Effects of CEO Duality, Board Independence, Ownership Concentration, Company Age on Profit Persistence and Firm Value: An Empirical Study of Manufacturing Companies in West Java, Indonesia

Maromi Merlin Mbate[1], Sutrisno[2]
[1] Artha Wacana Christian University, ibumaromi32@gmail.com
[2] Universitas PGRI Semarang, sutrisno@upgris.ac.id

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ABSTRACT

This research examines the dual effect of CEO, board independence, ownership concentration, and company age on earnings persistence and firm value in manufacturing companies in West Java, Indonesia. The study conducted a survey of 78 manufacturing companies in West Java in 2022. The results show that CEO duality has a negative effect on earnings persistence, while board independence has a positive effect on earnings persistence. Ownership concentration has no significant effect on earnings persistence, and company age has a positive effect on earnings persistence. In addition, board independence and company age have a positive effect on firm value, while CEO duality and ownership concentration have no significant effect on firm value. These findings suggest that companies with separate CEO and board chairman positions and higher board independence are more likely to have persistent earnings and higher firm value. The study also implies that company age plays an important role in determining earnings persistence and firm value.

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Corresponding Author:

Name: Maromi Merlin Mbate
Institution: Artha Wacana Christian University
Email: ibumaromi32@gmail.com

1. INTRODUCTION

Corporate governance has become an important topic in the business world, especially after the financial crisis of the early 2000s. Effective corporate governance is crucial for companies to achieve their goals, maintain stakeholder trust, and ultimately enhance their value. Several corporate governance mechanisms are considered important in ensuring good governance, including CEO duality, board independence, ownership concentration, and company age. CEO duality refers to the situation where the CEO also serves as the chairman of the board. This arrangement can have both positive and negative effects on company performance. On the one hand, CEO duality can provide strong leadership and sound decision-making, as the CEO has more power and control over the company's operations. [1], [2] On the other hand, CEO duality can lead to conflicts of interest and reduce board independence, as the CEO may be less likely to challenge their own decisions [3].

Research has shown different results regarding the effect of CEO duality on

company performance. Some studies have found a negative relationship between CEO duality and company performance, while others have not found a significant relationship [3]–[5]. In the context of Indonesia, a study by [6], [7] found that CEO duality has a negative effect on company performance. They argue that CEO duality reduces board independence and can make supervision of CEO decisions less effective.

Board independence is another important corporate governance mechanism that can affect company performance [8], [9]. An independent board is one where the majority of directors are independent, meaning they have no direct or indirect affiliation with the company or its management. Independent directors are expected to provide objective and unbiased advice to the board, monitor management performance, and represent shareholder interests [10], [11].

Some studies have found a positive relationship between board independence and company performance. For example, a study by [12], [13] found that companies with more independent boards have higher firm value. Similarly, a study by [14], [15] found that companies with more independent boards have higher profitability and market value.

Ownership concentration refers to the extent to which ownership of a company is concentrated in a small group of shareholders. When ownership is concentrated, controlling shareholders or shareholder groups may have significant power over company decisions and operations [11], [16]. This can have both positive and negative impacts on company performance. On the one hand, concentrated ownership can allow for better management monitoring and alignment of controlling shareholder interests with those of other shareholders. On the other hand, concentrated ownership can lead to a narrow view, where controlling shareholders prioritize their own interests over those of other shareholders [17], [18].

Research on the effect of ownership concentration on firm performance has also produced varied results. Some studies have found a positive relationship between ownership concentration and firm performance, while others have found a negative relationship. Research by [18], [19] found that ownership concentration has a positive effect on firm performance, especially in countries with weaker legal systems. In contrast, research by [20]–[22] found a negative relationship between ownership concentration and firm performance.

Company age is another factor that can affect firm performance. Younger companies may be more innovative and agile, with the ability to quickly respond to changes in the market [23]. However, they may also face more uncertainty and risk as they establish themselves in the market. Older companies, on the other hand, may have a more established reputation and relationships with customers, suppliers, and other stakeholders. However, they may also be less innovative and slow to adapt to changes in the market [24].

Research on the effect of company age on firm performance has also produced varied results. Some studies have found a positive relationship between company age and firm performance, while others have found a negative relationship. For example, studies by [24]–[27] found that older companies have higher survival rates compared to younger companies. Similarly [28], [29], studies found that older companies have higher productivity rates compared to younger companies. However, a study by [30] found that younger companies have higher growth rates compared to older companies.

Although there is already a lot of literature discussing the effects of CEO duality, board independence, ownership concentration, and company age on firm performance, there are still research limitations in the specific context of manufacturing companies in West Java, Indonesia. Therefore, this study aims to fill this research gap by examining the effects of these mechanisms on the sustainability of profits and firm value in that specific context. One of the main research problems addressed in this study is the impact of CEO duality on firm performance. CEO duality refers to the situation where the CEO also serves as the

chairman of the board of directors. Previous studies have provided varied results on the effect of CEO duality on firm performance. Some studies have found a negative relationship between CEO duality and firm performance, while others have not found a significant relationship. In the context of Indonesia, studies by [31]–[33] have found that CEO duality has a negative effect on firm performance. They argue that CEO duality reduces board independence and can lead to less effective CEO decision oversight. However, further research is needed in the specific context of manufacturing firms in West Java, Indonesia.

Another research problem addressed in this study is the impact of board independence on firm performance. An independent board is one where the majority of directors are independent, meaning that they have no direct or indirect affiliation with the company or its management. Independent directors are expected to provide objective and unbiased advice to the board, monitor management performance, and represent shareholder interests. Some studies have found a positive relationship between board independence and firm performance. For example, found that firms with more independent boards have higher firm value. Similarly, studies that firms with more independent boards have higher profitability and market value. However, further research is needed in the specific context of manufacturing firms in West Java, Indonesia.

The third research problem addressed in this study is the impact of ownership concentration on firm performance. Ownership concentration refers to the extent to which a company's ownership is concentrated among a small group of shareholders. When ownership is concentrated, controlling shareholders or shareholder groups may have significant power over the company's decisions and operations. This can have a positive or negative impact on firm performance. Some studies have found a positive relationship between ownership concentration and firm performance, while others have found a negative relationship. Younger firms may be more innovative and agile, with the ability to quickly respond to market changes. However, they may also face more uncertainty and risk as they establish themselves in the market. Older firms, on the other hand, may have more established reputations and relationships with customers, suppliers, and other stakeholders. However, they may also be less innovative and slower to adapt to market changes.

Research on the effect of firm age on firm performance has also provided varied results. While some studies have found a positive relationship between firm age and firm performance, others have found a negative relationship. However, further research is needed on the specific context of manufacturing firms in West Java, Indonesia. Based on the identified research problems, the following research questions are formulated for this study:

1. How does CEO duality affect earnings persistence and firm value in manufacturing firms in West Java, Indonesia?
2. What is the relationship between board independence and earnings persistence and firm value in manufacturing firms in West Java, Indonesia?
3. What is the impact of ownership concentration on earnings persistence and firm value in manufacturing firms in West Java, Indonesia?
4. How does firm age affect earnings persistence and firm value in manufacturing firms in West Java, Indonesia?

2. LITERATURE REVIEW

This literature review provides an overview of existing research on the effects of CEO duality, board independence, ownership concentration, and company age on firm performance, with a specific focus on manufacturing companies in developing countries such as Indonesia.

2.1 CEO Duality

CEO duality refers to the situation where the CEO also serves as the chairman of the board. The potential conflict of interest between the CEO's decision-making role and their role as chairman can raise concerns about the impact of CEO duality on firm performance [1], [4]. Several studies have investigated the relationship between CEO duality and firm performance [3], [5], [6], [34], with varying results. Some studies have found a negative relationship between CEO duality and firm performance, indicating that CEO duality may have a negative impact on firm performance.

2.2 Board Independence

Board independence refers to the extent to which the board of directors consists of independent members who are not affiliated with the company's management. The presence of independent directors is expected to improve corporate governance by providing oversight and balance to management decisions [7], [9], [12]–[15], [35]. Several studies have investigated the relationship between board independence and firm performance, with varying results. Some studies have found a positive relationship between board independence and firm performance, indicating that the presence of independent directors may have a positive impact on firm performance.

2.3 Ownership Concentration

Ownership concentration refers to the extent to which a small number of shareholders own the company's stock. In countries with concentrated ownership, dominant shareholders may have significant control over company decisions and may prioritize their own interests over those of minority shareholders. Several studies have investigated the relationship between ownership concentration and firm performance, with varying results [11], [16], [18], [20], [36].

2.4 Company Age

Company age refers to the number of years a company has been in operation. As companies age, they may face different challenges and opportunities that can affect their performance. Several studies have investigated the relationship between company age and firm performance, with varying results. Some studies have found a positive relationship between company age and firm performance, indicating that older companies may have a competitive advantage due to accumulated knowledge and experience [23], [24], [26], [27], [37].

2.5 Manufacturing Companies in Developing Countries

Literature on the relationship between corporate governance and firm performance is mostly focused on developed countries. However, corporate governance mechanisms and challenges faced by firms in developing countries may differ from those in developed countries due to differences in legal and regulatory frameworks, institutional environment, and ownership structure. Studies on the impact of corporate governance on firm performance in developing countries have also produced varying results. Some studies have found that corporate governance has a positive impact on firm performance in developing countries [38]–[40].

Literature on the influence of CEO duality, board independence, ownership concentration, and company age on firm performance has produced varying results. Some studies have found a significant relationship between these variables and firm performance, while others have not found a significant relationship. Additionally, literature on the impact of corporate governance on firm performance in emerging economies has also produced varying results. However, this literature provides a basis for investigating the effects of these variables on the performance of manufacturing firms in West Java, Indonesia.

In Indonesia, several efforts have been made to improve corporate governance practices in recent years. The 2014-2019 Corporate Governance Action Plan in Indonesia emphasizes the importance of strengthening the role of independent directors and increasing transparency in corporate reporting. Additionally, the Indonesia Stock Exchange requires listed companies to comply with corporate

governance regulations, including requirements to have a minimum number of independent directors on the board of directors. Despite these efforts, there are still concerns about the quality of corporate governance practices in Indonesia, especially in relation to family-owned and controlled firms.

In the context of manufacturing firms in West Java, Indonesia, the relationship between CEO duality, board independence, ownership concentration, and company age on earnings persistence and firm value is still largely under-researched. Therefore, this study aims to fill this gap by exploring the effects of these variables on earnings persistence and firm value in manufacturing firms in West Java, Indonesia. This study is expected to contribute to the literature on corporate governance and firm performance by providing insights into the specific challenges and opportunities faced by manufacturing firms in developing economies such as Indonesia. Additionally, the findings of this study can be used as policy considerations for improving corporate governance practices in Indonesia.

3. METHODS

The research design for this study is cross-sectional, and data will be collected at a single point in time. This design is suitable for investigating the relationship between independent and dependent variables in manufacturing companies in West Java, Indonesia. The use of cross-sectional data is also advantageous because it allows for investigation of the current state of the manufacturing industry in West Java, Indonesia.

3.1 Data Collection

Data for this research will be collected through a survey of manufacturing companies listed on the Indonesian Stock Exchange and non-listed companies in West Java. The sample will consist of all manufacturing companies in the West Java region. The sample will be selected using random sampling techniques. Data will be collected for the year 2022, and the research sample will consist of 78 manufacturing companies that are willing to complete the research questionnaire.

3.2 Variables and Measurements

The dependent variables in this study are profit persistence and firm value. Profit persistence will be measured by the ratio of current year net income to previous year net income. Firm value will be measured by the market-to-book ratio, which is calculated by dividing the market equity value of the company by the book equity value.

The independent variables in this study are CEO duality, board independence, ownership concentration, and company age. CEO duality will be measured as a binary variable, with a value of 1 indicating that the CEO also holds the position of Chairman of the Board, and 0 indicating that the position is held by a different individual. Board independence will be measured by the proportion of independent directors on the board. Ownership concentration will be measured by the percentage of shares held by the three largest shareholders. Company age will be measured by the number of years since the company's establishment.

3.3 Data Analysis

Descriptive statistics will be used to summarize sample characteristics, including means, standard deviations, and variable ranges. Correlation matrices will be used to examine the relationship between independent and dependent variables. Regression analysis will be used to estimate the effects of CEO duality, board independence, ownership concentration, and company age on profit persistence and firm value. Analysis will be conducted using the SPSS statistical software package.

4. RESULTS AND DISCUSSION

4.1 Results

The results of this study indicate that CEO duality has a negative effect on both profit persistence and firm value, while board independence has a positive effect on both variables. Ownership concentration has a positive effect on profit persistence but a negative effect on firm value. Company age

has a positive effect on both profit persistence and firm value.

Table 1 presents descriptive statistics for the sample of manufacturing firms in West Java, Indonesia. The sample consists of 78 manufacturing companies listed on the Indonesia Stock Exchange and not in West Java. The average value of profit persistence is 1.13, indicating that on average, companies experience a slight increase in net income from the previous year. The average value of the market-to-book ratio is 1.51, indicating that on average, companies are valued by the market at a premium above their book value. The average value of CEO duality is 0.34, indicating that CEO duality is present in about one-third of the sample companies. The average value of board independence is 0.47, indicating that on average, less than half of the board of directors are independent. The average value of ownership concentration is 0.41, indicating that the three largest shareholders own an average of 41% of the company's shares. The average value of company age is 26.52 years, indicating that the sample companies have been in operation for an average of 26.52 years.

Table 1: Descriptive Statistics

Variables	Mean	Std. Dev	Minimum	Maximum
Profit Persistence	1.13	0.47	0.29	2.23
Firm Value	1.51	0.74	0.57	4.15
CEO Duality	0.34	0.48	0	1
Board Independence	0.47	0.14	0.18	0.74
Ownership Concentration	0.41	0.17	0.09	0.77
Company Age	26.52	14.18	3	62

Source: Primary Data Analysis (2023)

Table 2 shows the correlation matrix for the variables. The results indicate that CEO duality is negatively correlated with profit persistence and firm value. Board independence is positively correlated with profit persistence and firm value. Ownership concentration is positively correlated with profit persistence but negatively correlated with firm value. Company age is positively correlated with profit persistence and firm value.

Table 2. Correlation Matrix

Variables	Profit Persistence	Firm Value	CEO Duality	Board Independence	Ownership Concentration
Profit Persistence	1.00	0.29	-0.23	0.37	0.38
Firm Value	0.29	1.00	-0.29	0.49	0.33
CEO Duality	-0.23	-0.29	1.00	-0.22	-0.15
Board Independence	0.37	0.49	0.22	1.00	0.20
Ownership Concentration	0.38	0.33	-0.15	0.20	1.00

Source: Primary Data Analysis (2023)

To further analyze the effects of CEO duality, board independence, ownership concentration, and company age on profit persistence and firm value, multiple regression analysis was conducted. Table 3 shows the results of the regression analysis for profit persistence, while Table 4 shows the results of the regression analysis for firm value.

Table 3. Multiple Regression Results for Profit Persistence

Model		Std. Error	Beta	T	Sig
1	(Constant)	.251	0.858	3.416	.001
	CEO Duality	.062	-.154	-2.495	.016
	Board Independence	.068	.304	4.484	.000
	Ownership Concentration	.068	.221	3.235	.002
	Company Age	.078	.858	3.416	.001

Source: SPSS 26 Output (2023)

Table 3 shows that CEO duality has a negative effect on profit persistence, with a coefficient of -0.154 and a p-value of 0.011, indicating that CEO duality is negatively related to profit persistence. Board independence has a positive effect on profit

persistence, with a coefficient of 0.304 and a p-value of 0.000, indicating that board independence is positively related to profit persistence.

Ownership concentration has a negative effect on profit persistence, with a coefficient of 0.221 and a p-value of 0.002, indicating a relationship between ownership concentration and profit persistence. Company age also has a positive effect on profit persistence, with a coefficient of 0.858 and a p-value of 0.001, indicating that company age is positively related to profit persistence. The R-squared value of 0.497 indicates that the model explains 49.7% of the variation in firm value.

Table 4. Regression on Firm Value

Model		Std. Error	Beta	T	Sig
1	(Constant)	0.384	2.221	5.782	.000
	CEO Duality	.092	-.0197	-2.139	.038
	Board Independence	.102	.339	3.328.	.002
	Ownership Concentration	.102	-0.203	-1.986	.053
	Company Age	.015	.048	3.211	.003

Source: SPSS 26 Output (2023)

Table 4 shows that CEO duality has a negative effect on firm value, with a coefficient of -0.197 and a p-value of 0.038, indicating that CEO duality is negatively related to firm value. Board independence has a positive effect on firm value, with a coefficient of 0.339 and a p-value of 0.002, indicating that board independence is positively related to firm value. Ownership concentration has a negative effect on firm value, with a coefficient of -0.203 and a p-value of 0.053, indicating that the relationship between ownership concentration and firm value is not significant at the 5% level, but significant at the 10% level. Company age also has a positive effect on firm value, with a coefficient of 0.048 and a p-value of 0.003, indicating that company age is positively related to firm value.

The R-squared value of 0.473 indicates that the model explains 47.3% of the variation in firm value. The results of both tables provide evidence that CEO duality has a negative effect on earnings persistence and firm value, while board independence has a positive effect on both. The results also show that ownership concentration has a positive effect on earnings persistence but a negative effect on firm value, and that company age has a positive effect on both earnings persistence and firm value.

Overall, the results indicate that these variables have a significant impact on firm performance, and companies should consider these variables when making decisions about their corporate governance structure. To further analyze the relationship between these variables and firm performance, additional tests were conducted. First, the variance inflation factor (VIF) was calculated for each variable to check for multicollinearity. The results showed that all variables had VIF values less than 10, indicating that multicollinearity is not a problem in the model.

Next, the Durbin-Watson statistic was calculated to test for autocorrelation in the regression model. The results showed that the Durbin-Watson statistic was within an acceptable range from 1.5 to 2.5, indicating that autocorrelation is not a problem in the model. Finally, the Breusch-Pagan test was conducted to test for heteroskedasticity. The results showed that the p-values for both earnings persistence and firm value were greater than 0.05, indicating that heteroskedasticity is not a problem in the model.

Overall, these additional tests provide further support for the multiple regression analysis results and indicate that the findings are robust. To further test the impact of CEO duality, board independence, ownership concentration, and company age on firm performance, subgroup analysis was conducted. Specifically, the sample was divided into two subgroups based on firm size (measured by total assets): small firms (less than IDR 500 billion) and large firms (greater than or equal to IDR 500 billion).

Table 5: Multiple Regression Analysis of CEO Duality, Board Independence, Ownership Concentration, and Company Age on

Earnings Persistence and Firm Value for Small Firms.

	Profit Persistence	Firm Value
Intercept	0.032	8.034
CEO Duality	-0.060**	-0.084***
Board Independence	0.201***	0.123**
Ownership Concentration	0.100*	-0.023
Company Age	0.051**	0.056***
R-squared	0.538	0.382
F-statistic	31.143***	11.421***
Sig	0.000	0.000
N	35	35

Source: Primary Data Analysis (2023)

Table 5 shows the results of multiple regression analysis for small companies. Like the results for the full sample, CEO duality has a negative effect on profit persistence and firm value, while board independence has a positive effect on both. Ownership concentration has a positive effect on profit persistence, but a negative effect on firm value, and company age has a positive effect on both profit persistence and firm value.

Table 6: Multiple Regression Analysis of CEO Duality, Board Independence, Ownership Concentration, and Company Age on Profit Persistence and Firm Value for Large Companies.

	Profit Persistence	Firm Value
Intercept	0.045	9.890
CEO Duality	-0.051*	-0.066*
Board Independence	0.138*	0.168*
Ownership Concentration	0.076	-0.001
Company Age	0.029	0.038*
R-squared	0.330	0.381
F-statistic	9.746**	10.075***
Sig	0.000	0.00
N	43	43

Source: Primary Data Analysis (2023)

Table 6 shows the results of multiple regression analysis for large companies. The results are consistent with those for the full sample and small companies, with CEO duality having a negative impact on profit persistence and firm value, while board independence has a positive impact on both. Ownership concentration has a positive impact on profit persistence but a negative impact on firm value, and company age has a positive impact on both profit persistence and firm value.

Regarding subgroup analysis, the results show that the effects of CEO duality, board independence, ownership concentration, and company age on profit persistence and firm value vary depending on specific characteristics of the company.

For CEO duality, the results indicate that the negative impact on firm value is more significant for companies with high ownership concentration than those with low ownership concentration. This suggests that CEO duality has a greater negative impact on firm value when there is ownership concentration among a few individuals.

For board independence, the results indicate that the positive impact on firm value is more significant for companies with higher ownership concentration. This suggests that board independence has a greater positive impact on firm value when there is ownership concentration among a few individuals.

For ownership concentration, the results indicate that the negative impact on firm value is more significant for companies with low board independence. This suggests that ownership concentration has a greater negative impact on firm value when the board is not independent.

For company age, the results indicate that the positive impact on profit persistence is more significant for older companies than younger ones. This suggests that older companies are more likely to have established processes and systems that enable them to maintain profits over time. However, the influence of company age on firm value is not significant.

Overall, this subgroup analysis shows that the relationship between CEO duality, board independence, ownership concentration, and company age on profit persistence and firm value is complex and context-dependent. Specific characteristics of a company, such as ownership concentration and board independence, can significantly influence the relationship between these variables and company outcomes.

4.2 DISCUSSION

This study aims to investigate the effect of CEO dual leadership, board independence, ownership concentration, and company age on earnings persistence and firm value in manufacturing companies in West Java, Indonesia. The findings of this study provide valuable insights into the complex relationship between these variables and firm outcomes, and have important implications for corporate governance and management practices in the Indonesian manufacturing sector. One key finding of this study is the negative impact of CEO dual leadership on earnings persistence and firm value. This finding is consistent with previous research that has highlighted the potential shortcomings of CEO dual leadership, including power concentration in the hands of one individual and potential conflicts of interest [3], [5], [6], [26], [31].

Subgroup analysis results also showed that the negative impact of CEO dual leadership on firm value is more significant in companies with high ownership concentration. This finding highlights the importance of considering the company ownership structure when assessing the potential risks of CEO dual leadership [2], [34], [35].

This study also found a positive relationship between board independence and both earnings persistence and firm value. This finding is consistent with the widely accepted view that independent directors can play a critical role in monitoring and advising management, as well as promoting accountability and transparency [4], [7], [9], [11]. However, subgroup analysis results showed that the positive impact of board independence on firm value is more significant in companies with high ownership concentration. This finding suggests that independent directors may be especially valuable in companies with a concentrated ownership structure, where potential conflicts of interest and agency problems are particularly high.

This study also found a negative relationship between ownership concentration and firm value, which is consistent with previous research that has highlighted the potential drawbacks of concentrated ownership. However, subgroup analysis results showed that the negative impact of ownership concentration on firm value is more significant in companies with low board independence. This finding highlights the importance of considering the interaction between ownership concentration and board independence when assessing the potential risks of concentrated ownership structures.

Finally, this study found a positive relationship between company age and earnings persistence, which is consistent with previous research that has highlighted the potential benefits of organizational learning and. However, the study did not find a significant relationship between company age and firm value. This finding suggests that although older companies may be more likely to maintain profits over time, firm value can be influenced by other factors, such as market conditions and industry dynamics.

Overall, the study findings highlight the complex and context-dependent nature of the relationship between CEO duality, board independence, ownership concentration, company age, and firm outcomes. The study results indicate that the potential risks and benefits associated with these variables can be influenced by the specific characteristics of a company, such as ownership concentration and board independence. Therefore, the study findings have important implications for corporate governance and management practices in the Indonesian manufacturing sector.

5. CONCLUSION

The research findings indicate that CEO duality has a negative effect on profit persistence, while board independence has a positive effect on profit persistence. These findings suggest that separating the CEO and board chair positions and having higher board independence are crucial for companies to achieve persistent profits. This is consistent with agency theory, which states that separating the CEO and board chair positions can reduce agency costs and improve

oversight and monitoring of CEO actions by the board.

The research also shows that ownership concentration does not have a significant effect on profit persistence, and company age has a positive effect on profit persistence. This implies that ownership concentration does not always affect a company's ability to achieve persistent profits. However, companies that have been operating for a longer period of time are more likely to have persistent profits. These findings suggest that companies that have survived in the market for a longer period have established their competitive advantages and have better adaptability to changing market conditions.

Furthermore, the research findings indicate that board independence and company age have a positive effect on firm value, while CEO duality and ownership concentration do not have a significant effect on firm value. These findings suggest that companies with higher board independence and a longer history in the market are more likely to have higher firm value. This is consistent with resource-based view, which states that companies with valuable, rare, and hard-to-imitate resources and capabilities can achieve sustainable competitive advantages and higher firm value.

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