RESEARCH ARTICLE

THE IMPACT OF PUBLIC OWNERSHIP AS ANTECEDENT VARIABLE ON CORPORATE GOVERNANCE EFFECTIVENESS: INDONESIAN CASE.

Iwan Winardi[1], Arsono Laksmana[2] and Dyna Rachmawati[1].
1.   Doctoral Program, Postgraduate School, Widya Mandala Catholic University Surabaya.
2.   Faculty of Economics and Business, Airlangga University Surabaya.

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Manuscript Info	*Abstract*
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Background: Public ownership in Indonesia is still low compared to other ASEAN countries such as Singapore, Thailand and Malaysia. This study aims to prove that agency conflict between principal and agent can be minimized through corporate governance.
Research method: This study used partial least squares (PLS) to examine the structural effects of latent variables. Population of this study is manufacturing companies of 460 companies. Using purposive sampling, the sample is 176 companies during 2011-2012.
Results: (1) public ownership is an antecedent variables that promote the effectiveness of corporate governance, (2) corporate governance has a role to mediate the influence of public ownership on performance, (3) corporate governance practices have greater mediation role than corporate governance component, and (4) the impact of public ownership indirectly through corporate governance practices on market performance is greater than operational performance.
Conclusion: Overall, the results of this study recommend the importance of implementing corporate governance in public companies in improving performance.

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Introduction:-
In 2000, Asian Development Bank (ADB) recorded 67.3% of companies in Indonesia are family companies. The rest is a company that has diverse ownership. The government seeks to increase public ownership of companies that sell their shares on the Indonesia Stock Exchange.

Therefore, the 2000 Income Tax Law which is implemented under Government Regulation no. 81 of 2007 provides tax incentives in the form of a 5% tax rate reduction for companies with public ownership of more than 40%. However, these government efforts have not been able to encourage companies to increase public ownership. This can be seen from the absorption of funds from the capital market by companies in Indonesia is still not optimal. The ratio of external gross domestic product (GDP) ratio is 100% in 2012. This ratio is the lowest compared to other ASEAN countries such as Thailand, Philippines, Malaysia and Singapore which reaches 200% - 400%. Therefore, Indonesia desperately needs companies with modern management to increase the absorption of external funds so as to increase the ratio to more than 100%. Most companies in Indonesia still rely on the use of family funds. Family companies are in the entrepreneurial stage, because there is still a capture of functions to the owners: investment, monitoring, managing, and working (Bartholomeuz and Tanewski, 2000). In general, family companies are reluctant

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Corresponding Author:- Iwan Winardi.
Address:- Doctoral Program, Postgraduate School, Widya Mandala Catholic University Surabaya.

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to withdraw capital from the capital market. This is due to the reluctance of family companies to share the profits. In addition, previous studies indicate that there is no difference in operational performance between family companies and public companies (Bashir *et al.*, 2013; Abdelguad, Pfeifer and Gelubcke, 2015).

De-Cos, Argimon, and Gonzales-Paramon (2001) prove that public ownership is not a variable that determines the effectiveness and effectiveness of public companies in Spain. While Nuryanah and Islam (2011) use public ownership as one component of corporate governance. The research proves that public ownership improves business performance. Gitundu *et al.* (2016) prove that public ownership decreases firm performance. Those studies still show inconsistent results.

This research seeks to fill the gaps of previous studies by developing models comprehensively. Public ownership becomes the antecedent variable or the contextual of public company. Public ownership conducts monitoring activity by corporate governance. Corporate governance used in this research includes two variables: the components and its implementation. Components of corporate governance are the components that must exist in a public company, such as: the size of the board of commissioners, the size of the audit committee, and the number of independent commissioners (Reyna, Vasques and Valdes, 2012; Gupta and Sharma, 2014; Abdulazeez, Ndibel and Mercy, 2016; Gitundu *et al.*, 2016; Rostami, Rostami, and Kohansal, 2016). While corporate governance practices is the implementation of corporate governance in the day-to-day operations to support the occurrence of fair business practices, transparency, and risk minimization (Kurniawan and Indriantoro, 2000). Past research confuses the definition of corporate governance components and practices. This study distinguishes between corporate governance components and practices. Corporate governance components are the components that must exist in a public company under the terms of the Financial Services Authority. While corporate governance practices is the implementation of corporate governance in the company. This study uses both proxies together to test which is more instrumental in monitoring operational activities so as to improve the performance of the company. Company performance is measured by using two proxies, namely: market performance and operational performance. Not many studies have used these two performance indicators in one model. Larcker, Richardson and Tuna (2007) measured the corporate governance index as a proxy for corporate governance. The test results show that the corporate governance index has a positive effect on stock return. The results of these studies were confirmed by Rogers, Riberio, and Securato (2008); Parigi, Pelizon and von Thadden (2013); and Teker and Yuksel (2014). The results of these studies indicate that governance is considered positive by the market. Governance moves operational activities effectively so as to improve operational performance. Increased operational performance indicates the company's sustainability. Several studies have shown empirical evidence that is still not conclusive. Parigi, Pelizon and von Thadden (2013) show that corporate governance index has a negative effect on return on assets (ROA). Zabri, Ahmad and Wah (2016) also prove that corporate governance proxy with the size of the board of commissioners and independent commissioners negatively affects ROA. The results also show that the size of the board of commissioners and independent commissioners has no effect on return on equity (ROE). Mukhopadhyay, Malik and Dhamodiwala (2012) prove that the components of corporate governance have a positive effect on ROA, net profit margin, and sales growth.

Previous studies have shown that the results are still inconsistent. One of the reasons is that previous studies tend to use ordinary least square (OLS) to test the impact of ownership structure on corporate governance and performance. OLS cannot test the structural models. Therefore this study uses partial least square (PLS). PLS demonstrate the role of public ownership as an antecedent variable that moves corporate governance in internal process to ensure the effectiveness of the company's operations so as to have a positive impact on public investors.

Literature review and hypotheses development:-
Agency theory has two perspectives: (1) principal relationships with agents, and (2) corporate control. The first perspective, discussing the relationship between the principal and the agent, is often also called the agency problem that is the conflict of interest between the principal and the agent (Jensen and Meckling, 1976). Conflict occurs not only on the incentive side (agency cost) for managers but also in strategic choice. Principals and agents have different points of view, for example in choosing: (i) maximize growth or focus on revenue; (ii) risk diversification; (iii) aversion of managerial risk; (iv) managerial sustainable; and (v) managerial enrichment. The second perspective is corporate control related to agency performance results. Corporate control is an agency theory perspective that executes corporate strategy (Rumelt, Schendel, and Teece, 1994). One of indicators of agency performance is free cash flow. Free cash flow is money paid back to shareholders in the form of dividends, or increase in corporate value (Jensen, 1989).

Unlike agency theory, stewardship theory suggests that agents are trustworthy corporate stewards to achieve company performance in order to meet shareholder interests (Baker and Anderson, 2010). However, both theories have an equation that is the creation of self-fulfilling prophecy conditions. This condition equates the interests of the principal with the agent. This is the role of corporate governance in this research model. Corporate governance bridges the differences of interests between principals and agents in agency theory perspective. And the role of agents as stewards in building and running corporate governance (Turnbull, 2000; Baker and Anderson, 2010). This theory gap is used as the basis for the development of this research model. Corporate governance plays a role to ensure that the public interest as an owner can be fulfilled by the agent. And the agent as steward manages the company according to corporate governance. This synergy will result in both operational and market performance.

Public ownership in Indonesia
In 2012, Indonesia is in the lowest position in the long-term fund raising for investment through the capital market which is 48.8% of Gross Domestic Product (GDP). Singapore has the highest ratio of 2,691 times its GDP (Rowter, 2016). Figure 1 shows the financial structure of ASEAN member countries.
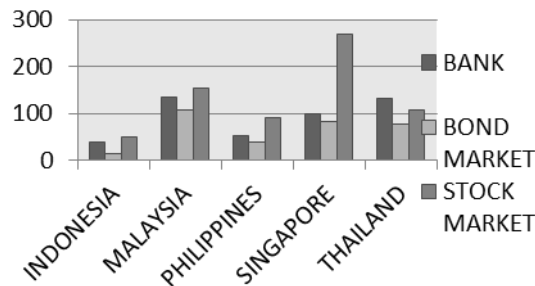
	BANK % of GDP	BOND MARKET % of GDP	STOCK MARKET % of GDP
INDONESIA	39.4	12.7	48.8
MALAYSIA	135.3	107.3	153.1
PHILIPPINES	52.4	39.6	91.7
SINGAPORE	99.0	81.2	269.1
THAILAND	131.5	76.1	106.5

Figure 1 Structure of Financial Sector in ASEAN Member
Source: Rowter, K. 2016. Indonesia Capital Market Developments and Challenges. *Nomura Journal Of Asian Capital Markets*, Autumn, Vol. 1 (1)

Rowter (2016) argues that large-scale public ownership will strengthen the country's financial structure. The argument is based on the calculation of GDP. GDP is calculated by the following formula:
$$Y = C + I + G + (X-M)$$
Where:
Y   = GDP
C   = consumption
I   = investment
G   = government spending
X   = export
M   = import
Investment (I) is derived from the sum of bank lending, bonds capitalization and stock market capitalization. Large investment will increase GDP. Increased GDP is sought by the Indonesian government through capital market utilization, among others: (1) encouraging SOEs to conduct IPOs, and (2) providing tax incentives. Some SOEs have sold their shares to the public, even to foreign stock exchanges such as PT. Telekomunikasi Indonesia, Tbk; PT. Indosat, Tbk; and BNI, Tbk. The three SOEs have sold their shares to the NYSE and LSE. In addition to encouraging SOEs to go public, the Indonesian government also provides tax incentives. Through Government Regulation No. 81/2007, the government provides incentives in the form of a 5% tax rate reduction for public companies that sell their shares up to or more than 40%.

Corporate governance in Indonesia

In 1997, Indonesia experienced a monetary crisis which resulted in several companies becoming bankrupt. To overcome this, the Indonesian government requested the assistance of the International Monetary Fund (IMF). One of the points in the memorandum of understanding with the IMF is the implementation of good corporate governance (GCG). Following the implementation of GCG, the Indonesian government established a special agency called the National Committee on Corporate Governance Policy (KNKCG) in 2000. The main task of the KNKCG is to formulate and develop national policy recommendations on GCG, and to initiate and monitor improvements in corporate governance in Indonesia.

The national policy on GCG was responded by the capital market authority at the time the Jakarta Stock Exchange (now the Indonesia Stock Exchange). The Jakarta Stock Exchange issues a Letter of Decision (SK) of the Board of Directors of PT. BEJ No. Kep-315 / BEJ / 06/2000 concerning Regulation of Securities Listing No. 1A, which among others regulates the obligation of having an Independent Commissioner, the Audit Committee, provides an active role of the Corporate Secretary in fulfilling the disclosure obligations and obliges the listed company to deliver material and relevant information. The commitment of GCG implementation in Indonesia is also manifested through the establishment of various organizations and associations that support the implementation of GCG, including: Forum for Corporate Governance in Indonesia (FCGI), Indonesian Institute for Corporate Governance (IICG), Indonesian Institute for Corporate Directorship (IICD) Indonesia Corporate Secretary Association (ICSA), Association of Indonesian Audit Committee, Internal Auditor Association, KCG Clinic GCG, and Indonesian Board of Commissioners and Board of Directors.

GCG in Indonesia adopts the two tier system, which includes: general meeting of shareholders, Board of Commissioners, Board of Directors and Executive Manager. This two tier system separates the board of commissioners from the board of directors. The board of commissioners is the organ of supervision, while the board of directors is the executive of the company. This system is a legacy of the Dutch in the management of the company.

Public ownership and firm performance

Forbes Indonesia reveals that 40 richest people come from Indonesia (Kompas, December 4th 2010). They get benefit from the capital market. Their wealth is USD 71 billion or IDR 650 trillion. Compared to Indonesia's budget in 2010, the richest Indonesians' wealth amounted to IDR 1,100 trillion or 2/3 of the budget. The budget consists of revenues and expenditures to finance the lives of 230 million Indonesians for one year. The results of these investigations indicate that public companies or companies that utilize capital markets are able to improve their performance.

Nuryanah and Islam (2011) show that public ownership has a positive effect on market performance as measured by Tobin's Q. The result of Nuryanah and Islam's study is supported by the results of research Ting *et al* (2016) proving that non-family ownership positively affects Tobin's Q and return on assets (ROA). Public ownership has a role to play GCG function. Management must implement good governance in conducting its operational activities, so as to improve its performance both operating and market.

     H1a   :   Public ownership has positive impact on operating performance.
     H1b   :   Public ownership has positive impact on market performance.

Public ownership and corporate governance

Public ownership is considered as a form of GCG implementation (Connely *et al*, 2010). Connely *et al* argues that public ownership is monitoring the operational activities undertaken by management in the emerging capital market. This argument is supported by Harahap and Wardhani (2012) who proves that family ownership negatively affects the implementation of GCG. The results indicate that family owned companies have not utilized GCG effectively. In contrast, non-family companies have implemented GCG effectively because the company has public accountability. Gitundu *et al* (2016) also proves companies that sell their shares to the public tend to implement GCG in Kenya.

Public ownership encourages companies to implement GCG as a form of professionalism in managing the business activities. This research divides CG into 2 variables, namely: CG components and practices. CG components are CG components that must exist within the company as a form of compliance with applicable regulations. While CG practices is the implementation of CG in the company.

H2a   :   Public ownership has positive impact on CG components.
H2b   :   Public ownership has positive impact on CG practices.

Corporate governance and firm performance

Connely *et al* (2010) states that public companies in emerging capital markets are "forced" to implement corporate governance. This encourages those companies to improve their performance, due to public accountability. Several studies have proven the effectiveness of corporate governance. Rogers, Riberio and Securato (2008) show that public companies that implement CG have a higher market performance compared to public companies that do not implement CG. Teker and Yuksel (2014) proved that the announcement of the CG index had a positive impact on capital market reaction in Turkey. The results of these studies imply that the market perceives that companies that implement CG have a high level of efficiency so as to improve operational performance.

Rostami, Rostami, and Kohansal (2016) show the impact of CG components on ROA and stock returns are varies. Concentration ownership, independent commissioner, CEO duality, and board's tenure have a positive effect on ROA. While the institutional ownership and board size of the board of commissioner have a negative effect on ROA. CG components that have a positive impact on stock return are institutional ownership, independent commissioners, duality CEOs, and board's tenure. While the concentration ownership and the board of commissioners has a negative effect on stock returns. CG components are more likely to have a positive effect on ROA and stock return than the negative ones. Therefore, CG components have a positive influence on operational and market performance. Unlike Rostami, Rostami, and Kohansal (2016), Mukophadyay, Malik, and Damodiwala (2012) and Zabri, Ahmad, and Wah (2016) measured CG with CG practices. The results of these studies prove that CG practices have a positive impact on sales levels, ROA, and Tobin's Q.

H3a   :   CG components have positive impact on operational performance.
H3b   :   CG components have positive impact on market performance.
H3c   :   CG practices have positive impact on operational performance.
H3d   :   CG practices have positive impact on market performance.

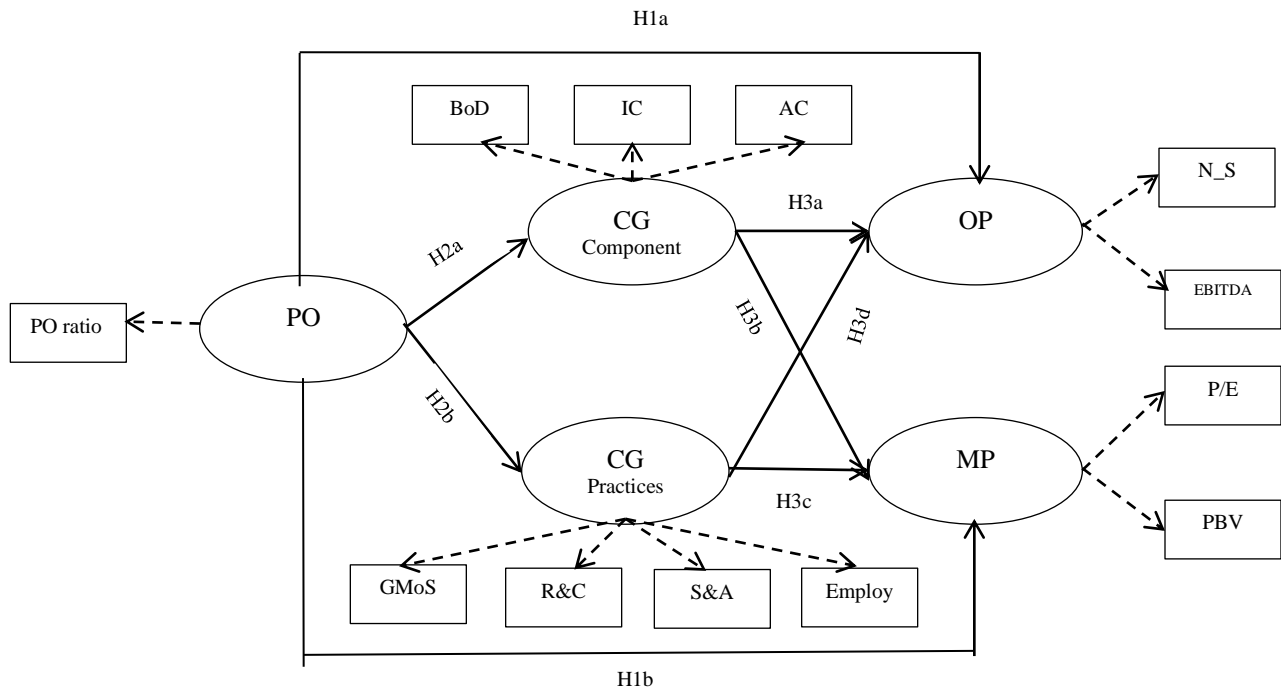**Research method:-**

Figure 2 below shows the research model:

Figure 2 Research Model

Where:

PO = public ownership	CG components = corporate governance components	OP = operating performance
PO ratio = ratio public ownership compared to total ownership	BoD = board of directors	N_S = sales growth
	IC = independent commissioner	EBITDA = earnings before interest, tax, depreciation, and amortization
	AC = audit committee	MP = market performance
	CG practices = corporate governance practices	P/E = price earnings ratio
	GMoS = general meeting of shareholders	PBV = price to book value
	R&C = regulator and community	
	S&A = supplier and alliances	
	Employ = employee	

Figure 2 above shows that public ownership (PO) is an antecedent variable that affects the formation and implementation of corporate governance (CG). CG in this research model includes: (1) CG components and (2) CG practices. CG component is a CG component that must be present in a public company as required by the capital market authority. While CG practices is the implementation of CG in the company. CG components and practices are endogenous intervening variables. Endogenous variables in this research model are operating performance (OP) and market performance (MP). Both of these performances are a form of CG effectiveness that is influenced by public ownership (PO).

Antecedent variable used in this research is public ownership (PO). Public ownership represents ownership outside the company including: ownership of individuals in society, banks, pension funds, foreign, and other institutions (La Porta, de Silanes, and Schleifeir, 1998). The number of public shareholders in Indonesia is required by a minimum of 300 shareholders and registered with Busa Efek Indonesia. The minimum limit of public ownership ratio is 7.5% to be categorized as public company (free float 7.5%) in accordance to regulation of the Indonesia Stock Exchange No. 01 / BEI / 01-2014. The public ownership is calculated by the ratio of public ownership including: the ownership of individuals in the community, banks, pension funds, foreign, and other institutions compared to the total shareholders of the company (Tabalujan, 2002; Chevalier, Prasentyoko, and Rokhim, 2006; Foroughi and Fooladi, 2011; Harahap and Wardhani, 2012).

Intervening variable in this research is CG. CG is defined as a supervisory mechanism by shareholders as a capital supplier to the operations of a company (Schleifer and Vishny, 1997). CG is measured by 2 variables: CG components and practices. CG components are measured by 3 indicators: board of directors (BoD), independent commissioner (IC), and audit committee (AC). BoD is measured by the number of members of the board of directors. IC is measured by a percentage of the number of independent commissioners compared to the number of commissioners. AC is measured by the number of audit committee members. While CG practices are also measured by 4 indicators of variables: GMS, regulators and community, suppliers and alliances, and employee. Each variable indicator is measured by checklist method of CG implementation in company. The checklist used to measure CG practices refers to Gompers, Ishii and Metrick (2003), Bebchuk, Cohen, and Ferrel (2004).

Endogenous variable in this research is company performance. Company performance is the result of the company's business activities. The company's performance is measured by 2 variables: operational and market performance. Operational performance includes two indicators, namely: sales growth (N_S) and earnings before interest, tax, depreciation, and amortization (EBITDA). Market performance is measured by two indicators: price to earnings ratio (P/E) and price to book value (PBV).

Research population of this study is public company listed on Indonesia Stock Exchange during period 2011 – 2012, resulting 330 public companies. The sample is chosen based on purposive sampling with criteria that information need to test the hypotheses is available. Using the criteria, the research samples are 176 public companies. Data analysis used in this research is partial least squares (PLS). PLS uses prediction oriented techniques. The approach specifically aims to predict endogenous variables by involving a number of exogenous variables.

Results and discussions:-
Descriptive statistics
Descriptive statistics for each variable indicator are presented in Table 1 below:

Table 1:- Descriptive Statistics

Variabel	Indikator Variabel	Min	Max	Mean	Standar Deviasi
PO	PO ratio	1.78	81.99	30.55	21.11
CG components	BoD	2.00	11.00	5.01	1.72
	IC	1.00	2.00	0.35	0.10
	AC	2.00	5.00	3.23	0.60
CG practices	GMoS	2.00	4.00	3.28	0.66
	R&C	2.00	3.00	2.85	0.36
	S&A	0.00	3.00	2.56	0.67
	Employ	0.00	2.00	0.72	0.64
OP	N_S	-31.32	16,547.86	187.40	1,340.87
	EBITDA	-2,560,997.63	73,778,332.51	998,467.84	5,760,948.38
MP	P/E ratio	-982.59	3,144.28	30.24	317.65
	PBV	-1,134.47	331.74	28.60	110.68

Where:

PO = public ownership

PO ratio = ratio public ownership compared to total ownership

CG components = corporate governance components

BoD = board of directors

IC = independent commissioner

AC = audit committee

CG practices = corporate governance practices

GMoS = general meeting of shareholders

R&C = regulator and community

S&A = supplier and alliances

Employ = employee

OP = operating performance

N_S = sales growth

EBITDA = earnings before interest, tax, depreciation, and amortization

MP = market performance

P/E = price earnings ratio

PBV = price to book value

Table 1 above shows a mean value of 30.55 with a standard deviation of 21.11. It means that the average sample company has public ownership of 31%. The variance of public ownership among sample firms is huge because it has a standard deviation of 21%. This can be seen from the range of public ownership in the lowest sample company of 1.78% and the largest is 81.99%.

CG components use 3 variable indicators include: boards of directors, independent commissioners, and audit committee. The average number of board of directors in the sample companies are 5 persons. The variance of the number of boards of directors within samples is tiny as indicated by the standard deviation of 1.72. The minimum value on this indicator variable is 2. It indicates some of sample companies only have 2 directors. While the maximum value is 11 indicating some of company has 11 directors. The independent commissioner of the sample company has a minimum value of 1, and a maximum value of 2. It indicates that the sample companies comply with the provisions of PT. BEI. The audit committee on the sample company has a mean of 3.23 and a standard deviation of 0.60. This shows that the average of the audit committee in the companies have 3 persons. The deviation of audit committees within samples is small.

CG practices use 4 variable indicators: general meeting of shareholders, relational and community, supplier and alliances, and employees. The general meeting of shareholders has minimum value of 2 and maximum of 4. While the mean value of 3.23 and standard deviation 0.66. This means that the average company holds a general meeting of shareholders 3 times a year. Some companies only hold 2 meetings, and the most is 4 meetings. The general

meeting of shareholders in the sample company is not much different. Relational and community has a mean value of 2.85 and a standard deviation of 0.36. The minimum values of 2 and maximum 3. This indicates that the relational and community in the sample company is not much different. Supplier and alliances have a minimum value of 0 and a maximum of 3. This means that some companies do not provide information about suppliers and alliances. Some companies provide information on suppliers and alliances as much as 3. The average supplier and alliances in the sample company are 2.56. Employee has a mean value of 0.72. This means many companies do not provide information about employee. And the difference of information between sample companies is not so different.

Operational performance uses 2 variable indicators: sales growth and EBITDA. Sales growth has a mean value of 187% and a standard deviation of 1,341%. The sample companies achieve sales growth on average of 187%, but the deviation of sales growth is huge. As indicated with a minimum value of -31% and a maximum of 16,548%. Some companies experience a decrease in sales, while the others experience sales increase of more than 100%. The average of EBITDA generated by the samples is IDR 998,468 and the standard deviation of IDR 5,760,948. It shows that the achievement of the samples is varied. A minimum value of IDR -2,560,998 indicates that some companies suffer losses. While the maximum value of IDR 73,778,332.51 indicates that some companies enjoy a large net profit.

Market performance is measured by two indicators: price earnings ratio (P/E) and price to book value (PBV). The average P/E ratio has a value of 30% and a standard deviation of 318%. This means that the P/E ratio of the sample companies is very diverse. PBV has a mean value of 28% and a standard deviation of 111%. This means that some of the sample companies have suffered negative book value as indicated in minimum value -1,134%. But some of companies have value of the firm of three times book value as indicated in maximum value 332%.

Results:-
This study uses SEM-PLS consisting of three stages: (1) measurement model, (2) goodness of fit, and (3) structural model.

The measurement model consists of validity and reliability testing. Validity testing aims to ensure that each latent variable in the model can be used for confirmatory analysis. The variable indicators that make up the latent variable are valid if the loading factor has a value >0.50. Public ownership is not tested for validity and reliability because the variable indicator is only 1. CG components are formed from three variable indicators: boards of directors, independent commissioners and audit committees each having a factor loading of 0.65, 0.05, and 0.86. Independent commissioners have a loading factor <0.50, so it is invalid. Therefore, independent commissioners are excluded as indicators of variable CG components. CG practices have 4 variable indicators. Of the four indicators, only general meeting of shareholders has a loading factor <0.50. Operating performance is formed from 2 variable indicators: sales growth and EBITDA. Both indicators have a loading factor >0.50, indicating valid. Likewise with market performance, both indicator variables: P / E ratio and PBV has a loading factor >0.50. After testing the validity of each indicator, the next test is the reliability. This test aims to ensure that each indicator reflects a latent variable. If the value of composite reliability of each latent variable >0.60, it is said that the latent variable is reliable. The test results show the value of composite reliability of each latent variable >0.60.

Discriminant validity test aims to test the validity of the indicator block. Discriminant validity test against indicator can be seen on cross loadings. The indicator block is valid if the value of each indicator in measuring the construct variable (= indicator block) is predominantly higher than the value of each indicator in measuring another construct variable. The value of cross loadings indicates the discriminant validity result for each indicator block is predominantly good. It also shows that the indicator of each construct variable gives a high convergent validity value that is more than 0.50. Average variance extracted (AVE) aims to establish that construct variables have good discriminant validity values. AVE values are stated to have a good discriminant if> 0.50. Table 2 below shows the AVE value of each latent variable. The calculation below after excluded independent commissioners as an indicator of variable CG components, and also excluded general meeting of shareholders as an indicator of variable CG practices.

Table 2:- Average Variance Extracted (AVE)

Variabel Laten	AVE
Public ownership (PO)	1.00
CG Components (CGC)	0.58
CG Practices (CGP)	0.50
Operating Performance (OP)	0.53
Market Performance (MP)	0.51

Table 2 above shows the AVE value of each latent variable 0.50. This means that all latent variables are reflected by a valid indicator.

Goodness of fit a model in PLS using R^2. The value of $R^2 > 0.00$ indicates that the model is fit or a match between the model and the data. The result of PLS processing shows R^2 value for about 60%. This indicates that the model has a match with the data as shown in Table 3 below:

Table 3:- Goodness of Fit

| Variabel	R^2
Public Ownership (PO) → CG Components (CGC)	0,731
Public Ownership (PO) → CG Practices (CGP)	0,604
Public Ownership (PO), CG Components (CGC), CG Practices (CGP) → Operating Performance (OP)	0,733
Public Ownership (PO), CG Components (CGC), CG Practices (CGP) → Market Performance (MP)	0,746

As mentioned before, the value of R^2 is above zero indicating the fitness between model and data. To assure the capability of exogenous variable and intervening variable to predict endogenous variable in the model, we have to calculate the value of Q^2 as shown below:
$Q^2_1 = 1 - (1-0.731) \times (1-0.604) \times (1-0.733) = 0.972$
$Q^2_2 = 1 - (1-0.731) \times (1-0.604) \times (1-0.746) = 0.973$

Q^2_1 means the ability of public ownership as exogenous variable, CG components and practices as intervening variable to predict operating performance. The value of equal Q^2_1 0.972 indicating the capability model to predict operating performance is 97%. Likewise with Q^2_2 amounts 0.973 that indicate the capability model to predict market performance is 97%. The results indicate the role of public ownership as antecedent variable. Overall, the research model has goodness of fit.

Structural model is used to test hypotheses, results shown in Figure 3.
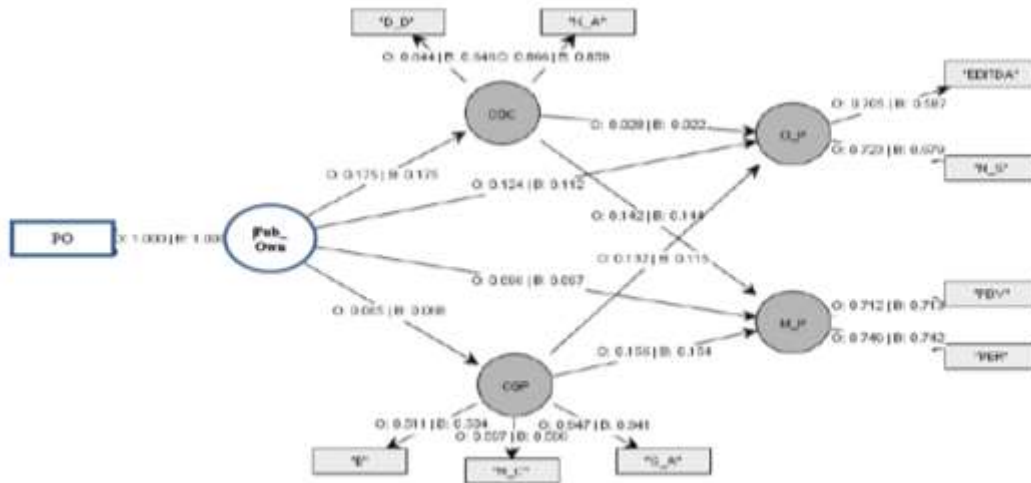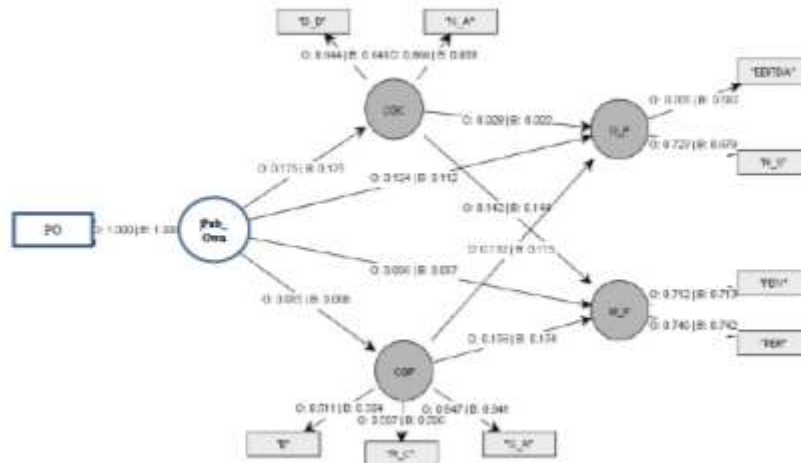
Figure 3:- Result of Model Tested

Figure 3 above depicts the research model tested by using PLS. Table 4 below shown clearly the relationship between latent variables.

Table 4:- Result of Hypotheses Testing

Relationship between Latent Variables	Coefficients	t-statistic	Conclusion
PO → OP	0.124	2.259	H1a accepted
PO → MP	0.096	4.871	H1b accepted
PO → CGC	0.175	7.962	H2a accepted
PO → CGP	0.065	2.840	H2b accepted
CGC → OP	0.028	1.636	H3a rejected
CGC → MP	0.142	6.282	H3b accepted
CGP → OP	0.132	1.970	H3c accepted
CGP → MP	0.156	6.876	H3d accepted

Where:
PO = public ownership
CGC = CG components
CGP = CG practices
OP = operating performance
MP = market performance

Table 4 above shows that only H3a is rejected. It means that CG Components does not have impact on operating performance. The companies have CG components only to comply the provisions of PT. BEI (Indonesian Stock Exchange /IDX).

Table 4 also shows that public ownership has positive impact both on operating and market performance or H1a and H1b are accepted, indicating the role of public ownership promotes the effectiveness of business activities. The impact of public ownership on operating performance is higher than on market performance, as indicated by the coefficient value (0.124 > 0.096). It implies that increasing public ownership increments operating performance more than market performance. H2a and H2b are also accepted. Public ownership has positive impact on both CG components and practices. It means that public ownership forces companies to build corporate governance. H3b, H3c, and H3d are accepted. CG components have positive impact on market performance. It implies that public ownership only perceive the existing of CG components, but does not know the role of CG components in running the governance system. CG practices have positive impact on both operating and market performance. The results suggest that the role of CG practices to conduct monitoring governance system is more effective than CG

components. The role of CG (either CG components or practices) tends to affect market performance more than operating performance. It is shown by the coefficient value of CG on market performance is higher (0.142 and 0.156), indicating that CG as intervening variable has capability to improve market performance.

Discussions:-
Public ownership is an antecedent variable that affects the effectiveness of corporate governance within a company. Corporate governance practices contribute more to the effectiveness of corporate governance than corporate governance components. Public ownership forces public companies to have corporate governance components accordance to Capital Market Regulatory provisions. Corporate governance components consist of board directors and audit committee. But corporate governance components do not have impact on operating performance. The results confirm the agency theory, not stewardship theory. Board of directors in conducting business activities tend to be more concerned with their interests. This is reinforced by the weak role of the audit committee in carrying out the monitoring function. Audit committees in public companies in Indonesia tend to act as partners of the board of directors. In contrast to the influence of corporate governance components on operating performance, corporate governance components have a positive impact on market performance. This indicates that the existence of corporate governance is perceived positively by the capital market. The market ignores the implementation of corporate governance in running a good governance system.

Corporate governance practices plays more than corporate governance components to promote the effectiveness of business activities. Public ownership encourages companies to implement corporate governance. This resulted in an increase in operating and market performance. The results of this study confirm the stewardship theory which states that management is a reliable agent to run the company's business. Overall, the results of this study indicate the importance of implementing corporate governance. Corporate governance is not only intended to meet the requirements of the capital market authority. But it is also intended to control the company to suit the interests of shareholders.

Operating and market performance can be predicted by the role of public ownership as an antecedent variable in monitoring corporate business activities through corporate governance. The role of public ownership as an antecedent variable tends to improve the performance of operations higher than market performance. Public ownership leads to effective and efficient business activities. However, market performance is slightly higher than operational performance with corporate governance as a mediation variable. It indicates the contribution of corporate governance that mediates the relationship between public ownership and market performance.

Conclusions and research limitations:-
This study shows some important findings regarding the role of public ownership of corporate governance and business performance, as follows:
1. Public ownership has a role as a variable antecedent as indicated by the result of goodness of fit test. This implies that public ownership forces companies to build corporate governance so as to improve operating and market performance.
2. Corporate governance has a role as a mediating variable between public ownership and business performance. The results of this study imply that corporate governance is an internal process that can improve efficiency and effectiveness in the company.
3. The role of corporate governance practices as mediation variables is greater than corporate governance components. The results of this study imply the importance of corporate governance in the company. The existence of corporate governance not only to meet the provisions of the capital market authority, but also to maintain the sustainability of the company.
4. The influence of public ownership on market performance is greater than operating performance through corporate governance. This indicates that corporate governance is able to improve market performance, because the market has a positive perception of corporate governance.

This study also has several weaknesses that need to be improved in subsequent studies as follows:
1. This study does not examine differences between industries. Industry types will lead to differences in the role of corporate governance within the company. Further research is suggested to develop the model by dividing between industries.
2. This study ignores other types of ownership as a control variable. Further research is suggested to include other types of ownership as control variable.

3. This research is expected to be developed by subsequent research by using research objects in other countries, such as ASEAN member countries. A broader range of research objects can show whether public ownership has an equal role in promoting the effectiveness of corporate governance in countries other than Indonesia.

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