CHAPTER V
CONCLUSION

5.1 Research Conclusion

While traditional agency theory suggests that strong governance reduces risk, this research reveals a unique phenomenon in the Indonesian market, specifically in the consumer sector. The detailed panel data regression analysis yields four principal findings as presented in the following sections:

1. Board independence and institutional ownership have adverse impacts on market stability. On the contrary, the relationships between these variables and SPCR are found to be positive. This is an indication that board independence and institutional ownership are ineffective in this particular sample or may operate passively, which further increases SPCR. Conversely, there is significant negative correlation between audit quality which demonstrates its usefulness in reducing SPCR.
2. All the relationships are moderated by financial constraint. The research concludes that the financial constraint is a multiplier. It exacerbates the positive impact of board independence and institutional ownership on SPCR, which makes them more harmful. However, it strengthens the risk-diluting effect of the audit quality, which increasing the effectiveness of big 4 audit firms to reduce SPCR.
3. Control variables are significant. The outcomes of the regression model indicate that the traditional financial measures, debt to equity (DER) and market to book (MTB), have a significant influence on SPCR, which implies that fundamental financial health is on of the main drivers of SPCR in the Indonesian consumer sector.
4. The effectiveness of corporate governance in conditional. The findings prove that the result of any governance mechanism cannot guarantee success in all situation, its performance is dependent on the company's financial condition (financial constraint)

5.2 Research Limitation

Although this research has some valuable insights, it has several limitations which offers oppportunities for future enhancement:

1. The process of sample selection created an unbalanced panel of 418 total observations. While this maximizes the available data, it can create certain biases as opposed to a balanced panel on a longer time horizon. Also, the period of analysis is limited to the five years of 2020-2024, which implies having at least one year of complete data per company. Additionally, this study exclusively considers the consumer sector firms in Indonesia, this can be a limitation to generalization of the findings.

2. The R-squared (overall) measure stands at 12.09% which shows that the independent variables in this model would only capture a low percentage of the variance in stock price crash risk (SPCR). This implies that the SPCR is 87.91% influenced by unknown external conditions or other variables that are not in this model.

3. This research paper only considers the corporate governance as independent variable financial constraint as the only moderating variable, does not explore other aspects such as factors of macroeconomics (inflation, interest rate, GDP growth), market sentiment (investor confidence), and internal factors like CEO duality and political relationships, that are ignored in this study.

5.3 Implications

Based on the results of the research that has been conducted, the implications of this study are as follows:

1. Theoretical Implications

   This study will add value to the literature on corporate governance and agency theory especially in the consumer sector of Indonesia. It offers empirical data that disproves the generalizability of the agency theory in that board independence and institutional ownership might raise stock price crash risk (SPCR). It also gives a contribution to the literature on financial constraits pointing out the influence of resource difficulty on the behavior and performance of the governance mechanisms on SPCR.

2. Practical Implications

   This study is an important caution of the investors. Investors must not blindly rely on the companies that have a high board independence or institutional ownership particularly when the company is financially constrained. Rather, the audit quality (big 4 auditors) should be used more by investors as a superior indicator of protection against SPCR. To corporate decision-makers, the results indicate that merely ensuring compliance (window dressing) by appointing independent directors is a counterproductive idea. To avoid bad news hoarding, companies must give these directors real powers and resources particularly in condition of financial constraint. To policy makers, the study can be useful in making policies on hiring independent commissioners. The regulators ought to be concerned with the quality and independence of such directors instead of their numbers so that they act as effective monitors and not passive observers.

5.4 Recommendation and Suggestion

To advance the financial literature on stock price crash risk, subsequent studies should consider:

1. Future studies could expand the analysis to include a longer time horizon, for example 10 years observation, capturing more economic cycles like pre-crisis and post-crisis to see if the ineffective monitoring phenomenon is consistent over time.

2. Future studies could enhance generalizability by replicating the study in different national contexts (e.g., comparing Indonesia with Malaysia or Singapore) to see if the positive impact of board independence is unique to Indonesia or common in ASEAN emerging markets. Alternatively, the scope of research could be expanded to focus on Southeast Asia or Asia.

3. Future studies could incorporate additional moderating or control variables, such as inflation rates, exchange rates, and GDP growth, to provide a more comprehensive analysis of external pressures on SPCR
4. Future research could explore alternative proxies for the variables. For instance, using different measurements for financial constraints such as the WW Index or KZ Index, or different calculations for SPCR such as DUVOL to test the robustness of the findings.
5. Further studies may expand on the analysis with qualitative research (interviews or case studies) to examine the reasons why independent boards in Indonesia are more likely to increase SPCR, be it through incompetence, busyness, or social connection with the owners, especially in the consumer sector of Indonesia.