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Good Corporate Governance Mechanisms, Company Size, and Company's Growth on Company's Financial Performance

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ABSTRACT

This study aims to determine the effect of independent commissioners, board of directors, company size, and company growth on the company's financial performance. Financial performance is a description of the company's financial condition in a certain period of time. Financial performance in this study uses the ratio of return on assets. This research uses a purposive sampling technique, the number of samples obtained was 31 companies from 81 property and real estate companies listed on the IDX. Research data was obtained from the company's financial reports for the 2016-2021 period, and the data was analyzed using multiple linear regression analysis assisted by the SPSS application. The results of this research show that Independent Commissioners, Company Size, and Company Growth affect the company's Financial Performance, while the Board of Directors has does not affect Financial Performance. The greater the proportion of independent commissioners, the higher the supervision, meanwhile the number of the board of directors has no effect on financial performance, this is because a board of directors that is too large cannot function optimally because it will have difficulty coordinating. A decline in financial performance can be caused by enormous asset maintenance costs and a company's large operational scope, a decline or increase in performance seen from the company's profits, where profits increase due to sales growth and lower costs. This research has implications for stakeholder theory and Agency theory, because good corporate governance provides benefits to interested parties in the company. In implementing good corporate governance, a large number of board of directors also has an unfavorable effect because the larger the number of the board of directors has an impact on communication and coordination, as well as the higher the hierarchy of task implementation within the company.

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1. INTRODUCTION

Performance is a description of the achievement of an activity in realizing company goals (Hartono and Nugrahanti, 2014). Financial performance can be seen from the profitability ratio which measures a company's ability to generate profit from assets or capital, where the higher the profitability ratio, the higher the profit generated (Sjahrial and Purba, 2013). Profitability ratios that can be used to measure company performance include return on assets (ROA) (Diana and Osesoga, 2020; Hassan and Halbouni, 2013; Lee et al., 2014; Vo and Nguyen, 2014; Ahmed and Hamdan, 2015; Rose, 2016). This ratio is essential for management to evaluate the effectiveness and efficiency of company management in managing all company assets, where with this ratio management can show the company's operational ability to generate profits using its assets (Puspitasari and Ernawati, 2010). The higher the return on assets, the higher the amount of net profit generated from each rupiah of funds embedded in total assets, in other words, the same amount of assets can generate greater profits (Sudana, 2011: 20; Wulandari and Gultom, 2018).

In order for companies to be able to maintain and increase efficiency within the company, both in terms of operations and investment, both in stable economic times and in times of crisis, it is necessary to implement good corporate governance (Vo and Nguyen, 2014; Ahmed and Hamdan, 2015; Rahmawati and Kartika, 2023). Corporate governance is one of the key elements in increasing economic efficiency, which includes a series of relationships between company management, board of directors, board of commissioners, shareholders and other stakeholders (Addiyah and Chariri, 2014). This is in line with the stakeholder theory (Freeman, 1984), which said that stakeholders are a theory that describes which parties the company is responsible for. Stakeholder theory also reveals that stakeholders influence the survival of a company, both for internal and external parties, and each stakeholder has their own interests. So, good corporate governance is the obligation of every company to improve the performance of the management in controlling fraudulent practices within the corporation, as well as determining the direction and control of company performance (Manik, 2011). Corporate governance describes a set of institutions that determine how a company regulates shareholder rights, the rules that determine how elected members of the Board of Directors and Independent Commissioners can carry out their duties well (Mueller, 2018; Agoes and Ardana, 2014: 110). The company also believes that implementing good corporate governance is another form of enforcing business ethics and work ethics which has long been the company's commitment, so that it can improve the company's image (Purwani, et al., 2017). Corporate governance is also implemented because there are concerns about controlling shareholders taking over wealth from minority shares (Globerman et al., 2011). This means that implementing good corporate governance will protect the interests of shareholders and parties involved in managing the company (Napitupulu, et. al., 2023).

Various studies have linked the influence of good corporate governance with financial performance, this is because good corporate governance has become a global issue as seen in research conducted in the Middle East (Al-Bassam, et al., 2018; Ahmed and Hamdan, 2015), in America and Canada (Malik and Makhdoom, 2016; Berthelot et al., 2010; Gill and Obradovich, 2013; Grove et al., 2011; Hussain et al., 2018), in parts of Africa (Andreasson, 2011; Ongore and K 'Obonyo, 2011; Mohammed, 2012), Research in South Asia (Kumar and Singh, 2012; Ibrahim et al., 2010; Sheikh, et al., 2013), East Asia (Hu et al., 2010; Lee et al., 2014; Globerman et al., 2011), and likewise in Southeast Asia (Vo and Nguyen, 2014; Bhatt and Bhatt, 2017; Goh et al., 2014; Ibrahim and Samad, 2011). The research results obtained support that good corporate governance is essential in companies, because good corporate governance in general can improve financial performance (Jati, et. al., 2023; Kartika et. al., 2021). The research results

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obtained support that good corporate governance is essential in companies. The support of the company's board of directors and commissioners is very necessary in order to safeguard all stakeholders and improve company performance (Agatha, et al., 2020; Yunus and Tarigan, 2020; Suparno, et al., 2020). However, the results of the research that has been carried out show that not all elements of corporate governance mechanisms can influence company performance.

Besides good corporate governance, there are also other factors that influence financial performance. The size of the company or often called firm size, can be interpreted as a scale that can classify how small or large a company based on the number of assets (Yunus and Tarigan, 2020). Company size is considered capable of influencing the company's financial performance because the more significant the size or scale of the company, the more excellent the company's opportunity to obtain funding sources, both internal and external. So, the sources of funds obtained by the company from investors should be appropriately managed with the company's resources. Diana and Osesoga (2020) state that company size has a significant effect on financial performance, which is proxied by return on assets (ROA). Apart from company size, company growth also influences financial performance (Wulandari and Gultom, 2018; Muhharomi, et al., 2021). Company growth can be seen through asset growth and sales growth, and in this research the focus is sales growth. The higher sales made by the company can encourage higher profits that can be obtained, which can encourage higher company profitability (Farhana et. al., 2016). Fransisca and Widjaja (2019) stated that sales growth and profitability are positively related. Company growth has a positive effect on financial performance, meaning that the higher the company growth, the greater the financial performance. This research limits the measurement of good corporate governance mechanisms to the board of directors and independent commissioners, in contrast, this research develops research on good corporate governance mechanisms alongside company size and company growth in improving company performance. This research was conducted to provide enlightenment to accounting practitioners so that they present reports in accordance with applicable rules and standards, so that interested parties can make decisions in managing the company well.

2. METHODS

This research is associative research because it aims to determine the relationship between the independent variables and the dependent variable, namely testing the influence of Independent Commissioners, Board of Directors, firm size, and company growth on company performance. Variable measurements can be seen in **Table 1**.

Table 1. Measurement of research variables

No.	Variabel	Indicators	Measurement
1.	Financial Performance	*Return onAssets*	$\frac{\text{Earning After Tax}}{\text{Total Aset}}$
2.	Independent Commissioners	Proportion of Independent Commissioners	$\frac{\text{Independent Commissioners}}{\text{Total Board of Commissioners}}$
3.	Board of Directors	Board of Directors	∑ members of the board of directors
4.	Firm Size	Total Aset	Ln of Total Assets
5.	Company Growth	Sales Growth	$\frac{\text{Sales (t) - Sales (t-1)}}{\text{Sales (t-1)}}$

The research location was carried out at property and real estate sector companies, listed on the Indonesia Stock Exchange in 2016-2021 which can be accessed on the Indonesia Stock Exchange website (www.idx.co.id) and the company's official website. This research uses secondary data, with a total sample of 31 companies from 81 companies. Sampling uses a purposive sampling technique, where purposive sampling is a technique for determining samples from a population based on specific requirements or criteria (Putri and Muid, 2017). The research hypothesis was tested and analysed using multiple linear regression with the SPSS test tool. To determine the influence of independent variables on the dependent variable partially, it can be seen from the significance value of data testing, which is smaller than the determined alpha value, namely 5% (0.05). The hypothesis of this research is:

H1. Independent Commissioners influences Financial Performance

H2. The Board of Directors influences Financial Performance

H3. Company size influences financial performance

H4. Company growth affects financial performance

Existing research models can be written in statistical testing models

Financial Performance = a + b1. Independent Commissioners + b2. Board of Director + b3. Firm Size + b4. Company Growth + e

From the research hypothesis, the research model can be visualized in the thought framework diagram in **Figure 1**.

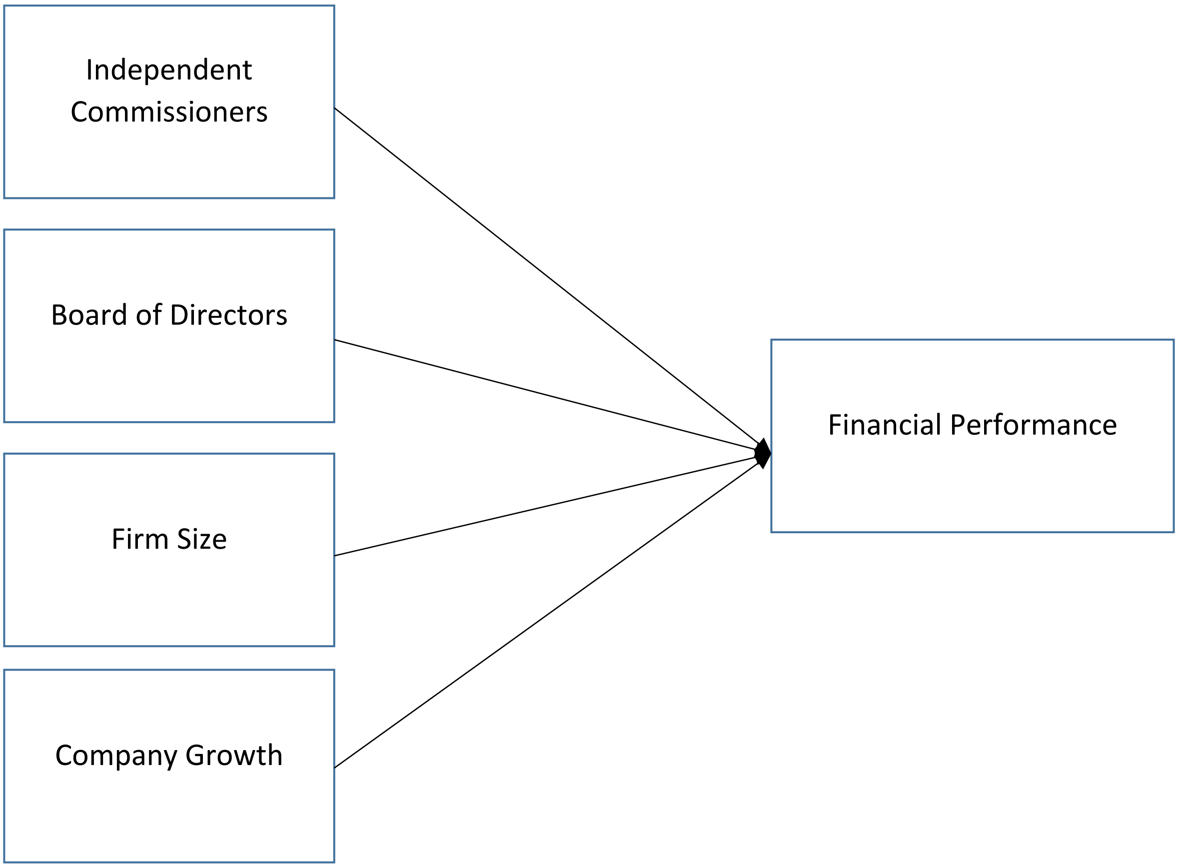

Figure 1. Research Model

3. RESULTS AND DISCUSSION

The data of this research has been processed using the SPSS application, where the statistical analysis results show that Independent Commissioners, Company Size, and Company Growth

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have an effect on the company's Financial Performance, while Board of Directors has no effect on Financial Performance. This is shown from the significance value of each variable, some of which are greater and smaller than the specified alpha of 5%. (see **Table 2**)

Table 2. Output of statistical test

Variable	Adj R Square	B Value	Sig. Value	Alpha	Decision
Independent Commissioners → Financial Performance	0,198	0,048	0,000	0,05	Effect
Board of Directors → Financial Performance		-0,007	0,343	0,05	No Effect
Firm size → Financial Performance		-0,006	0,003	0,05	Effect
Company growth → Financial Performance		0,367	0,028	0,05	Effect

3.1. The Effect of Independent Commissioners on Financial Performance

The results of this research confirm hypothesis 1 which states that Independent Commissioners influence financial performance. This is shown by the test significance value of 0.000, which is smaller than 0.05, which means that independent commissioners have an influence on the financial performance of property and real estate companies. A positive coefficient value indicates that the independent commissioner variable has a relationship that is in line with the return on assets variable, where a high return on assets indicates high financial performance.

According to the Law of the Republic of Indonesia Number 40 of 2007 concerning limited liability companies, article 120 paragraph (1), limited liability companies can regulate the existence of 1 (one) person or more independent commissioners. In this regard, from the data that has been collected, the property and real estate companies included in the research sample have met the requirements. Judging from the research data, in 2021, Mega Manunggal Property Tbk has a proportion of independent commissioners of 0.667 and return on assets of 0.052 which this figure exceeds the average rate of return on assets during the year of study, which is equal to 0.029. This indicates that the proportion of independent commissioners affect financial performance. These results support agency theory where agency theory assesses that more significant the proportion of independent commissioners, the higher their influence in monitoring management performance. From the research data, it can also be seen that the average financial performance has changed from -0.016 in 2020 to 0.032 in 2021. This also proves that supervision from independent commissioners has an effect on financial performance. These results support the stakeholder theory which considers that the existence of an independent commissioner will support GCG principles and the functioning of an independent board of commissioners will safeguard the interests of parties with an interest in the company.

The results of this study are in line with research conducted by Yunus and Tarigan (2020) and Agatha, et al., (2020) which states that the independent board of commissioners partially has a positive and significant effect on financial performance as measured by return on assets

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(ROA). With a high proportion of independent commissioners, the company's financial performance will increase. The higher the proportion of independent commissioners, the higher the performance monitoring and the interests of interested parties can be maintained. However, the results of this research are not in line with research by Putri and Muid (2017), Mulyasari, et. al (2017), Sulistyowati (2017), Septiana, et. al (2016). Optimizing the function of independent commissioners and developing a reward system or providing incentives will have an impact on the behavior and attitudes of commissioners, so that commissioners provide more optimal time and energy within the company (Sari and Tjoe, 2017).

3.2. The Effect of the Board of Directors on Financial Performance

The hypothesis in this research (H2) is that the board of directors has an influences on financial performance. However, empirically it can be seen from the test results that the significant value of the board of directors variable is 0.343 > 0.05, which means that it has been empirically proven that the board of directors does not affect return on assets. In this research, it can be seen that Ciputra Development Tbk had the largest board of directors, namely 12 people in 2017, with a return on assets of 0.032. On the other hand, in the same year, Jaya Real Property Tbk had a return on assets of 0.107 with a board of directors of 6 people. This means that a large board of directors does not affcet financial performance. A large board of directors has lower effectiveness than a board of directors with a smaller number.

The results of this study are not in line with the agency theory which states that the more the number of boards of directors, the greater the control exercised over the management of company resources which ultimately improves financial performance. These results also show that the existing members of the board of directors have not been able to design the best strategy to improve financial performance. According to Jensen (1993), a board of directors that is quite large, namely, more than seven people, cannot fully functioning because it will have difficulty coordinating. The large number of people will make it difficult to reach an agreement, and it is possible that they will split and form factions.

The results of this study are in line with research conducted by De Lavanda and Meiden (2022); Yunus and Tarigan (2020); Purwani, et. al (2017); Bukhori (2012), dan Guoa and Kumara (2012) which found that the board of directors has no significant effect on financial performance. According to Bathula (2008) increases in members of the board of directors tend to cause problems in coordination and communication which can lead to conflict and factions within the company. A large number of boards benefits the company from a resource management perspective, However, a larger number of boards of directors will also increase problems in terms of communication and coordination (Bukhori, 2012).

3.3. The Effect of Company Size on Financial Performance

This research supports hypothesis (H3), namely that company size influences financial performance, this is shown from the results of data testing with a significant value of the company size variable of 0.002 which is smaller than the alpha value of 0,05. The negative coefficient value indicates that the size of the company variable has the opposite relationship with the return on assets variable, which means that any increase in company size will reduce the company's financial performance. The results of this study are not in accordance with the initial assumption that the larger the size of a company, indicates the greater the total assets owned, which means the higher the level of the company's ability to manage its assets in the company's operational activities to generate profits.

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This decrease in financial performance can be caused by the cost of maintaining significant assets and the company's large operational scope because the increase in assets is not matched by the amount of profit earned by the company. The sample data from this research shows that Agung Podomoro Land Tbk. has a company size of 31.019 in 2021 (greater than the average during the year of the study which was 29.202) has a financial performance of -0.016. This means that the company is still less effective in managing its assets to increase profitability. The results of this study are not in accordance with the stakeholder theory which says that assets owned should be managed effectively and efficiently in order to increase profitability and ultimately meet the interests of stakeholders.

The results of this study are in line with the results of research conducted by Fitriani and Zamzami (2018) that company size has a significant negative effect on financial performance. This is supported by research conducted by Mumtazatur and Kristanti (2020) who found that company size has a negative effect on financial performance. Research conducted by Hanifah and Hariyati (2021) found that a company's financial performance can be influenced by company size. Likewise with research conducted by Anggarsari and Aji (2018), company size has an influence on profitability.

3.4. The Effect of Company's Growth on Financial Performance

In this research, company growth is proxied by sales growth. Tests in this research show that the significant value of the company growth variable is 0.028 < 0.05, which means that this research supports the research hypothesis (H4), namely that company growth influences the financial performance of property and real estate companies listed on the Indonesia Stock Exchange. A positive coefficient value indicates that the company growth variable has a correlation with return on assets variable. It can be concluded that company growth has a positive significant effect on return on assets, where a high retun on assets indicates high financial performance.

Financial performance improved due to revenue-reducing expenses were more able to be suppressed than the previous year. Suppression of these expenses at the end can increase net income for the year and also increase the value of financial performance. In relation to stakeholder theory, high sales followed by good financial performance will please investor and investor will feel safer to invest in that company. Not only that, sales growth also indicates that the company is healthy, growing, and able to pay their debts to the creditors. The results of this study were in accordance with a research conducted by Fransisca and Widjaja (2019) found that sales growth and profitability are positively related.

4. CONCLUSION

Based on the results of the analysis and discussion, it can be concluded that independent Commissioners have a positive effect on financial performance. The greater the proportion of the independent commissioners, the higher the supervision. This supervision will direct the company to continue operating for the welfare of its stakeholders, so that financial performance will also improve and the interests of stakeholders can be maintained. The board of directors, which is proxied by the number of board of directors, has no effect on financial performance. The amount of board of directors that is too large cannot function optimally because it will have difficulty coordinating. The existence of a board of directors that is unable to manage company resources effectively and efficiently will also decrease financial performance. In addition to corporate governance mechanisms, company size and company growth have an influence on company performance, although the influence

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obtained from company size is a negative influence, while company growth has a positive influence.

Company size proxied by the natural logarithm of total assets has a negative effect on financial performance. The decrease in financial performance could be caused by the costs of maintaining large assets and the company's large operational scope because the increase in assets is not balanced by the amount of profit generated by the company. Company growth as proxied by the sales growth ratio has a positive effect on financial performance. Financial performance improved because sales increased accompanied by income reducing expenses which were more reduced than in the previous year. This reduction in expenses can ultimately increase net profit for the year and at the same time improve financial performance figures.

This research still requires development, because it still has limitations, where the limitation of this research is only on real estate companies, and for good corporate governance mechanisms only on independent commissioners and the board of directors. Future research can be carried out on a wider type of company, such as manufacturing companies with a larger number of companies. Apart from that, research variables can also be developed, especially on good corporate governance mechanisms, such as audit committees (Napitupulu et al., 2023) and managerial share ownership (Wendy and Harnida, 2020).

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