

# THE INFLUENCE OF CORPORATE GOVERNANCE, LEVERAGE, COMPANY SIZE ON FINANCIAL PERFORMANCE

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**Abstract.** This study aims to determine the effect of corporate governance as proxied by independent commissioners, directors and audit committees as well as other variables, namely leverage and firm size on financial performance. The data used in this study is secondary data. While the sample in this study is the automotive and component sub-sector manufacturing companies during the 2017-2020 period. The method used is purposive sampling and there are 12 companies included in this research criteria. The results of this study indicate that the independent commissioner variable partially has no effect on financial performance. The directors variable partially has no effect on financial performance. The audit committee variable partially has no effect on financial performance. In the next variable, leverage partially affects financial performance. Firm size variable partially has no effect on financial performance. While the variables of independent commissioners, directors, audit committee leverage, firm size simultaneously affect financial performance.

**Keywords:** independent commissioners; audit committees; leverage; company size; financial performance

## I. INTRODUCTION

The manufacturing sector around the world is transforming to welcome the era of the industrial revolution 4.0. This era emphasized the collaboration between the manufacturing process and the digital world, especially through the use of the Internet of Things platform [1]. The purpose of the transformation is to find strategic steps that can be more efficient, optimize and have quality[2]. In the automotive sector, it is explained that the national automotive industry has basically implemented industry 4.0. According to Supatmi [3] profitability reflects a company's ability to generate profits, which is usually measured by ROE, ROI, Net Operating Profit Margin, or Net Profit Margin. The company's financial performance will be optimal if the company implements good corporate governance and the company will be more optimal in achieving company goals [4]. This is because good corporate governance (GCG) can form a clean, transparent and professional management work pattern which in turn has a positive impact on improving the company's financial performance. This opinion is supported by research by Luth [5][4] which states that corporate governance has a positive and significant effect on profitability, liquidity and company activities. The convenience of large companies in accessing the capital market, obtaining good ratings for their bond issuance, and paying lower interest on debt. The larger the asset means the more capital invested, the higher the number of sales means more money circulation, and the higher the market capitalization means the more it is known in society (Dinni and Djoko [6]).

The implementation of corporate governance is an important factor to be disclosed by every company. For this reason, each company must make a statement in its annual

report regarding the implementation of GCG guidelines. Thus, stakeholders, especially regulators and investors can assess the extent to which the implementation of GCG guidelines in the company has been implemented (Wahyudin,[7]). Corporate governance in this study is proxied by three mechanisms, namely the board of commissioners, directors and audit committee. After we know the implementation of corporate governance, financing from debt (leverage) can also encourage companies to present financial reports with integrity. Leverage is a measure of the amount of assets spent from debt (Brigham and Houston [8]). In addition to the existence of leverage in the company, company size can also affect the integrity of financial statement information [9]. Company size is the average total net sales for the year in question until the next several years. Financial performance will be better and continue to excel in the competition, if there are continuous improvements [10]. The application of corporate governance principles is now very necessary so that companies can survive and be resilient in the face of increasingly fierce competition, and can apply business ethics consistently so that they can realize a healthy, efficient and transparent business advertisement [11].

So many cases that occur in manufacturing companies on the Indonesia Stock Exchange such as the manipulation of financial data that often occurs can prove that there is a lack of financial statements in presenting information for users of financial statements [12]. And it is proven that the problem of manipulation of accounting data can cause many questions for the wider community to various parties, especially the management system in the company and the largest ownership system widely which is often referred to as corporate governance, which informs the fact that good corporate governance has not been applied to companies [13].

Based on the background explanation above, the purpose of this research is to analyze the effect of corporate governance, leverage and firm size on the financial performance of manufacturing companies listed on the Indonesia Stock Exchange. The urgency of this research is to be able to provide input on the financial performance of manufacturing companies in the automotive sub-sector. In addition, it is expected to be a reference for related companies in solving financial problems and providing useful advice for manufacturing companies. This research is also intended to examine the truth of theories with actual conditions concerning financial ratios, and is expected to provide information and descriptions to the public and other researchers who wish to conduct further research [14].

## II. RESEARCH METHODS

This research is based on the type of data included in quantitative research, which is research whose data is in the form of numbers or qualitative data that is numbered (Sugiyono [15]). This study takes secondary data on automotive and component sub-sector manufacturing companies listed on the Indonesia Stock Exchange for the 2016-2021 period. The population taken from this study are all manufacturing companies in the automotive and component sub-sectors listed on the Indonesia Stock Exchange in the 2016-2021 period as many as 13 companies. In this study, the researcher used a non-probability sampling technique and the technique used was purposive sampling by setting certain criteria. In this case, the research sample is automotive and component companies listed on the Indonesia Stock Exchange, totaling 12 companies.

The source of data used in this study is secondary quantitative data, namely financial reports that have been published on the official website of the Indonesia Stock Exchange [www.idx.com](http://www.idx.com) and [www.saham.ok.com](http://www.saham.ok.com) during the period 2016-2021 which contains information on the ratio corporate governance, leverage, firm size and financial performance. Data analysis in this study using the SPSS for windows program. Before performing regression, there are conditions that must be passed, namely the classical assumption test. This test includes normality test, multicollinearity test, autocorrelation test and heteroscedasticity test (Ghozali [16]). This test was conducted to determine whether or not the influence of each independent variable was significant. Furthermore, multiple linear regression, hypothesis testing, t-test, and F-test were carried out.

## III. RESULTS AND DISCUSSION

### *Influence of Independent Commissioners on financial performance*

Based on the results of the independent commissioner's analysis, the value of t count is -0.998 and t table -2.09154 so that t count < t table is (-0.998 < -2.09154) then H<sub>0</sub> is accepted and H<sub>1</sub> is rejected with a significance

value of 0.923 greater than 0.05. This shows that the independent commissioner has no effect on financial performance. The independent commissioner does not make a positive contribution to financial performance. This means that independent commissioners cannot guarantee the good functions of supervision, management, and accurate decision making within a company. Appointment of independent commissioners in the company aims to improve supervision in order to create transparent business activities and prevent the emergence of deviant behavior of managers. However, the appointment of independent commissioners tends to be considered as a formality in the implementation of GCG. It is proven that there are still companies that have 1 independent commissioner. These results are in line with research conducted by Abdul Aziz [17] that independent commissioners have no effect on financial performance.

### *The influence of the Board of Directors on financial performance*

Based on the test results, it is known that the tcount value is -0.944 < t table 2.09154 and the significance value is 0.351 which is greater than the significance value of 0.05. It is stated that the board of directors has no effect on financial performance. The Board of Directors in a company will determine the policies taken or the company's strategy in the short and long term. These results indicate that there is a possibility that the decisions given by the directors are still not optimal and less effective which have less impact on increasing the company's financial performance. These results are in line with research conducted by Aulia Rahmatika [18] which shows that the directors have no effect on financial performance.

### *The influence of the Audit Committee on financial performance*

Based on the known tcount 0.820 < t table 2.09154 and the significance value 0.417 is greater than the significance value 0.05. It is stated that the audit committee has no effect on financial performance. This is possible because the audit committee is a new thing for the company so that the performance monitoring system has not been maximized so that the formation of the new audit committee has problems such as communication problems with the board of commissioners, directors, and other parties as an important aspect in the successful performance of the audit committee with Thus, some number of audit committees will not affect the company's financial performance. These results are in line with research conducted by Abdul Aziz [17] that the audit committee has no effect on financial performance.

### *Effect of Leverage on financial performance*

Based on the results of the t test, it is known that the calculated t value is -2.027 > -2.09154 and obtained a significant value of 0.049 which is smaller than the significance value of 0.05. It can be concluded that leverage has an effect on financial performance. Low leverage has a good impact on the company's financial performance because the lower level of debt means the interest expense will be

smaller, which means increasing profits and showing better performance because it causes a higher level of taking and affects investors' interest in buying shares in the company. The results of this study are in line with the research results of the journal Ludijanto [19] that leverage has an effect on financial performance.

#### *The Effect of Firm Size on Financial Performance*

Based on it, it can be seen that the tcount value is  $0.074 < 2.09154$  and the significance value is  $0.942$  which is greater than the  $0.05$  significance value. It can be concluded that firm size has no effect on financial performance. It is possible that the size of the company will be accompanied by the company's needs both in terms of human resources, natural resources and so on so that the effect on financial performance is not too significant. The results of this study are in line with Yus Epi's research [20] which states that company size has no effect on financial performance.

#### *The influence of corporate governance as proxied by independent commissioners, directors, audit committees, leverage, firm size on financial performance*

Based on the results of the F test in table 5.9, it can be seen that the Fcount of  $3.480$  is greater than the Ftable of  $2.33$  with a significance value of  $0.010$  less than  $0.05$ . This shows that independent commissioners, directors, audit committees, leverage, company size have a simultaneous effect on financial performance in automotive and component manufacturing companies listed on the Indonesia Stock Exchange for the 2015-2018 period. The existence of independent commissioners within the company is expected to be wise and impartial to one party so that their existence can reduce management fraud and can provide added value for all parties with an interest in the company. The Board of Directors is expected to have a significant influence with the management decisions made by them so that they can maximize the company's financial performance. The audit committee can have a good impact on the company with audit activities, it can increase the company's supervision of the performance of the resources in it, it can minimize errors and avoid fraud. Leverage is an alternative that can be used to increase profits. The use of debt in investment as an additional profit to be obtained by the company. The larger the size of the company can make the company have strong financial capabilities so that the company can maximize its financial capabilities in carrying out operational activities which can optimize company profits and improve financial performance.

#### IV. CONCLUSION

Based on the results of data analysis on the influence of Corporate Governance proxied by independent commissioners, directors, audit committees, Leverage, Company Size on Financial Performance in automotive and component manufacturing sub-sector companies listed on the IDX as follows The board of commissioners variable obtained the value of t count  $-0.998$  and t table  $-2.09154$  so that t count  $<$  t table that is  $(-0.998 < -2.09154)$  then  $H_0$  is accepted and

$H_1$  is rejected with a significance value of  $0.923$  greater than  $0.05$ , which is  $0.932 > 0.05$ . This shows that independent commissioners have no effect on financial performance. The directors variable obtained the value of t count  $-0.944$  and t table  $2.09154$  so that t count  $<$  t table that is  $(-0.944 < 2.09154)$  then  $H_0$  is accepted and  $H_2$  is rejected with a significance value of  $0.351$  greater than  $0.05$ , namely  $(0.351 > 0.05)$ . This shows that the board of directors has no influence on financial performance. The audit committee variable obtained the value of t arithmetic  $0.820$  and t table  $2.09154$  so that t count  $<$  t table that is  $(0.820 < 2.09154)$  then  $H_0$  is accepted and  $H_3$  is rejected with a significance value of  $0.417$  greater than  $0.05$ , namely  $(0.417 > 0.05)$ . This shows that the audit committee has no effect on financial performance. The leverage variable is obtained by the value of t arithmetic  $-2.027$  and  $-2.09154$  so that t count  $>$  t table, namely  $(-2.027 > -2.09154)$   $H_0$  is rejected and  $H_4$  is accepted with a significance value of  $0.049$  which is smaller than  $0.05$ , namely  $(0.049 < 0.05)$ . This shows that leverage has a significant effect on financial performance. Firm size variable obtained by the value of t count  $0.074$  and  $2.09154$  so that t count  $<$  t table that is  $(0.074 < 2.09154)$  then  $H_0$  is accepted and  $H_5$  is rejected with a significance value of  $0.942$  greater than  $0.05$ , namely  $(0.942 > 0, 05)$ . This shows that the size of the company has no effect on financial performance. The variables of independent commissioners, directors, audit committee, leverage, firm size have a simultaneous effect. It is known that the value of Fcount is  $3.480$  and Ftable is  $2.33$  so that Fcount  $>$  Ftable or  $(3.480 > 2.33)$  with a significance value of  $0.010$  which is smaller than  $0.05$ , namely  $(0.010 < 0.05)$ . Based on the results of data analysis and conclusions above, the authors submit the following suggestions: For companies to improve their financial performance, it is hoped that the management will be able to manage the company well, by implementing a good governance system. For further writers, they can conduct research related to this research, but can further develop it such as using other GCG measurements.

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