CHAPTER I
INTRODUCTION

1.1. Research Background

Firm performance is an essential requirement for each companies survival and growth (Kakanda et al., 2016). Firm performance is also relates to the effectiveness and efficiency companies in utilizing their own resources. Each company have different performance where as good performance will produce greater profits.

The Central Bureau of Statistics of Indonesia noted that Indonesia's economic growth in the second quarter of 2018 was 5.27%. This figure grew higher than the first quarter of 2018 of 5.06%. Economic growth in the second quarter of 2018 is also still higher than in the second quarter of 2017 at 5.01%. Meanwhile, economic growth in the first semester of 2018 grew by 5.17%. Head of the Central Bureau of Statistics Suhariyanto said that economic growth was driven by all business fields. The highest growth was achieved by other service business fields which grew by 9.22%, followed by growth in company services by 8.89% and transportation and warehousing at 8.59%. The target to be achieve is 5.4%, but 5.27% that has been achieved however that also considered as a good number delivered by the Head of the Central Bureau of Statistics Suhariyanto at a press conference at the Central Bureau of Statistics office, Jakarta.

One crucial dimension of board attributes that greatly influence on company performance namely board size. Large board size will increase the monitoring of management actions and provide better expertise for decision

making (Akpan & Amran, 2014). However, Gambo et al. (2018) viewed that small boards more effective than a large boards because large of board increases the communication problem and coordination, causes delay in decision making and creates more conflicts between shareholders and managers that have negative impact to firm performance.

Other than board size, board independence also plays an important role in company where as board independence does not have any work relationship with other commissioners, directors and controlling shareholders but are tasked to monitoring manager performance. Board independence has the task of monitoring and overcoming conflict problems of interest between board members and shareholders. Based on regulation of Financial Services Authority of Indonesia No.33 / POJK.04 / 2014 Article 20 paragraph (3) explains that each company is required to have an independence of commissioner at least 30% of the total number of board of commissioners in order to create good corporate governance and performance.

Furthermore, the ownership structure is other important factor that have influence on firm performance (Pirzada et al., 2015). The ownership structure reflects the proportion or percentage of shares held by the company's shareholders (Alabdullah, 2018). Ownership structure consists of institutional ownership and managerial ownership which is an important element in management of the company (Owusu & Agyei, 2017). Managerial ownership structures can reduce agency costs and encourage managers to improve company performance (Kumar & Singh, 2013; Aluchna & Kaminski, 2017).

However, if managerial ownership exceeds the limit will cause managers to prioritize personal interests instead of the interests of shareholders (Alabdullah, 2018). Where as institutional ownership also has great ability in overseeing company performance. The existence of institutional ownership, supervision of managers will be more stringent so that the rights of shareholders are protected (Pirzada et al., 2015). High institutional ownership will have an impact on good corporate performance (Gugong et al., 2014).

Along with the development of the times, funding is considered to be an important thing for each companies. To protect funding running smoothly, company management needs to establish a capital structure. Capital structure is a combination of equity and debt (Ogbonnaya & Chimara, 2016). Capital structure plays an important role in the decision making process, maximizes the value of the company and can provide a strategic influence for achieving the company's long-term goals. If the capital structure are not optimal, the performance of the company will have an effect and allow an increased risk of business failure (Hussain et al., 2014). Of course an optimal capital structure are needed to maximize profits and keep companies facing a competitive environment.

The company's capital structure refers to how the company funds its business operations with equity capital (Ogbonnaya & Chimara, 2016). Capital structure is also the key to increasing productivity and company performance, which aims to optimize the value of the company (Salim & Yadav, 2012). If the company's management makes a mistake in determining the capital structure, it

will have a broad impact on the company because the use of funds from higher debt will results in the company's burden also getting bigger.

Ministry of Finance data in 2016 explains that the performance of the Indonesia capital market in 2016 was recorded as one of the best in the world which ranked as the second best in the Asia Pacific and the 5th best in the world. According to Finance Minister Sri Mulyani Indrawati, this good performance was supported by several factors such as strengthening the rupiah exchange rate against the US Dollar, improving the domestic economy, restoring the credibility of the national budget, and implementing the tax amnesty.

The reason researchers propose research related to board attributes, ownership structure, and firm performance mediated by capital structure is to find out whether the firm performance will change significantly on the influence of board attributes and ownership structure and the mediating effects caused by capital structure on the relationship between board attributes, ownership structure with firm performance.

Based on the disclosure above, the researcher will examine more about the "**Board Attributes, Ownership Structure and Corporate Performance in Indonesia: Mediating Effect of Capital Structure**".

1.2. Research Question

Based on the introduction above, two research question have been formulated:

1. How does the board attributes and ownership structure influence to firm performance?
2. How does the capital structure as mediating variable influence to the relationship between board attributes, ownership structure and firm performance?

1.3. Problem Formulation

Beside the research question, there are several problems that will be discussed in the study as follows:

1. Is there any relationship between board attributes with firm performance?
2. Is there any relationship between ownership structure in companies with firm performance?
3. Does the capital structure mediate the relationship between board attributes and firm performance?
4. Does the capital structure mediate the relationship between ownership structure and firm performance?

1.4. Research Objectives and Contributions

1.4.1. Research Objectives

The purpose of this study based on the problems discussed are:

1. To find out is there any relationship between board attributes with firm performance?
2. To find out is there any relationship between ownership structure in companies with firm performance?
3. To find out does the capital structure mediate the relationship between board attributes and firm performance?
4. To find out does the capital structure mediate the relationship between ownership structure and firm performance?

1.4.2. Research Contributions

1. For companies

   The author hopes that this research can be useful for companies to be able to control the ownership system, determine the capital structure and improve company performance.

2. For academics

   The author hopes that this study can provide a clear picture of the board attributes, ownership structure and mediation effects of capital structure on firm performance and provide deeper insights and be used as references in subsequent academic research.

3. For management

The author hopes that this research can provide a clear picture of the structure of ownership and the development of company performance carried out by company management so that investors can know more clearly the corporate governance in obtaining profits.

1.5. Systematics Discussion

The research systematics that will be described in the preparation of this paper are as follows:

CHAPTER I INTRODUCTION

This chapter consists of background, research question, problem formulation, research objectives and contributions and systematic research on the preparation of this study.

CHAPTER II THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

This chapter contains the theoretical framework obtained through literature studies, the results of previous studies and research models.

CHAPTER III RESEARCH METHODOLOGY

This chapter explains the research design, research objectives, operational definitions of variables and methods of data analysis.

CHAPTER IV RESULTS AND DISCUSSIONS

This chapter contains the results of testing from data collected, descriptive statistical analysis, the results of the outlier test, the results of the panel regression test along with an explanation of the results of the hypotheses tested.

CHAPTER V CONCLUSIONS, LIMITATIONS AND RECOMMENDATIONS

This chapter is the concluding part of the paper that contains the conclusions of the entire study, findings obtained from the results of the analysis from the previous chapters, and the limitations found in the research and suggested recommendations can provide benefits for future researchers.