



## The effect of corporate governance on financial performance moderated by company size (Empirical study of manufacturing companies listed on the Indonesia stock exchange 2018 – 2021)

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### Abstract

This research aims to examine the influence of corporate governance mechanisms on firm financial performance. Corporate governance is proxied by the board of directors' size, percentage of independent commissioners, institutional ownership, foreign ownership, concentrated ownership, and audit committee's size. Financial performance is measured by Return on Assets and Tobin's Q. The data used is secondary data obtained from annual reports and financial statements manufacturing firms listed on the Indonesian Stock Exchange (IDX) during 2018 - 2021. The sample selection method used was purposive. The data analysis technique used is multiple linear regression test and moderated regression analysis. The results showed that partially board of directors' size has a positive significant effect on return on assets, institutional ownership has a positive insignificant effect on return on assets, concentrated ownership has a negative significant effect on Tobin's Q, Simultaneously, corporate governance mechanisms have a positive significant effect on financial performance. Meanwhile, firm size is found to have a moderating role to the effect of concentrated ownership on return on assets and the effect of percentage of independent commissioners on Tobin's Q.

**Keywords:** Board of directors, ownership structure, audit committee, return on assets, Tobin's Q

### Introduction

The establishment of a company is intended to generate optimal profits in order to ensure its survival. This is what spurred the company to try optimally and maximally with various strategies undertaken to improve its performance, namely to achieve maximum profit. Company performance is a benchmark for company development, especially its financial performance which can be assessed through analysis of financial statements originating from the balance sheet and income statement (Hilman *et al.*, 2014) <sup>[11]</sup>. The company's financial performance according to Jumingan (2014) <sup>[19]</sup> refers to financial reports issued within a certain period of time, reflecting the company's leadership, and is usually measured in terms of capital adequacy, liquidity and profitability ratios. The company's financial performance is used to evaluate the efficiency and effectiveness of the business in managing its operations for a certain period of time (Anjelina, 2020) <sup>[3]</sup>. Information on financial performance is used by stakeholders to find out the financial condition of an organization accompanied by an analysis that will be carried out by the company in the next period. If the company's financial results are good, it can be concluded that management manages the company in accordance with the company's goals and responsibilities (Anjelina, 2020) <sup>[3]</sup>.

Corporate governance is one of several components that affect the financial performance of a company. Over the last 15 years, in the world of business and finance, the term 'corporate governance' has become one of the most commonly used (Singh & Pillai, 2022) <sup>[39]</sup>. Since the largest Enron corruption scandal in American history came to light, corporate governance issues have become a focus of global attention. The Enron Corporation is an electric power, natural gas, pulp and paper, and communications services company. The incident also involved Arthur Andersen, one of the Public Accounting Firms that was included in the Big Five

(Sekaredi, 2011) <sup>[37]</sup>. Apart from Enron, the fraud scandal also involved Worldcom, a company that runs its business in the telecommunications industry and is one of the largest in the world. WorldCom was proven to have committed fraud in financial statements by transferring expense accounts to capital accounts so as to increase the company's revenue. The Enron and WorldCom cases in the United States emphasize the importance of good governance to be implemented (Herdjiono & Sari, 2017) <sup>[10]</sup>.

Proper corporate governance is important for the financial and non-financial success and sustainability of the company. The company has realized the benefits that can be obtained if the organization has a good governance structure. Good corporate governance will increase stock prices thereby helping companies to obtain capital. Investors, especially foreign investors, will hesitate to invest their money in companies whose governance is proven to be poor (McGee, 2019) <sup>[23]</sup>. Theoretically, the implementation of good governance is able to optimize the value and financial performance of the company, minimize risks arising from unilateral decisions of the board of directors, and generally strengthen the trust of capital owners.

Many studies have been conducted at home and abroad with varying results on how corporate governance affects the company's financial performance. This difference in results is because the dimensions of corporate governance used as variables in each study also vary, such as the size of the board of directors (Saidat *et al.*, 2019) <sup>[35]</sup> and (Azis & Hartono, 2017) <sup>[5]</sup>, the presence of women on the board (Isidro & Sobral, 2015) <sup>[15]</sup>, managerial ownership (Herdjiono & Sari, 2017) <sup>[10]</sup>, gender diversity (Krisyadi & Jeslyn, 2021) <sup>[20]</sup>, board composition (Boachie, 2021) <sup>[6]</sup>, and so on. In addition, the number of samples and industries selected as the sample population also affect the results of the study.

This study is a modified study by Saidat *et al.* (2019) [35] regarding the relationship between corporate governance and company performance. Saidat *et al.* (2019) [35] used board structure and ownership structure as variables in the corporate governance mechanism and return on assets (ROA) and Tobin's Q as measurements of financial performance. The author adds the audit committee variable for the reason that corporate governance is very dependent on the audit committee. PUG-KI (2021) explains that with the help of the audit committee, the board of commissioners is tasked with overseeing and ensuring that internal audit is responsible for helping the organization achieve its goals using an objective and disciplined approach in assessing and maximizing risk management, internal control, and efficiency. The sample used is a manufacturing company on the Indonesia Stock Exchange. Companies that are on the stock market mostly concentrate on the manufacturing industry. As an industry that dominates the stock market, these companies receive attention from the public, one of which is from the aspect of corporate governance. The large number of manufacturing companies in Indonesia creates intense competition between companies, so they are also competing to improve their performance through the implementation of good governance. With good management, it is hoped that the company's financial performance will also increase which will convince investors and the public to invest in the company. As an industry that dominates the stock market, these companies receive attention from the public, one of which is from the aspect of corporate governance. The large number of manufacturing companies in Indonesia creates intense competition between companies, so they are also competing to improve their performance through the implementation of good governance. With good management, it is hoped that the company's financial performance will also increase which will convince investors and the public to invest in the company. As an industry that dominates the stock market, these companies receive attention from the public, one of which is from the aspect of corporate governance. The large number of manufacturing companies in Indonesia creates intense competition between companies, so they are also competing to improve their performance through the implementation of good governance. With good management, it is hoped that the company's financial performance will also increase which will convince investors and the public to invest in the company. so that they are also competing to improve their performance through the implementation of good governance. With good management, it is hoped that the company's financial performance will also increase which will convince investors and the public to invest in the company.

**Theoretical framework and hypothesis Formulation**  
**Agency Theory**

Agency theory was formed from research written by Michael C. Jensen and William H. Meckling entitled "Theory of the Firm: Managerial Behavior, Agency Cost, and Ownership Structure." Jensen & Meckling (1976) [18] define agency relationships as employing one or more clients who employ other persons called agents to perform and delegate certain

tasks and decision-making authority on their behalf. In this case, the principal means the owner of the company or owner of capital while the agent manages the company. agency theory stated that it is very important for capital owners to bequeath the management of their organization to professionals who better understand how to run the company's daily operations. It is intended that management of the company can be separated from ownership so that owners can obtain optimal benefits with efficient spending. In agency theory, agency problems often occur, namely situations that present different interests of capital owners and management. In this theory, managers are assumed to act opportunistically and selfishly to achieve certain goals (Lo, 2012) [22].

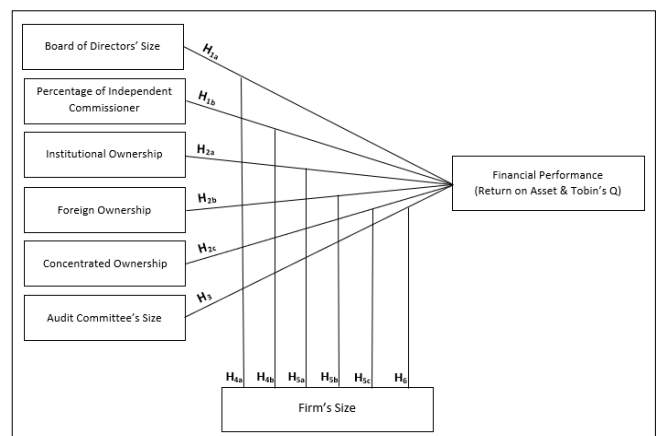
Agency theory become a driving force for the emergence of the concept of corporate governance in business management which is expected to minimize disputes between principals and agents through monitoring the performance of agents. The interactions that occur between management and owners can show how the corporate governance system is run. If good governance is implemented, capital owners will be sure that management will manage the company's assets properly, which will avoid conflicts of interest and agency costs.

**Stewardship Theory**

According to stewardship theory, management can be considered as a reliable entity. because basically humans can be trusted and have the capacity to act honestly, fairly and responsibly towards others. In this context, the steward refers to the board of directors who work for the benefit of the capital owners, maintain and benefit them. According to stewardship theory, managers and company success are closely related. Therefore, managers maintain and maximize the wealth of the owners of capital by running the organization as well as possible. In other words, this theory considers management as a party that prioritizes the public interest and acts in the best interest. Stewardship theory differs from agency theory in that it focuses on the role of top management as stewards who inject their goals into the organization rather than individualism. The stewardship approach gives the impression that management will be satisfied and motivated when the company achieves success.

**Framework**

The framework describes the relationship between research variables in the form of a schema. This study uses the dependent variable, independent variable, and moderating variable.



**Fig 1: Framework**

## Hypothesis Formulation

### Effect of Board Structure on Financial Performance

The number of members of the board of directors is an important component to assess the performance of the board of directors (Jensen, 1993). Research by O'Connell & Cramer (2010)<sup>[28]</sup> found that having a number of people on the board of directors is negatively related to company performance. This association is consistent with the view that coordination and agency problems become more severe as board size increases (Nguyen *et al.*, 2014)<sup>[27]</sup>. In contrast, Tonyerva & Wereko (2012)<sup>[44]</sup> opposes the idea that a larger number of directors will result in more experienced resources because they are considered to have more experience and are able to improve company performance. Agency theory confirms that more directors will increase firm performance, resulting in a positive relationship between board size and performance.

An independent commissioner is a member of the board of commissioners who has no financial ties, executive positions, share ownership, or family ties with other members of the board of commissioners, directors, or controlling shareholders, or other ties that might affect the independence of his actions. The results of research conducted by Christiawan (2015) indicate that the greater the proportion of independent commissioners in a company, the more inhibited the ability of company management to commit violations, so that the company's performance becomes stronger. However, in research conducted by Situmorang & Simanjuntak (2019)<sup>[40]</sup> and Monica & Dewi (2019)<sup>[25]</sup>, it was concluded that the composition of independent commissioners has no significant effect on financial performance.

**H1a:** The size of the board of directors has a positive effect on the company's financial performance

**H1b:** The percentage of independent commissioners has a positive effect on the company's financial performance

### Effect of Company Ownership Structure on Financial Performance

According to agency theory, because institutional shareholders monitor the company to ensure management does not take actions that will harm capital owners, institutional share ownership can reduce agency problems (Chen & Steiner in Melinda & Sutejo, 2008)<sup>[24]</sup>. Theoretically, improvement and optimal monitoring mechanisms are the guarantors of capital owner profits because managers are motivated by institutional shareholders to show satisfactory performance to shareholders (Candradewi & Sedana in Purnomo *et al.*, 2021)<sup>[31]</sup>. Contrary results were put forward by Prasetya & Santosa (2020)<sup>[30]</sup> and Fadillah (2017)<sup>[8]</sup> which emphasized that share ownership by institutions does not affect company performance.

In addition to share ownership by domestic institutions, the presence of foreign shareholders is also important, especially in developing countries like Indonesia. As confirmed by international financial literature, this type of investor contributes to increasing local investment (Henry in Saidat *et al.*, 2018) and encourages the development of financial markets and liquidity (Bekaert *et al.* in Saidat *et al.*, 2018). According to Young *et al.* (in Saidat *et al.*, 2018), the presence of foreign investors is an effective part of increasing governance agencies in developing economies. They also argue that foreign investors are able to monitor companies in a better way than domestic investors because they are more

likely to encourage transparent agreements to be reached (Young *et al.* in Saidat *et al.*, 2018).

Shleifer & Vishny (1997) conducted a literature survey related to corporate governance in 1,196 companies from around the world. The survey results indicate that concentrated ownership has a strong influence on company management and can reduce agency problems thereby improving financial performance. However, the results of a study by Saidat *et al.* (2019)<sup>[35]</sup> instead show a different situation, where there is a large difference in ownership between capital owners who control larger ownership and capital owners who have smaller ownership. This is considered to be a cause of conflict of interest between management and capital owners, which can have an impact on the company's performance from a financial perspective.

**H2a:** Institutional ownership has a positive effect on financial performance

**H2b:** Foreign ownership has a positive effect on financial performance

**H2c:** Concentrated ownership has a positive effect on financial performance

### The Effect of Audit Committee Size on Financial Performance

Research by Herdjiono & Sari (2017)<sup>[10]</sup> reports that the effectiveness of the audit committee is highly dependent on the characteristics of the committee, one of which is the size of the audit committee. Tornyeva & Wereko (2012)<sup>[44]</sup> found a large number of audit committees and company performance had a significant positive correlation. In contrast, Al-Matari *et al.* (2012)<sup>[1]</sup> found audit committee size and company performance to be negatively correlated. Meanwhile, Romano *et al.* (2012)<sup>[34]</sup> and Brick & Chidambaran (2010)<sup>[7]</sup> argue that the number of audit committees has no significant relationship with how the company operates.

**H3:** The size of the audit committee has a positive effect on the company's financial performance.

### Effect of Board Structure Moderated by Company Size on Financial Performance

The influence of the number of members of the board of directors on the company's performance can be seen from its size. Large companies have more boards of directors, which allows for more effective oversight and more skilled and collaborating people, which can have a positive impact on performance. Previous research by Assenga *et al.* (2018) support this statement.

The function of good supervision and coordination within the company is the duty of the independent board of commissioners. Therefore, the larger the size of the company, the size of the independent board of commissioners must also be balanced. The increasing number of independent commissioners indicates that the independent commissioners are performing a better supervisory and coordinating function within the company.

**H4a:** Company size moderates the effect of board size on financial performance

**H4b:** Firm size moderates the effect of the percentage of independent commissioners on financial performance

**The Effect of Ownership Structure Moderated by Company Size on Financial Performance**

Referring to previous research, O'Brien (in Al-Najjar, 2010) argues that large companies have the main resources and are better able to minimize the risk of their stock investment. Thus, such companies experience minimal financial difficulties or bankruptcy risks. Therefore, institutional investors are more interested in large companies (Tong & Ning in Al-Najjar, 2010).

Pasali & Chaudhary (2020) examined the effect of foreign participation on company results by size in 80,000 companies in both developed and developing countries during 2010-2019. The research shows unique results because it compares the performance of foreign and domestic owned companies based on size. Preliminary results suggest that overall foreign ownership does confer an advantage on firm performance, but there is no consistent evidence that this corresponds to firm size. Nonetheless, studies consistently show that foreign ownership increases the productivity and sales of micro-sized businesses.

Investors consider the annual growth in company size as expressed in its total assets. Conversely, if the size of the company is unstable or has decreased, investors will be careful when investing, especially if the investment made is quite large (Sulistiorini, 2022). Research by Indradi & Taswan (2022) found no moderating effect between concentrated ownership on company performance from a financial perspective.

**H5a:** Firm size moderates the effect of institutional ownership on financial performance

**H5b:** Firm size moderates the effect of foreign ownership on financial performance

**H5c:** Firm size moderates the effect of concentrated ownership on financial performance

**The Effect of Audit Committee Size Moderated by Company Size on Financial Performance**

Big companies need better governance to improve their performance. The company's audit committee is one of the most important management systems. Company results are influenced by the greater number and independence of audit committee members (Anggraini in Sari & Sayadi, 2020). In addition, conflicts of interest in agency theory can be reduced by the existence and independence of the audit committee.

**H6:** Firm size moderates the effect of foreign ownership on financial performance

**Research Methods**

**Population and Sample**

The population used in this study are manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2018 - 2021 with a total of 166 companies. The data source comes from the annual report and financial reports released on the company's official website. The sample was selected using a purposive sampling method so that 89 companies were selected that met the criteria with a final total of 356 data.

**Variables and Their Measurements**

This study uses the dependent variable financial performance as measured using return on assets and Tobin's Q. While the

independent variables used are corporate governance which is proxied by the size of the board of directors, the percentage of independent commissioners, institutional ownership, foreign ownership, concentrated ownership, and audit committee size as well firm size as a moderating variable. The following are the variables used in this study and their measurements:

**a. Dependent Variable**

- Return on Asset (ROA) measured with the company's total net profit divided by the company's total assets
- Tobin's Q (QRATIO) measured with market value of the stock plus book value of total debt divided by total assets

**b. Independent Variable**

- Board of Directors' Size (BODS) measured with the overall number of board of directors'
- Percentage of Independent Commissioners (INCR) measured with the percentage of total independent commissioners to the total board of commissioners
- Institutional Ownership (INOW) measured with the percentage of share ownership by domestic institutions to the total outstanding shares
- Foreign Ownership (FROW) measured with the percentage of share ownership by foreign institutions to the total outstanding shares
- Audit committee size (AUCS) measured with the overall number of audit committee

**c. Moderating Variable**

- Firm Size (FSIZE) measured with Natural logarithm of the company's total assets

**Analysis Models**

To examine the relationship between the independent variables and the dependent variable, the test used is multiple linear regression analysis. Meanwhile, to examine the role of the moderating variable in relation to the relationship between the independent and dependent variables, moderated regression analysis (MRA) was used.

$$ROA = \alpha + \beta_1 BODS + \beta_2 INCR + \beta_3 INOW + \beta_4 FROW + \beta_5 COOW + \beta_6 AUCS + \epsilon$$

$$QRATIO = \alpha + \beta_1 BODS + \beta_2 INCR + \beta_3 INOW + \beta_4 FROW + \beta_5 COOW + \beta_6 AUCS + \epsilon$$

$$ROA = \alpha + \beta_1 BODS + \beta_2 INCR + \beta_3 INOW + \beta_4 FROW + \beta_5 COOW + \beta_6 AUCS + \beta_7 FSIZE + \beta_8 BODS * FSIZE + \beta_9 INCR * FSIZE + \beta_{10} INOW * FSIZE + \beta_{11} FROW * FSIZE + \beta_{12} COOW * FSIZE + \beta_{13} AUCS * FSIZE + \epsilon$$

$$QRATIO = \alpha + \beta_1 BODS + \beta_2 INCR + \beta_3 INOW + \beta_4 FROW + \beta_5 COOW + \beta_6 AUCS + \beta_7 FSIZE + \beta_8 BODS * FSIZE + \beta_9 INCR * FSIZE + \beta_{10} INOW * FSIZE + \beta_{11} FROW * FSIZE + \beta_{12} COOW * FSIZE + \beta_{13} AUCS * FSIZE + \epsilon$$

**Information**

- $\alpha$  = Constant
- $\beta_1 - \beta_{13}$  = Coef. regression
- ROA = Return on Assets
- QRATIO = Tobin's Q
- BODS = Board of Directors Size
- INCR = Percentage of Independent

**Commissioners**

- INOW = Institutional Ownership
- FROW = Foreign Ownership

- COOW = Concentrated Ownership
- AUCS = Audit Committee Size
- FSIZE = Company Size
- ε = Error

**Research results and Discussion**

**Description of the Research Sample**

This study uses secondary data sources. The population used consisted of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2018 – 2021. The sample was determined using a purposive sampling method and obtained 365 data used as research samples. The steps for selecting the sample carried out in this study are as follows

**Descriptive statistics**

From the secondary data processed with SPSS 26, it is found that the lowest size of the board of directors (BODS) is 2, which means that the composition of the board of directors only consists of 1 chairman of the board of directors or president director along with 1 other member of the board of directors, while the highest score is 13, which means that the composition of the board of directors consists of 1 chairman of the board of directors / joint president director 12 other members of the board of directors. The average size of the board of directors of all company data is 4.80 and the standard deviation is 2.15. The percentage of independent commissioners (INCR) has the lowest value of 22.22%, while the highest value is 100%, which means that all members of the board of commissioners are independent parties while the average value of the percentage of independent commissioners shows a figure of 42.14% and a standard deviation of 11.85%.

The lowest value of institutional ownership (INOW) shows the number 0, which means that no domestic institutions own shares in the company concerned, while the highest value shows the number 99.30%, which means that almost all shares are owned by domestic institutions. The average institutional ownership of all company data shows 46.67%, which means that most of the manufacturing industry companies on the stock market almost half of their shares are controlled by domestic institutions with a standard deviation of 35.05%. Almost the same as domestic institutional ownership, the lowest value of foreign ownership (FROW) is 0, which means that no foreign institution owns shares in the related company. While the highest value shows the number 99.96%, which means that almost all of the shares of related companies are owned by foreign institutions. From the data of 89 companies, the average share owned by foreign

institutions shows a figure of 27.46% with a standard deviation of 32.79%. The average concentrated ownership (COOW) in the table shows a figure of 76.09%, which means that the share ownership of manufacturing industry companies on the stock market in 2018 - 2021 is highly concentrated. The lowest value of this variable is 22.84% while the highest value is 99.94% with a standard deviation of 14.67%. 09%, which means that the share ownership of manufacturing industry companies on the stock market in 2018 - 2021 is highly concentrated. The lowest value of this variable is 22.84% while the highest value is 99.94% with a standard deviation of 14.67%. 09%, which means that the share ownership of manufacturing industry companies on the stock market in 2018 - 2021 is highly concentrated. The lowest value of this variable is 22.84% while the highest value is 99.94% with a standard deviation of 14.67%.

The average size of the audit committee (AUCS) of manufacturing industry companies on the stock market is 3.02, which means that in general the audit committee consists of one independent commissioner and two other independent parties. The lowest value shows the number 0, which means the company does not have an audit committee composition in the current year. This information was obtained from the annual report of AISA issuers in 2018 - 2019, while the highest value shows a value of 5.00 which indicates an audit committee consisting of one independent commissioner and four other independent parties with a standard deviation of 0.36.

Performance variables measured by ROA and Tobin's Q have an average of 4.64% and 1.78%. The highest ROA value is 92.10%, which means that the issuer is able to properly utilize its assets to make a profit, while the lowest value is -107.99%, which is far from the ideal ROA value of 5.98%, which means that the total assets used by the company not making a profit. The highest value of QRATIO is 18.36% and the lowest is 0.27%. If QRATIO has a value above 1, then the company's shares are considered to have a high value, indicating a high potential for investment growth and management managing assets very well. Conversely, if QRATIO has a value below 1, then the company's shares are considered to be of low value.

**Classic assumption test**

Table 1 presents a summary of the classic assumption test results. It was found that the data were normally distributed, free from heteroscedasticity, free from multicollinearity and there were no autocorrelation problems.

**Table 1:** Summary of the Classical Assumption Test

Classic assumption test	Test Used	Results	Decision
Normality	<i>Kolmogorov-Smirnov</i>	Significance > 0.05	Distributed data normal
Multicollinearity	Tolerance VIF	Tolerances > 0.1 & VIF < 10	Data free from multicollinearity
Heteroscedasticity	Glejser test	Significance > 0.05	Data free from heteroscedasticity
Autocorrelation	<i>Run Test</i>	Significance > 0.05	Data free from autocorrelation

Source: Secondary data processed, 2023

**Determination Coefficient Test**

In table 2 it is known that the coefficient of determination in model 1 is performance as measured by return on assets of 0.067. The coefficient value interprets that corporate governance contributes 6.7% in influencing return on assets and the remaining 93.3% is influenced by other factors outside of this study, while in model 2 is performance as

measured by Tobin's Q of 0.061. The coefficient value interprets that corporate governance contributes 6.1% in influencing Tobin's Q and the remaining 96.8% is influenced by other factors outside of this study. Other factors that may affect financial performance include company age, capital structure, financial leverage, liquidity and so on.

**Table 2:** Coefficient of Determination

Model	R	R Square	Adjusted R Square	std. Error of the Estimate
1	.258a	.067	.045	5.01458
2	.248a	.061	.032	.25065

Source: Secondary data processed, 2023

**Partial Test (t test)**

Regression model of the effect of corporate governance on financial performance as measured by ROA presented on the left side in Table 6. Known value  $t_{table}$  for ROA is 1.650 (df = 7,  $\alpha = 0.05$ ). It can be seen that only the BODS and INOW variables show  $t_{count} > t_{table}$ . For the BODS variable, the significance value shows a number  $< 0.05$ , which means that the size of the board of directors has a significant positive effect on return on assets, whereas for the INOW variable, the

significance value shows a number  $> 0.05$ , which means institutional ownership has a not significant positive effect on return on assets. The  $t_{count}$  value for other independent variables is  $< 1.650$  and the significance value is  $> 0.05$  which means that it does not show a significant effect on return on assets.

Regression model of the effect of corporate governance on financial performance as measured by Tobin's Q presented on the right side in Table 6. The value is known  $t_{table} 1.652$  (df = 7,  $\alpha = 0.05$ ). It can be seen that only the COOW variable shows a  $t_{count} > t_{table}$  value with a significance value  $< 0.05$ . This shows that only concentrated ownership has a significant negative effect on Tobin's Q. The  $t_{count}$  value for other independent variables is  $< 1.652$  and the significance value is  $> 0.05$ , which means that it does not show a significant effect on Tobin's Q.

**Table 3:** t test results

Model	ROA			QRATIO		
	B	t	Sig.	B	t	Sig.
(Constant)	4,455	1,282	.201	.157	.843	.400
BODS	0.529	3,646	.000	.000	.032	.974
INCR	-0.009	-.348	.728	.002	1,597	.112
INOW	.018	1,699	.090	.000	.372	.711
FROW	.014	1,222	.222	-.001	-1,414	.159
COOW	-.009	-.440	.660	-.004	-3,029	.003
AUCS	-1,257	-1,265	.207	.003	.061	.951

Source: Secondary data processed, 2023

**Moderated Regression Analysis (MRA) Test**

In testing the moderating effect of firm size, the MRA method is used. Firm size is considered capable of moderating the effect of corporate governance on financial performance if the significance value is  $< 0.05$ . From the left side of Table 4, it is known the significance value of 0.000 in the COOW and FSIZE variable MRA tests indicates that firm size moderates the effect of concentrated ownership on return on assets. The negative  $t_{count}$  value indicates that the larger the size of the company actually weakens the effect of concentrated ownership on return on assets.

Also, the result of testing the MRA performance measurement model with Tobin's Q presented in Table 4 on the right side. The significance value of 0.029 in the interaction test of the INCR and FSIZE variables indicates that company size moderates the effect of concentrated ownership on QRATIO. The negative  $t_{count}$  value indicates that the larger the size of the company actually weakens the effect of the percentage of independent commissioners on QRATIO.

**Table 4:** MRA Hypothesis Test

ROA				QRATIO			
Model	B	t	Sig.	Model	B	t	Sig.
(Constant)	-149,932	-2,619	.009	(Constant)	-4,914	-1,440	.151
BODS*FSIZE	.033	.364	.716	BODS*FSIZE	-.001	-.094	.925
INCR*FSIZE	.009	.436	.663	INCR*FSIZE	-.003	-2,200	.029
INOW*FSIZE	.017	1,858	.064	INOW*FSIZE	.000	-.544	.587
FROW*FSIZE	-.013	-1,343	.180	FROW*FSIZE	-.001	-1,686	.093
COOW*FSIZE	-.054	-3,548	.000	COOW*FSIZE	-.001	-1,107	.270
AUCS*FSIZE	-.531	-1,049	.295	AUCS*FSIZE	.024	.803	.423

Source: Secondary data processed, 2023

**Results and Discussion**

Based on the test results, hypothesis 1a is known that corporate governance has an effect on return on assets so that hypothesis 1a is accepted. The results of previous research by Herdjiono & Sari (2017)<sup>[10]</sup> and Muchtar & Darari (2013) show that the size of the board of directors significantly influences financial performance. This finding supports the agency theory which states that companies with more members of the board of directors achieve better performance. The assumption is that with a larger number of board members and diverse backgrounds, the board will be

able to make better decisions and monitor management activities more effectively.

Testing on hypothesis 1b found no effect of the percentage of independent commissioners on financial performance so that hypothesis 1b was rejected. The results of this study do not support the agency theory which states that an independent commissioner is the best position to carry out the monitoring function in order to create good corporate governance. Previous studies that support the results of this study were conducted by Situmorang & Simanjuntak (2019)<sup>[40]</sup>, where

the results of the study found no effect of the proportion of independent commissions on financial performance.

The results of testing hypothesis 2a show that institutional ownership has no significant effect on return on assets so that hypothesis 2a is accepted. This finding supports Jensen and Meckling's (1976)<sup>[18]</sup> agency theory which suggests that by increasing monitoring of management performance, stakeholders can benefit and fraud can be avoided with institutional ownership. Therefore, the level of institutional ownership is related to firm performance. This finding supports the previous study by Indarti & Extaliyus (2013)<sup>[13]</sup>, which also showed that institutional ownership has no significant effect on financial performance.

The results of testing hypothesis 2b show that there is no effect of foreign ownership on financial performance so that hypothesis 2b is rejected. The results of this study reject the agency theory which explains that the proportion of shares held by foreigners is able to minimize agency problems so as to maximize company performance from a financial perspective. This opinion is supported by the findings of Ivan & Raharja (2021)<sup>[16]</sup>, which emphasizes that foreign ownership does not affect company performance. Ownership by foreign parties can develop company performance through technology transfer to domestic companies. However, this depends on several factors such as limited local staff in manager-level positions, low mobility between local companies and foreign company branches, restrictions on projects awarded to local companies,

The results of testing hypothesis 2c show that concentrated ownership has a significant negative effect on return on assets so that hypothesis 2c is accepted. Research by Andriani (2021) and Puspitasari & Ernawati (2010)<sup>[32]</sup> support this result. Since the influence of the majority shareholder is not absolute, this study implies that companies with a lower level of concentrated ownership are more attractive to investors. The more dispersed the shareholding, the more equal the rights to convey the opinion of the capital owners. As a result, both minority shareholders and small investors still have the opportunity to influence company decisions through their presence on the board of directors. The higher concentration of ownership in a company actually results in a decrease in company performance.

Testing hypothesis 3 shows that there is no effect of audit committee size on financial performance so that hypothesis 3 is rejected. Studies by Kusumawardhany & Shanti (2021)<sup>[21]</sup>, Hartati (2020)<sup>[9]</sup>, Azis & Hartono (2017)<sup>[5]</sup>, Rimardhani *et al.* (2016)<sup>[33]</sup> support the findings of this study. There is no way to determine how effective the audit committee is in conducting oversight. In addition, it may be because the audit committee only enforces company regulations and requires a minimum of three outsiders to assist in oversight. In the end, the audit committee cannot improve the financial performance of the business.

Testing the moderating effect of firm size on influence corporate governance on financial performance using the Moderated Regression Analysis (MRA) method shows that company size negatively moderates the effect of the percentage of independent commissioners on Tobin's Q so that hypothesis 4b is accepted. The moderating effect of the independent commissioner on Tobin's Q will be more negative when the size of the company gets bigger, as supported by Surjadi & Tobing (2016)<sup>[43]</sup>. Firm size is also proven to moderate the negative effect of concentrated ownership on return on assets so that hypothesis 5c is

accepted. This study supports the research of Ikhsan & Mayangsari (2019)<sup>[12]</sup> which found a moderating effect of firm size on the effect of concentrated ownership on financial performance. In the influence of corporate governance on other financial performance, company size is not proven to be able to strengthen or weaken this relationship.

## Conclusions and Limitations

### Conclusion

Based on the results of testing the data it was concluded that only the size of the board of directors, institutional ownership, and concentrated ownership had an effect on financial performance, the rest were not found to have an effect on financial performance. Firm size as a moderating variable is proven to only be able to moderate the effect of the percentage of independent commissioners and concentrated ownership on financial performance in a negative direction, which means that the larger the size of the company will actually weaken the effect of the percentage of independent commissioners and concentrated ownership on financial performance. Tests conducted using company performance measurements and market performance did not show a significant difference. This concludes that market performance through Tobin's Q responds correctly to the substance of the company's performance as reflected in its financial statements through return on assets. That is, the financial condition of companies that exist in the stock market is not different from the actual conditions that occur in the company.

### Limitations

This study has several limitations, including the lack of a theory capable of explaining in detail the relationship between corporate governance and corporate financial performance other than agency theory. Another limitation related to the COVID-19 pandemic may be one of the reasons corporate governance does not significantly affect return on assets or Tobin's Q considering that the economy at that time was very bad which resulted in low sales growth so that not many investors made investments in 2020 – 2021. This is what causes many of the company's return on assets to decrease below the ideal limit.

### Suggestion

Further studies can add other independent variables using other corporate governance mechanisms such as board education, the proportion of women on the board, board age, managerial ownership, and so on. In addition, it is also recommended to expand the scope of research not only in the manufacturing industry and extend the research period not only for 4 years.

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