business practices. As the Indonesian market continues to grow, the development of a more sophisticated corporate governance framework will be essential in supporting the long-term financial success of listed companies and in enhancing the overall competitiveness of Indonesia's stock market in the global economy.

Impact of Board Composition on Financial Performance

The composition of the board of directors is a critical factor influencing corporate governance practices, which in turn affects financial performance. Independent directors are often seen as a crucial component of board structure, as they provide impartial oversight and reduce agency problems between management and shareholders. In Indonesia, companies with a higher proportion of independent directors tend to demonstrate better governance practices, which are positively correlated with improved financial performance. Independent directors ensure that decision-making processes are transparent and free from undue influence, leading to more informed and responsible financial strategies. However, it is important to note that the effectiveness of independent directors in Indonesia is often compromised by the overwhelming presence of family-owned businesses, where decision-making power is concentrated in the hands of a few. This concentration reduces the ability of independent directors to act effectively, ultimately limiting their contribution to financial performance.

Family-owned companies, which dominate Indonesia's corporate landscape, present unique challenges. In such companies, governance is often informal, with decision-making heavily influenced by family dynamics. This lack of professionalization in governance can result in inefficiencies, conflicts of interest, and poor financial outcomes. On the other hand, firms with a more diverse and independent board structure tend to show higher financial performance, as these companies are more likely to adopt globally recognized governance practices. The presence of external directors often helps mitigate the risks associated with family control, ensuring that decisions are made based on long-term financial health rather than short-term family interests.

The evidence suggests that companies with a balanced board structure that includes both independent directors and external experts can improve the strategic decision-making process, leading to better financial performance. These companies tend to perform better in terms of profitability, return on assets, and market valuation. Furthermore, boards that emphasize diversity in their composition—whether in terms of gender, expertise, or experience—are better equipped to handle complex business challenges, thus supporting sustained financial success.

Despite these advantages, the Indonesian market faces challenges in implementing effective board structures. There is often a lack of awareness about the importance of board independence, and many companies resist governance reforms due to cultural factors and a preference for family control. This resistance creates a significant governance gap that needs to be addressed if financial performance is to be optimized across the market.

Thus, the composition of the board plays a pivotal role in shaping the governance landscape and determining the financial outcomes of companies in Indonesia's stock market. Strengthening the independence of boards and ensuring more diverse, professional, and effective governance mechanisms will be crucial in enhancing financial performance and attracting investment in the future.

Table 1. Impact of Board Composition on Financial Performance

Aspect	Description	Impact on Financial Performance
Independent Directors	The proportion of independent directors on the board who are not affiliated with the company's management.	A higher percentage of independent directors improves oversight, accountability, and decision-making, leading to better financial performance.
Board Diversity	The inclusion of board members with varied expertise, gender, and experience.	Diverse boards are better equipped to address challenges, resulting in more strategic decisions and improved financial outcomes.
Family-Controlled Companies	Companies dominated by family ownership with limited external influence.	Family-controlled firms may have weak governance, reducing effectiveness in decision-making and resulting in poorer financial performance.
Board Size and Structure	The number of directors and the structure of the board, including committees (audit, risk, etc.).	A well-structured board with a reasonable size ensures efficient decision-making, which is linked to stronger financial

Aspect	Description	Impact on Financial Performance
		outcomes.
Board Independence	The ability of the board to act autonomously without being influenced by controlling shareholders.	Independent boards are crucial for reducing conflicts of interest, improving corporate governance, and enhancing financial performance.

The composition of a company's board significantly influences its financial performance. Independent directors play a critical role by offering impartial oversight and ensuring that decisions are made in the best interest of shareholders, rather than being driven by management's or controlling shareholders' interests. Research indicates that a higher proportion of independent board members correlates with better financial performance, as they bring objective perspectives to corporate governance. Additionally, board diversity, in terms of gender, expertise, and experience, fosters more innovative and effective decision-making, which positively impacts financial outcomes.

In family-controlled businesses, where ownership and management are often concentrated within a family, board independence tends to be compromised, leading to inefficiencies and potentially poor financial results. On the other hand, companies with a well-balanced, diverse, and independent board structure are more likely to adopt sound governance practices that contribute to profitability, risk management, and market valuation. Therefore, companies seeking to improve their financial performance should prioritize enhancing board composition, ensuring that it aligns with international best practices for governance.

The Role of Shareholder Rights in Corporate Governance

Shareholder rights are a key element in corporate governance, and their effective implementation is closely tied to financial performance. In Indonesia, the rights of minority shareholders often remain underdeveloped, with concentrated ownership structures that limit their influence on corporate decision-making. This lack of protection for minority shareholders can lead to agency problems, where the interests of majority shareholders and management take precedence over those of minority investors. Such imbalances can result in poor financial outcomes, as decisions may be made that benefit the controlling shareholders rather than the company as a whole (Courteau et al., 2017).

Companies that have adopted better shareholder protection practices, such as providing minority shareholders with more voting rights and transparency in decision-making, have demonstrated improved financial performance. The presence of mechanisms to ensure the fair treatment of shareholders is crucial in fostering trust and stability in the market. When shareholders feel that their interests are protected, they are more likely to invest in and hold shares of companies, which leads to an increase in capital inflow and ultimately improves the company’s financial standing.

The regulatory framework in Indonesia has made strides in protecting shareholder rights, with the Financial Services Authority (OJK) introducing various reforms to promote fairness and transparency in corporate governance. However, enforcement of these regulations remains inconsistent, with many companies failing to fully comply. In some cases, the legal framework is insufficient to address the challenges posed by concentrated ownership and the influence of large shareholders. As a result, minority shareholders continue to face significant barriers to influencing corporate governance decisions.

Empirical evidence suggests that stronger protection of shareholder rights contributes to higher market valuations, improved profitability, and greater financial stability. Companies that maintain open communication with their shareholders and ensure that their rights are respected tend to show better performance metrics, such as return on equity (ROE) and return on investment (ROI). This finding highlights the importance of shareholder rights in driving corporate performance and suggests that further regulatory reforms are needed to strengthen these protections in Indonesia (Triggs et al., 2019).

Shareholder rights play a pivotal role in shaping the corporate governance landscape in Indonesia. Enhancing these rights and ensuring that companies adhere to best practices in shareholder treatment will be essential for improving financial performance and fostering a more competitive and investor-friendly environment.

Transparency and Disclosure Practices

Transparency and disclosure are fundamental principles of corporate governance that directly affect the financial performance of listed companies. In Indonesia, transparency remains a significant challenge, with many companies still providing limited or incomplete financial disclosures. The lack of detailed financial information not only undermines investor confidence but also hinders effective market functioning. Companies that fail to disclose relevant information or engage in opaque financial reporting often experience a decline in investor trust and financial performance. On the contrary, companies with high levels of transparency, which comply with international reporting standards and disclose detailed financial statements, tend to perform better financially.

Studies show that increased transparency is associated with better financial outcomes, as investors are more likely to invest in companies that provide accurate, timely, and comprehensive financial information. These companies are perceived as less risky, leading to a lower cost of capital and a higher valuation in the stock market. Furthermore, transparent companies are more likely to attract foreign investment, which has become increasingly important in Indonesia’s rapidly developing economy (Hill, 2000).

Despite the regulatory framework in place to promote transparency, many Indonesian companies still struggle with full implementation. A key factor is the lack of strong enforcement mechanisms by regulatory bodies like OJK. While larger, multinational companies typically adhere to global best practices in financial reporting, smaller and family-owned companies often lag behind, providing minimal or non-standardized disclosures.

The importance of adopting international accounting standards and improving internal control systems cannot be overstated. Companies that invest in robust financial reporting mechanisms, such as integrated financial systems and internal audit departments, are better positioned to provide accurate and reliable information to investors. In addition, companies that consistently disclose their financial performance and governance practices are more likely to build trust with their stakeholders, leading to better financial outcomes.

Ultimately, the evidence suggests that transparency and disclosure are crucial to improving financial performance in Indonesia's stock market. For companies to thrive, they must adopt a culture of transparency and actively work to enhance the quality and completeness of their financial reporting. This will lead to greater investor confidence and a stronger, more stable market.

Regulatory Environment and Corporate Governance

The regulatory environment plays a significant role in shaping corporate governance practices, and its impact on financial performance cannot be overlooked. In Indonesia, the regulatory framework has evolved over time, with the government implementing various reforms aimed at improving corporate governance standards. The Financial Services Authority (OJK) has been instrumental in introducing regulations that promote transparency, accountability, and fairness. However, despite these efforts, the enforcement of these regulations remains inconsistent, and challenges persist in ensuring that companies fully comply with governance requirements (Hashmi et al., 2018).

The legal framework in Indonesia is often seen as insufficient in addressing the unique challenges posed by family-controlled companies and concentrated ownership structures. While larger corporations tend to adhere to governance standards due to their international exposure and investor pressure, smaller and family-owned companies often bypass regulations or apply them selectively. This uneven adherence to corporate governance norms can lead to discrepancies in financial performance across different sectors and companies in Indonesia's stock market.

The effectiveness of regulatory reforms depends on the strength of enforcement mechanisms and the willingness of companies to comply. While regulatory bodies like OJK have made significant strides in improving governance standards, they must do more to address the cultural and structural barriers that hinder full implementation. A stronger regulatory environment, with clearer guidelines and more stringent penalties for non-compliance, would encourage companies to adopt better governance practices and ultimately improve their financial performance.

Moreover, international investors are increasingly scrutinizing the regulatory environment in emerging markets, and the lack of robust governance frameworks can deter foreign investment. As Indonesia seeks to position itself as a competitive market in the global economy, it is essential that the regulatory environment continues to evolve in line with international standards. This would not only enhance financial performance but also attract greater foreign investment, boosting the overall health of the stock market.

While Indonesia's regulatory environment has made progress, there is still significant work to be done to ensure that corporate governance practices are consistently implemented across all sectors. Strengthening the regulatory framework and improving enforcement will be crucial to fostering a more transparent and efficient market, which in turn will drive better financial performance.

Ownership Structure and Governance Practices

Ownership structure is a crucial determinant of corporate governance and financial performance in Indonesia. In many cases, companies in Indonesia are family-owned or controlled by a small group of dominant shareholders. This concentrated ownership often leads to governance challenges, as decisions may be made based on the interests of controlling shareholders rather than the long-term interests of the company. Family-controlled businesses in Indonesia often have informal governance structures, with limited separation between ownership and management, which can result in conflicts of interest and inefficiencies in decision making (Morris, 1994).

However, there is evidence that companies with a more dispersed ownership structure, where power is more equally shared among various stakeholders, tend to perform better financially. This is because these companies are more likely to implement formal governance structures, including independent directors, shareholder protections, and transparent reporting practices. In contrast, companies with concentrated ownership tend to exhibit lower levels of financial performance due to the lack of independent oversight and the dominance of a single shareholder or family in decision-making.

Studies show that companies with a high degree of ownership concentration face greater challenges in implementing effective corporate governance practices, as the interests of controlling shareholders often outweigh those of minority shareholders. This can lead to suboptimal financial outcomes, as decisions are made that benefit the controlling parties rather than the company as a whole. On the other hand, companies with more diversified ownership structures tend to demonstrate higher levels of accountability and transparency, which are positively correlated with financial performance.

The governance challenges posed by concentrated ownership can be mitigated by adopting best practices such as independent board members, clear shareholder agreements, and stronger regulatory oversight. Companies that are able to strike a balance between family control and professional management are more likely to achieve better financial results, as they are able to make decisions based on the long-term interests of the company rather than short-term familial concerns.

Ownership structure plays a significant role in shaping corporate governance and financial performance in Indonesia. Companies with more dispersed ownership structures tend to exhibit better governance practices and superior financial outcomes. For Indonesia's stock market to continue to grow, it will be important for family-controlled companies to adopt more professional governance structures and embrace greater transparency and accountability.

The Influence of Family Control on Corporate Governance

Family control in Indonesian companies remains one of the most significant barriers to effective corporate governance. Family-controlled businesses often resist formal governance structures, preferring to make decisions informally within the family group. This creates a centralization of power, which limits the ability of external shareholders or independent directors to influence corporate decision-making. The dominance of family control can lead to conflicts of interest, nepotism, and inefficiencies in resource allocation, all of which negatively affect financial performance.

Research shows that family-controlled

businesses in Indonesia often experience slower decision-making processes and lack strategic planning due to the focus on maintaining family control rather than maximizing shareholder value. The centralization of power in the hands of a few family members can also create barriers to innovation and adaptation, as decisions are based on personal interests rather than the long-term interests of the company.

However, family-controlled businesses that adopt formal governance practices, such as appointing independent directors and separating ownership from management, tend to perform better financially. These practices help reduce conflicts of interest and ensure that decisions are made in the best interest of the company. Furthermore, family businesses that embrace succession planning and professional management are better able to navigate the challenges of a rapidly changing market, leading to improved financial performance and long-term sustainability.

While family control poses challenges to corporate governance in Indonesia, there are examples of family businesses that have successfully implemented governance reforms and achieved strong financial performance. The key to success lies in striking a balance between maintaining family control and adopting professional governance practices that prioritize transparency, accountability, and long-term financial health(Cuadrado-Ballesteros & Bisogno, 2022).

The Role of Cultural Factors in Corporate Governance

Cultural factors play a crucial role in shaping corporate governance practices in Indonesia. The hierarchical nature of Indonesian society, coupled with strong family ties, often influences the way companies are managed. In many cases, business decisions are made based on personal relationships rather than objective financial considerations. This can lead to a lack of transparency, favoritism, and inefficiencies in corporate governance, which negatively impact financial performance.

The collectivist culture in Indonesia places a strong emphasis on maintaining harmony within family and business relationships, which can result in a reluctance to challenge decisions made by family members or controlling shareholders. This creates a governance environment where accountability is weakened, and decision-making is more focused on maintaining family unity rather than improving the company's financial health.

However, there is evidence that companies that are able to navigate the cultural nuances of family business dynamics and integrate professional governance practices tend to perform better. These companies are able to balance the need for family control with the benefits of independent oversight, leading to better decision-making and improved financial outcomes. Furthermore, as Indonesia becomes more integrated into the global economy, there is a growing recognition of the importance of adopting international governance practices that emphasize transparency, accountability, and fairness.

Cultural factors significantly influence corporate governance practices in Indonesia, but companies that adapt to these cultural nuances and implement best practices in governance are better positioned to achieve strong financial performance.

Recommendations for Enhancing Corporate Governance in Indonesia

To improve corporate governance and financial performance in Indonesia, several recommendations can be made. First, it is essential to strengthen the independence of boards of directors by increasing the proportion of independent directors and ensuring that they have the authority to influence decision-making processes. This can help reduce agency problems and enhance the accountability of management(Raelin & Bondy, 2013).

Second, shareholder rights should be protected more effectively, especially those of minority shareholders. Ensuring that shareholders have more influence over corporate decisions and that their rights are clearly defined will help foster greater trust in the market and attract investment.

Third, companies must prioritize transparency by adhering to international accounting standards and providing timely and accurate financial disclosures. This will help build investor confidence and improve the company's reputation in the market.

Finally, the regulatory framework must be strengthened to ensure that companies comply with governance standards. Enforcement mechanisms should be improved, and penalties for non-compliance should be made more stringent to encourage better governance practices across the market.

By implementing these recommendations, Indonesia can improve corporate governance, enhance financial performance, and attract more investment, ultimately strengthening its position in the global economy.

4. CONCLUSION

This study explored the correlation between corporate governance and financial performance of listed companies in Indonesia’s stock market. The findings clearly indicate that corporate governance plays a significant role in shaping financial outcomes. Companies that adopt strong governance practices, such as maintaining a balanced and independent board, protecting shareholder rights, and ensuring transparency in their financial disclosures, generally perform better financially. The analysis revealed that family-controlled businesses, which dominate the Indonesian market, often face challenges in implementing effective governance due to centralized decision-making and a lack of independence, leading to suboptimal financial performance. However, firms that have successfully integrated independent governance structures and adopted global best practices tend to show stronger financial metrics, such as profitability, return on equity, and stock market valuation.

The implications of this study are far-reaching. To enhance the overall financial performance of companies listed in Indonesia’s stock market, regulatory bodies must enforce stronger governance standards and promote better adherence to corporate governance principles. Additionally, companies should strive to improve board composition by increasing the proportion of independent directors and ensuring greater shareholder rights protection. For family-controlled businesses, adopting formal governance practices and separating ownership from management will be critical in improving both operational efficiency and financial performance. The study recommends that policymakers and corporate leaders in Indonesia focus on fostering an environment that supports transparency, accountability, and equity in governance, as these factors are essential for driving long-term financial growth and attracting both local and international investment.

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