FIRM VALUE: COMPETITIVE POSITION AND CORPORATE GOVERNANCE DURING THE COVID-19 PANDEMIC

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Abstract

This study aims to investigate the impact of competitive positions and corporate governance on firm values. Corporate governance is proxied by the board of commissioner's size, the board of commissioner's independence, institutional ownership, and foreign ownership. The company's competitive position is determined by its market share. Tobin's Q is utilized to determine a firm value. In addition, firm size, leverage, and profitability served as control factors. A total of 100 manufacturing companies in Indonesia for the 2019–2021 period were selected as samples using a random sampling technique. Multiple linear regression is utilized for data analysis. The finding shows competition and foreign ownership have no effect on the firm value. While the board size and independence of the board and institutional ownership can impact the firm's value. The results of this study reveal that during the COVID-19 outbreak, the competitive position cannot aid enterprises in attaining their objective of increasing firm value. This result indicates the anomalous condition affecting the competitive standing during the COVID-19 era. In this period, severe competition poses a challenge to a company's ability to generate a sustainable income, despite the fact that market conditions and competitive strategy might provide a competitive edge and better performance.

Keywords: Competitive Position, Corporate Governance, Firm Value

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1. INTRODUCTION

COVID-19, which has hit the world has brought great changes in various sectors, namely the acceleration of digital transformation (Kudyba, 2020). One of the sectors is consumer goods, which experiences obstacles in the distribution of products to consumers due to restrictions on people's mobility. For example, one of the major companies affected is Unilever Indonesia. Unilever Indonesia's share price experienced a sharp decline during the COVID-19 pandemic period. The drop in share price shows a decline in investor perceptions of Unilever's corporate value during the pandemic period. Similar conditions, although on different scales and forms, are experienced by various industrial sectors as a result of COVID-19, this forces us to examine new ways of managing business for overcoming the crisis (Kronblad & Envall Pregmark, 2021). One approach to doing so is to evaluate the opportunities inherent in the transformation of digitalization (Pasmore et al., 2019).

The purpose of the competitive strategy is to achieve a competitive advantage in the market (Taghipour et al., 2020). This technique can aid the organization in achieving its planned objectives. In a competitive environment, a firm's or organization's strategy plays a significant role in the growth of its business success. Given that a company's competitive strategy alone can provide a long-term competitive advantage and improved performance, the company develops a competitive plan to address current market conditions (Taghipour et al., 2020).

A weak corporate governance framework necessitates improvements to strengthen corporate governance processes, which can ultimately assist minimize inefficiencies in the business sector (Arora & Sharma, 2016). Ineffective corporate governance practices play a significant impact on the occurrence of accounting fraud; as a result, organizations with ineffective governance are more susceptible to anomalies (Bhat et al., 2018). It is important to note that academics have contributed to the literature in developing countries, where there has been extensive discussion about the significance of corporate governance in business success, such as the study by Bhat et al. (2018) and Arora and Sharma (2016), which reinforces the prior literature from major developed countries on the investigation of relationships between corporate governance and business value (Coles & Hesterly, 2000; Pass, 2004).

The debate over board size and value has been around for a long time. Stewardship theory suggests that larger boards can have a positive impact on business value (Rashid & Islam, 2013). However, organizations with larger board sizes incur higher costs for coordination and problem-solving; hence, as well as potentially limiting productivity (Coles et al., 2008). On the other hand, lower board size means lower costs, free-riding is inhibited, and ultimately performance is increased (Yermack, 1996). Even having a limited number of boards may not be a good decision for the organization (Vafeas, 1999). On the other hand, research also shows the role of board meetings in encouraging board members to act in the best interest of shareholders, which can result in better performance (Bhat et al., 2018). These studies show the importance of further deepening the board structure and the value of the firm.

The agency theory provides a framework for integrating corporate governance systems designed to mitigate agency issues originating from the separation of ownership and management (Li et al., 2008). There are numerous methods in corporate governance, but this study focuses on the ownership structure (foreign institutional ownership and domestic institutional ownership). The ownership structure of a corporation describes the makeup of its government, institutional or public, foreign, family, and managerial share ownership (Abu Qa'dan & Suwaidan, 2019; Amidjaya & Widagdo, 2020; Bhagat et al., 2011; Kusnadi, 2011; Setiany et al., 2020). It is considered that the ownership structure can influence the company's management, which in turn influences the company's performance in reaching goals that maximize the firm value.

Ashbaugh et al. (2004) demonstrate that ownership structure can enhance stock market performance and stock prices, which impacts the value of the organization. In Indonesia, however, Kartika and Utami (2019) demonstrate that ownership structure has no bearing on the firm value. On managerial ownership and institutional ownership, research by Setiany and Dedi (2021) shows a significant impact of managerial ownership on firm value while institutional ownership has no significant impact on firm value. From the above discussion, it is shown that mechanisms of corporate governance play a crucial role in sustaining strong competitiveness and sustainability (Aboagye & Otieku, 2010). Fulfill the primary purpose of a business is to increase company value by enhancing owner or stockholder well-being (Syamsudin et al., 2017).

The remainder of this paper is organized as follows. Section 2 outlines the literature review and the hypotheses stated. Section 3 presents the methodology used. Section 4 shows the results of the empirical study, and finally, Section 5 concludes the paper.

2. LITERATURE REVIEW

2.1. Firm values

The main objective of the company is to increase its value by improving the welfare of its owners and shareholders (Iswajuni et al., 2018). The willingness of potential buyers or so-called "investors" to pay a certain price for a company is referred to as the value of the company (Prasetyorini, 2013). Managers must operate according to the wishes of the owners and shareholders of the company in order to improve their well-being. Rising market share prices can be seen as a way to improve the welfare of owners and shareholders. Tobin's Q ratio was used in this study to calculate the value of the company. This ratio reflects a company's current position and its potential to be successful in the future (Haslam et al., 2010).

2.2. Competitive position and firm value

Every business faces competition in its industry (Vives, 2005). The objective of the competitive strategy is to achieve a competitive edge in the industry (Taghipour et al., 2020). This strategy can assist the organization in reaching its predetermined objectives. In a competitive environment, the development of a firm or organization's business success is heavily dependent on its strategy. Since a competitive strategy for the company alone can provide a long-term competitive advantage and higher performance, the company formulates a competitive plan to address current market conditions (Taghipour et al., 2020).

H1: Competitive position positively affects firm value.

2.3. Corporate governance and firm values

Corporate governance issues have drawn a significant deal of study interest over the years due to their potential performance implications for corporations in both developed and developing nations (Kowalewski, 2016; Puni & Anlesinya, 2020). Corporate governance refers to the systems, methods, processes, and structures that govern and direct businesses and contribute to firm values and is frequently cited as one of the most important advantages of adopting good corporate governance systems and structures within firms (Aboagye & Otieku, 2010). Due to increased cash flows and/or decreases in capital costs, corporations that place a premium on strong corporate governance may generate greater shareholder value (Agyemang & Castellini, 2015; Zgarni et al., 2016).

Indonesia employs a legal system based on common law. However, the Indonesian law governing limited liability companies reveals adjustments to the European common law. The limited liability company law identifies the board of commissioners as the shareholders' representation and the board of directors as the firm's manager. The position of the board of commissioners is superior to that of the board of directors, so the two boards are not on an equal footing. Because the two boards are distinct, it is impossible to frame positions. This study focuses on the board of commissioners because, according to the law, the board of commissioners serves as a supervisor and represents the principal to the board of directors, which performs the agent function.

2.3.1. The effect of the size of the board of commissioners on firm value

Ali and Amir (2018) said that the size of the board of commissioners affected the firm value. Based on agency theory, it is proposed that the size of the board of commissioners contributes to maximizing supervision so as to reduce agency costs originating from managers and shareholders in the economic environment, particularly during pandemics. According to research conducted by Ali and Amir (2018) and Iheyen (2021), the size of the board of commissioners affects the value of the company. The size of the board of commissioners monitors management and provides input to the board of commissioners, which can be a guarantee to increase the firm value.

H2: The size of the board of commissioners affects the firm's value.

2.3.2. The effect of board independence on firm value

This study hypothesizes that the board of commissioners' independence influences the firm value. It is anticipated that the number of independent commissioners on the board of commissioners will affect the company's value by ensuring a balance of interests. The results of this study corroborate the findings of a number of other international investigations, including those of Anderson et al. (2004), Ashbaugh et al. (2004), and Pirson and Turnbull (2011). These studies have successfully demonstrated that the independence of the board of commissioners has a major impact on the firm value. Investors valued the growth in the share of the board of commissioners members with independent backgrounds, according to previous research. Therefore, the third hypothesis of this investigation is as follows:

H3: The independence of the board of commissioners affects the firm value.

2.3.3. The effect of institutional ownership on firm value

This study hypothesizes that institutional ownership influences the company's value. The ownership structure also describes the proportion of shares held by the public. With a high institutional level, institutional investors will exert higher oversight efforts to prevent opportunistic behavior by managers and minimize the level of misappropriation committed by management, which will diminish firm value (Kartika & Utami, 2019). Buchanan et al. (2018) researched the interaction between CSR, institutional ownership, and firm value. The results show an insignificant impact of institutional ownership on the CSR-firm value relationship when the crisis occurs. In other words, the firm value varies with the degree of influence of institutional ownership and depends on economic conditions. Institutional ownership has a favorable and considerable impact on cash holding (Cai, 2018). Consequently, the fourth hypothesis of this research is:

H4: Institutional ownership affects the firm value.

2.3.4. The effect of foreign ownership on the firm value

This study hypothesizes that foreign ownership influences a firm's value. Global investors typically have superior market research capabilities, as well as the resources and capabilities expected to control management and contribute significantly to the company's progress, thereby giving rise to actions based on their own interests when there is a risk of being entirely borne by the holder stock. This analysis is consistent with the findings of Kao et al. (2019) and Syamsudin et al. (2020), which indicate that the ownership of foreign institutions has a considerable impact on the company's value. Although the results of prior studies are still diverse and have not consistently affected the company's worth, for example, Kim et al. (2018), which unable to find a significant effect of foreign ownership on firm value. Therefore, this investigation developed the following fifth hypothesis:

H5: Foreign ownership affects the firm value.

3. METHODOLOGY

This study was conducted on companies in the primary consumer goods sector (consumer non-cyclical with a population of 87 companies) and the non-primary consumer goods sector (consumer cyclical with a population of 124 companies) that were listed on the Indonesia Stock Exchange during the period of 2019–2021. The selection of samples was carried out randomly using Slovin's method with a margin of error of 5%, obtained by 100 companies.

Data analysis includes 1) descriptive statistics, 2) classical assumption test, 3) correlation test, 4) hypothesis testing with multiple regression analysis, and 5) independent sample t-test.

Table 1. Variable measurements

Variable	***Measurement***
Dependent	
Firm value (*Q*)	$$Tobin's\ Q = \frac{MVS + D}{TA} \quad (1)$$ Tobin's Q is measured by the market value of equity plus the book value of liabilities, divided by the book value of total assets (Orens et al., 2009). Using Tobin's Q as a measure of a firm's value has prompted the consideration of alternative metrics, such as price-to-book value. Tobin's Q is superior to price to book value because Tobin's Q includes market value and debt in its valuation components, whereas price to book value does not.
Independent	
X1: Competitive position (*COMP*)	$$Competitive\ position = \sqrt{\frac{Market\ share_{i,t+2}}{Market\ share_{i,t}}} - 1 \quad (2)$$ $$Market\ share = \frac{Sales_{i,t}}{\sum_{i=1}^{n} Sales_{i,t}} \quad (3)$$ Shivaani and Agarwal (2020) define competitive position as industry power. Cai (2018) uses excess price cost margin (difference between) to measure competitive position. Previous studies also argues that accounting indicators like market share, profit, or sales for a single year are inappropriate because the real position builds/declines with time. Shivaani and Agarwal (2020) therefore, state that share changes show a firm's genuine earnings and competitive position.
Corporate governance	
X2: Board commissioner size (*BCOM*)	Natural log of the number of commissioners on the board as of December 31. This is in line with agency theory, which indicates that a larger number of commissioners is expected to increase oversight of managers' behavior, and ultimately increase firm value (Elgammal et al., 2018). Although there is an opinion that a larger number may cause supervision to be ineffective due to insufficient communication and coordination among the board (Ntim et al., 2013).
X3: Board commissioner independent (*BIND*)	The percentage of commissioners who do not come from independent parties (not from company executives). Independent commissioners act as "checks and balances" for the effectiveness of the supervision of all commissioners (Pirson & Turnbull, 2011).
X4: Institutional ownership (*IOWN*)	Percentage of ordinary shares owned by non-controlling institutions (having no special relationship with the company) to the total outstanding shares. The institution in question can be in the form of pension funds, cooperatives, foundations, and other institutional investors.
X5: Foreign ownership (*FOWN*)	The percentage of ordinary shares owned by foreign companies and foreigners with at least 5% of the total outstanding shares.
Variable control	
C1: Firm size (*SIZE*)	Ln Total assets: Firm size is one of the most commonly utilized control variables in disclosure research, because larger organizations are more likely to have a low cost of disclosing information than smaller firms, and hence will disclose more.
C2: Leverage (*LEV*)	Percentage of total debt to total assets.
C3: Profitability (*ROA*)	Percentage of earnings before interest and tax to total assets.

4. RESEARCH RESULTS AND DISCUSSION

4.1. Descriptive statistics

The descriptive statistical data of this study are presented in Table 2.

According to the information provided, the lowest value of the company (*Q*) is 0.18 and the maximum is 10.58; 1.65 is the average firm value of the sample company. This mean value is relatively close to the standard deviation of 1.64. This demonstrates that the company's value data are extremely accurate. Based on the sample data, the competitive position has a minimum value of -0.72 and a maximum value of 29.05. In contrast, the average value of 0.29 is considerably lower than the standard deviation of 2.91.

Table 2. Descriptive statistics

Variable	***N***	***Minimum***	***Maximum***	***Mean***	***Std. deviation***
Q	300	0.18	10.58	1.6533	1.64379
COMP	300	-0.72	29.05	0.2869	2.90989
BCOM	300	2.00	14.00	4.1800	2.05667
BIND	300	0.00	0.83	0.4314	0.11819
IOWN	300	0.00	0.86	0.0139	0.08841
FOWN	300	0.00	1.00	0.2809	0.33854
SIZE	300	25.41	33.54	28.7412	1.74440
LEV	300	-17.95	22.32	1.0291	3.05068
ROA	300	-0.66	0.40	0.0447	0.13802
Valid N (listwise)	300				

4.2. Hypothesis testing results

In this study, hypotheses were tested using multiple regression analysis, which tests the influence of independent factors on dependent variables. The employed method is the enter method. Table 3 presents the findings of the regression analysis:

Table 3. Results of regression analysis

Variable	*Firm value*		
	2019	***2020***	***2021***
Constant	0.546 (0.239)	0.605 (0.208)	0.775 (0.267)
COMP	0.016 (0.703)	0.014 (0.792)	0.016 (0.710)
BCOM	**0.166 (0.032)****	**0.192 (0.000)*****	**0.160 (0.055)***
BIND	**2.941 (0.019)****	**2.080 (0.016)****	**2.906 (0.013)****
IOWN	**9.092 (0.000)*****	**9.010 (0.049)****	**9.784 (0.000)*****
FOWN	0.302 (0.124)	0.502 (0.169)	0.524 (0.196)
SIZE	-0.090 (0.101)	-0.105 (0.258)	-0.120 (0.210)
LEV	-0.039 (0.318)	-0.021 (0.568)	-0.034 (0.431)
ROA	**2.703 (0.000)*****	**3.522 (0.000)*****	**3.487 (0.000)*****
F	11.394	9. 132	10.305
Sig. F	**0.000**	**0.000**	**0.000**
Adjusted R-squared	**0.462**	**0.348**	**0.429**
N	**100**	**100**	**100**

*Note: *, **, *** Significance level at 0.10, 0.05, and 0.01, respectively.*

Adjusted R-squared = 0.429% indicates that the combination of independent variables may explain the dependent variable, 42.9% firm value. The remaining 57.1% is explained by variables outside the scope of the study. The above regression model has an F-value of 10.305 and a probability of 0.000. This p-value, which is much less than 0.05, indicates that regression models can be utilized effectively to predict research models. In other words, the fit of this regression model is acceptable.

According to the study's findings, there are two unsupported hypotheses. The first hypothesis (*H1*), which predicts a positive relationship between a company's competitive position and its firm value, is not supported. Similarly, the fifth hypothesis (*H5*), which predicts that foreign ownership influences the firm's value, is not supported. In the meantime, the second hypothesis (*H2*) regarding the effect of board size, the third hypothesis (*H3*) regarding board independence, and the fourth hypothesis (*H4*) regarding institutional ownership are supported as influences on firm value.

4.3. Discussion

Based on the results of the analysis above, it is necessary to discuss the meaning of the results of the analysis, their relation to previous theories and research. The following is presented in the discussion.

4.3.1. Effect of competitive position on firm value

In *H1*, the researchers hypothesize that a company's competitive position positively affects its firm value. The findings of this study indicate that competitive position has no effect on the value of a company. This is evident from the statistically significant p-value greater than 0.05 and the positive coefficient sign. Thus, our investigation was unable to validate *H1*. The objective of the competitive strategy in this study is to achieve a competitive edge in the industry (Taghipour et al., 2020). This strategy can assist the organization in achieving its predetermined objectives. In a competitive environment, the development of a firm or organization's business success is heavily dependent on its strategy. This result indicates the anomalous condition affecting the competitive standing during the COVID-19 era. In this period, severe competition poses a challenge to a company's ability to generate a sustainable income, despite the fact that market conditions and competitive strategy might provide a competitive edge and better performance.

4.3.2. Effect of board size on firm value

The findings of this study indicate that the variable size of the board of commissioners has a statistically significant effect on the firm value. This result supports agency theory and stewardship theory, which indicates that a larger number of commissioners is expected to increase oversight of managers' behavior, and ultimately increase firm value (Elgammal et al., 2018; Rashid & Islam, 2013). Although there is an opinion that a larger number may cause supervision to be ineffective due to insufficient communication and coordination among the board (Ntim et al., 2013). This result, therefore, supports the notion that suggests larger boards can benefit business value (Rashid & Islam, 2013).

4.3.3. The effect of board independence on firm value

Based on the preceding analysis, it has been determined that the independence of the board has an effect on firm value. Thus, in this test, this research demonstrates that an increasing number of independent members of the board are able to influence the firmєs value. The results of this study corroborate the findings of a number of other international investigations, including those of Anderson et al. (2004) and Skaife et al. (2004). These studies have demonstrated that the independence of the board has a major impact on the value of the firm. This indicates that investors value an increase in the proportion of members of the board of commissioners with independent backgrounds. This requirement can also be understood to suggest that investors believe the substantial share of accounting/financial specialists on the board can ensure more effective execution of corporate governance in the company.

4.3.4. The effect of institutional ownership on firm value

At a high institutional level, institutional investors will exert higher oversight efforts to prevent opportunistic behavior by managers and minimize the level of misappropriation committed by management, which will diminish the firm value (Kartika & Utami, 2019). Buchanan et al. (2018) studied the interaction between CSR, institutional ownership, and firm value. The results show an insignificant impact of institutional ownership on the firm value relationship. In other words, the firm value varies with the degree of influence of institutional ownership and depends on economic conditions. Institutional ownership has a favorable and considerable impact (Cai, 2018). Additionally, the ownership structure specifies the proportion of shares held by institutional investors. According to the findings of this study, institutional ownership has an effect on the firm value. Institutional ownership plays a significant role in the monitoring of management and is able to prevent managers from engaging in opportunistic behavior.

4.3.5. The effect of foreign ownership on the firm value

The results of this study indicate that the variable of foreign ownership has no statistically significant effect on the value of the company. These results are unable to support the notion that foreign ownership can control management and contribute significantly to the progress of the company, thereby giving rise to actions motivated by their own interests in terms of decision-making when the risk is fully borne by shareholders. The results support the previous research by Kim et al. (2018), which was unable to find a significant effect of foreign ownership on firm value, and unable to lend support to the consideration that ownership of foreign institutions has an impact on firm value (Kao et al., 2019; Syamsudin et al., 2020).

5. CONCLUSION

According to the conclusions of the research, competitive position and foreign ownership have little bearing on the value of a company. Similarly, the size and independence of the board, as well as institutional ownership, can have an impact on the value of a company. The findings of this study reveal that during the COVID-19 outbreak and its recovery period, a company's competitive position, which under normal circumstances was an advantage over rivals, did not contribute to the company's worth.

In this sense, the COVID-19 condition has demonstrated an oddity. Whether they have a competitive advantage or not, all businesses confront the same conditions. This criterion demonstrates that the influence of COVID-19 on the manufacturing industry, particularly primary and non-primary sector businesses, is substantial and vital. In a crisis comparable to a pandemic, the company's ability to generate sustained income is threatened. Investors must evaluate risk given the willingness of potential investors to pay a set price for a company.

There are several limitations to this study. Initially, research is restricted to the manufacturing sector. Even if manufacturing is arguably one of the industries most affected by COVID-19, this cannot apply to the entire industry. It is likely that the impact of competitive position and corporate governance on the value of a company differs by industry. Second, competitive position in these data has no significant effect in all regressions, maybe due to the measurement of this particular asset. Future studies may investigate different methods for monitoring this characteristic.

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