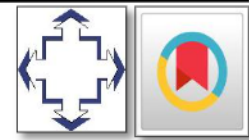


Institutional Ownership, Blockholder Ownership, and the Board's Tenure to Disclosure of Corporate Governance



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ABSTRACT

This research was conducted to determine the effect of institutional ownership, blockholder ownership and the Board's tenure on disclosure of corporate governance in Indonesia. The population is all publicly listed companies listed on the Indonesia Stock Exchange and samples were taken using purposive sampling techniques to produce a total of 152 companies in the period 2016-2017. Using the multiple linear regression test, the results show that institutional ownership and blockholder ownership have a positive effect on corporate governance disclosure, while there is no effect of the Board's tenure on corporate governance.

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1. Introduction

Corporate governance is the management of a business activity oriented to value creation that is not only short term, but sustainable. The existence of good corporate governance is crucial for the sake of a business activity that still stands and operates in a sustainable manner as well. (Madhani, 2015b). Madhani (2015b) also revealed that governance is not only limited to its implementation, but also how a business entity proves the implementation, namely through disclosure. Disclosure of important matters that are true, relevant and accurate as well as paying attention to aspects of time allows stakeholders to assess how management works. Compliance with governance can be an important factor behind a company's success (Fung 2014). And compliance and performance can be seen and assessed from the disclosures or disclosures listed in the company's annual report published annually. This shows the level of transparency expressed by a company.

In order to convince interested parties that the company does have a good corporate governance structure, transparency is needed (Grassa&Chakroun 2016). So that stakeholders can assess the work of a management, it will be greatly helped by the disclosure of important information which is of course accurate, responding to what stakeholders want to know and issued at the right time (Madhani 2015a). On July 29, 2016, Financial Services Authority Regulation established regulations, namely POJK Number 29 / POJK.04 / 2016 concerning Annual Reports of Issuers or Public Companies. In Article 4 it is stated that the annual report of a public company must contain the said corporate governance. Then there is Regulation Number 30 / SOJK.04 / 2016 regarding the Form and Content of Annual Reports of Issuers or Public Companies that were issued on August 3, 2016. This research focuses on the influence of institutional ownership, blockholder ownership and the the Board's tenure on disclosure of governance companies in public companies in Indonesia.

The ownership structure and term of office of the Board are expected to increase the value of the company. Both of these elements are thought to be able to reduce the conflict of interest that occurs between shareholders and company management, because these two elements are closely related to how the company is managed. Lakhal (2006) argues that institutional ownership can encourage the achievement of good corporate governance. This is based on the assumption that an institution has a level of caution and good judgment in making decisions, so that when an institution has a sharing of interests in a company, it is expected that the management of the company will be good because of good supervision. Such conditions also occur in blockholder ownership.

Blockholder ownership shows a certain concentration in the company's ownership structure, where the ownership of the shares is concentrated in certain parties who have shares above 5%. This condition will affect the management of the company. because the majority shareholders already have comprehensive access to company information. Another thing that is also thought to influence the disclosure of corporate governance is the term of office of the Board. The length of the term of office, is closely related to the increasing level of experience and knowledge. The higher level of experience and knowledge possessed by the Board, is expected to further enhance its ability to manage the company. One indicator of good company management is transparency, which in this case is the disclosure of corporate governance.

Research on the influence of institutional ownership, blockholder ownership and the term of office of the Board on the unfolding of corporate governance, has been carried out by previous researchers. However, this study has a difference that is at the same time a renewal, where this study uses a disclosure index issued by the United Nations Conference of Trade and Development (UNCTAD), which consists of 52 items. To the best of the researchers' knowledge, the use of this index has not been widely used by researchers in Indonesia, because there is an assumption that there is an irrelevance in some disclosure items issued by UNCTAD with the conditions of companies in

Indonesia. However, researchers have other considerations in the use of the index issued by UNCTAD, where this index is more internationally accepted.

2. Literature Review

Institutional ownership is the proportion of share ownership by shareholders in the form of an institution. In general, when compared to individual shareholders, institutions have much better supervisory abilities on the performance of a company (Shleifer & Vishny 1986). Conversely, individual shareholders with shares that are not as large as the property of institutions, do not have equal ability to collect and obtain information that can make them monitor and control the behavior of company management (Stiglitz 1985). The impetus for institutional shareholders to always supervise management behavior tends to be large because the proportion of their share ownership is relatively larger than that of individual shareholders (Jensen 1993b).

Solomon, *et al.* (2002) explained that institutional shareholders have a crucial role in equalizing the interests of shareholders with company management. Voluntary disclosure by companies can be a means of aligning interests between the two parties (Eng & Mak 2003). Institutional shareholders have more motivation to oversee management behavior because the proportion of their share ownership is relatively greater than individual shareholders (Jensen 1993b). Conversely, shareholders in the form of individuals who have a relatively small proportion of ownership have an ability that cannot match institutional shareholders to collect and obtain information that can make them monitor and control the behavior of company management (Stiglitz 1985).

Judging from agency theory, institutional shareholders play an important role in overseeing company management because of its greater ability to carry out these supervisory actions. In addition, institutional shareholders also tend to have majority voting rights, so they are able to oversee management's actions in more depth. This will encourage management to make disclosures to reduce agency conflicts. Research by Al-Bassam, *et al.* (2015) found that there was a positive effect of institutional ownership on disclosure of corporate governance. The greater the share of institutional ownership, the better the disclosure of governance. Based on this explanation, this study hypothesizes that:

H₁: Institutional ownership has a positive effect on disclosure of corporate governance.

According to Edmans (2014), blockholders are large shareholders in a company. Edmans (2014) states that blockholders have a crucial role in governance, because the size of their shares in the company gives impetus to bear the costs incurred for monitoring activities. Same is the case with Dou *et al.* (2016) which says when shareholders do not have a majority interest, it will be less economical for individual shareholders to incur significant monitoring costs, because the benefits they will receive tend to be small. For this reason, blockholders can help improve reporting quality and transparency. The proportion of ordinary shares owned by the block at least 5% of the total issued shares is used to measure the variable ownership of the blockholders.

The theoretical framework developed by Jensen & Meckling (1976), based on agency theory and ownership structure, plays a central role in the corporate governance literature. Bonazzi & Islam (2007) argues that effective control mechanisms that can reduce agency costs and force managers to act in the interests of shareholders have become a major concern for corporate governance. Likewise, Jensen (1993a) argues that ownership structure is an important element in corporate control and governance.

According to Edmans (2014), the important role played by blockholders motivates them to pay for monitoring or monitoring of the company's management performance. In line with Edmans (2014), and Dou, *et al.* (2016) explained, when shareholders do not have a majority interest, it is less

economical for individual shareholders to incur significant monitoring costs, because they will only receive a small benefit. Thus, blockholders can help improve reporting quality and transparency.

The results of empirical studies on the effect of blockholder ownership on corporate governance disclosure cannot be concluded. For example, Gan,*et al.* (2013) observed a positive relationship in companies registered in Malaysia. In contrast, Al-Bassam,*et al.* (2015) shows that blocking has a significant negative effect on disclosure of governance in companies registered in Saudi Arabia. Meanwhile, Nerantzidis&Tsamis (2017) did not find any influence from blockholder ownership on disclosure of corporate governance.

In Indonesia, the Financial Services Authority Regulation, POJK No. 11/ 2017 requires members of the board to report for ownership of at least 5% of paid up capital in a publicly listed company. Given the effectiveness of blockholders as a corporate governance tool, and their ability to exert pressure on managers to increase accountability, transparency and disclosure practices, it is hoped that a higher proportion of blockholder ownership is associated with good corporate governance disclosure. Thus, the hypotheses compiled are:

H2: Blockholder ownership has a positive effect on corporate governance disclosure.

The term of office can be interpreted as the span of time a person has to hold a position. Byrd,*et al.* (2010) stated that the relatively longstanding relationship between the board tended to increase the existence of agency problems and reduce the course of supervision from the board. However, Vafeas (2003) explained that a board with a long period of time can actually grow a knowledge of the company and change its business activities for the better. On the one hand, the close relationship with the directors also does not mean good, even the objectivity of supervision will be threatened. In this study, the term of office is how long the board has served in the company as measured by the average number of years of the board working in the company.

Berberich&Niu (2011) found councils with long tenure had a negative impact on governance, because effectiveness in supervision of management would be reduced. A different conclusion is found in other studies, that a long tenure means the council will become more critical, rather than a short tenure (Bebchuk& Cohen 2003). A board with a long term of office also means that it has more interaction and information (Rutherford &Buchholtz 2007).Research conducted on the effect of the term of office of the board on disclosure of corporate social responsibility, with characteristics similar to disclosure of corporate governance, shows the results that the board's tenure has a negative effect on CSR disclosures that are voluntary (Sari,*et al.* 2016). This study supports the previous research conducted by Vafeas (2003) and Byrd, *et al.* (2010). Therefore, the hypotheses compiled are:

H3: The Board's tenure has a negative effect on disclosure of corporate governance.

3. Research Method

The population used in this study is all listed companies listed on the Indonesia Stock Exchange with purposive sampling criteria including; (1) publicly listed companies that publish annual reports for the 2016-2017 period, and (2) publicly listed companies that publish sufficient information regarding share ownership and terms of office of the Board. The Board and disclosure of corporate governance along with their operational definitions are in the following Table 1.

Table 1. Definition of Variable Operations

Type	Name	Opeartional Definition
Dependent	Disclosure of Corporate Governance	disclosure of corporate governance (which is a recommendation index by UNCTAD (The United Nations Conference of Trade and Development), consisting of 52 items (UNCTAD, 2011))

Independent	Institutional ownership (INST)	Number of company shares owned by the institution (Deumes and Knechel, 2008)
	Blockholder ownership (BLOCK)	Share ownership of 5% or more (Fama and Jensen, 1983)
	The Board's tenure (TENURE)	Average time (years) of terms of service for members of the Board (Oliveira, <i>et al.</i> 2016)

The use of the recommendation index by UNCTAD (2011) is based on an analysis conducted by the agency involving Indonesia, so that it is relevant if used in research focusing on companies in Indonesia. The analytical tool used is multiple linear regression analysis to find the effect of independent variables on the dependent (Ghozali, 2011) with the following models:

$$CGD = \alpha + \beta_1 (INST) + \beta_2 (BLOCK) + \beta_3 (TENURE) + \varepsilon$$

Notifications

CGD : disclosure of corporate governance

INST : Institutional ownership

BLOCK : Blockholder ownership

TENURE : The Board's tenure

α : Constan

β : Regression coefficient

ε : Standarderror

Before testing the hypothesis with multiple linear regression, the data feasibility test is first performed through the normality test and the linearity test. Then multicollinearity test, heteroscedasticity test and autocorrelation test are also carried out to ensure the feasibility of the data. Testing the model is analyzed by determination, F test and t test to find out how much influence the independent variables have on the dependent variable.

4. Results and Discussion

Descriptive statistical testing was first carried out, showing the results of the average corporate governance disclosures (CGD) conducted by companies in Indonesia that were included in the sample were still relatively low, ie 28 items out of a total of 52 items recommended in the UNCTAD index, with the most disclosure is 36 items and the lowest is only 18 items. Institutional ownership (INST) has a fairly high average of 76.2, with the lowest value 0 and the highest 99.8. Unlike institutional ownership, blockholder ownership (BLOCK) has an average of only 0.7, with a maximum value of 1 and a minimum of 0. Finally, the Board's tenure (TENURE) has an average value of 6.7 years, with tenure the shortest 0.08 years and the longest 27.5 years.

Before testing multiple linear regression analysis, a classic assumption test is performed. The result, the data is seen following a diagonal line in multivariate normality tests, also testing with Kolmogorov-Smirnov shows a value of 0.054, which means the data has been normally distributed. Multicollinearity test by looking at the Tolerance value, none of which reached 0.1, and the value of Variance Inflation Factor (VIF), none of which reached 10, indicating that there are no independent variables that correlate strongly with each other.

Heteroscedasticity testing with scatterplot shows that the data has spread. Supporting scatterplots, the Glejser test was carried out and it was seen that there were no variables that had a significance level below 0.05, meaning that the data was free from heteroscedasticity. Finally, the autocorrelation test is performed by looking at the Durbin-Watson value, amounting to 2.047, which means that the data is free from positive or negative autocorrelation.

The coefficient of determination obtained by 23.1, which means that the independent variables can explain the dependent variable by 23.1%, while the other 76.9% is explained by other factors. Tests with multiple linear regression analysis show the following results:

Tabel 2. Result

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	3,114	0,471		0,143	0,000
INST	0,001	0,000	0,185	1,446	0,011
BLOCK	0,254	0,076	0,146	2,291	0,001
TENURE	-0,001	0,002	-0,022	-0,692	0,591
F	= 8,581				
Sig. F	= 0,000				
R ²	= 0,262				
Adjusted R ²	= 0,231				

$$CGD = 3,114 + 0,001 \text{ INST} + 0,254 \text{ BLOCK} - 0,001 \text{ TENURE} + \varepsilon$$

Hypothesis 1, that has been formulated namely; institutional ownership has a positive effect on corporate governance disclosure. From the test results with multiple linear regression analysis, the results obtained t value of 1.446 and a significance value of 0.011, below 0.05. This shows that hypothesis 1 is accepted; institutional ownership has a positive effect on corporate governance disclosure. According to agency theory, institutional shareholders play an important role in overseeing company management because of their greater ability to carry out these supervisory actions. In addition, institutional shareholders also tend to have majority voting rights, so they are able to oversee management's actions in more depth. This will encourage management to disclose internal controls to reduce agency conflicts. This finding supports the results of research by Al-Bassam, *et al.* (2015) which states that institutional shareholders play an important role in overseeing company performance, because they have majority voting rights and access to management through special information channels.

Hypothesis 2, that has been formulated namely; blockholder ownership has a positive effect on corporate governance disclosure. From the test results with multiple linear regression analysis, the results obtained t value of 2.291 and a significance value of 0.001, below 0.05. This shows that hypothesis 2 is accepted; Blockholder ownership has a positive effect on corporate governance disclosure. Agency theory argues that effective controls that can reduce agency costs and force managers to act in the interests of shareholders have become a major concern for corporate governance. Edmans (2014) claims that blockholders, play an important role in governance, because the size of their shares in the company provides an impetus to bear the costs of monitoring managers. This finding supports the results of research by Gan, *et al* (2013) which states that higher blockholder ownership offers what investors want, in the form of better supervision and discipline of managers.

Hypothesis 3, which has been formulated namely; the Board's tenure has a negative effect on disclosure of corporate governance. From the test results with multiple linear regression analysis, the results obtained t value of -0,001 and the significance value of 0.692, above 0.05. This shows that hypothesis 3 is rejected; there is no influence from the Board of Commissioners' tenure with disclosure of corporate governance. Whether or not the average Board has no effect on the level of corporate governance disclosure.

5. Conclusion

This study was able to find the influence of variables related to share ownership; namely institutional ownership and blockholder ownership, both of which have a positive influence on

disclosure of corporate governance. Ownership by institutions, is considered capable of increasing disclosure of corporate governance because in general it is the majority ownership. So that it automatically has a majority vote and can control the performance of management to fit the agreed goals. Blockholder ownership, which also has a positive effect on corporate governance, is considered to be able to increase corporate governance disclosure because it provides an impetus for block owners to bear the costs of monitoring the manager's performance, because their shares are classified as high, so they are very dependent on the company's performance. alone. However, the Board's tenure variable failed to explain the disclosure of corporate governance. The findings of the study did not show any significant effect of these variables.

Research Limitations and Suggestions

There are several limitations in this study, namely the research only focuses on three independent variables; institutional ownership, blockholder ownership and the Board's tenure, which cumulatively influences 23.1% of the dependent variable; disclosure of corporate governance. Another 76.9% cannot be covered by this study. It is expected that future research on similar topics will add more independent variables from various aspects so that they can further explain the dependent variable further.

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