



The Effects of Corporate Governance, Intellectual Capital and Company Size on Financial Performance in Manufacturing Companies Lister on the Indonesia Stock Exchange for the Period of 2017-2021 in the Consumer Goods Industry Sector

Siti Nurhaliza¹, Mulia Saputra², Fifi Yusmita³

^{1,2,3}Economics and Business Faculty, Universitas Syiah Kuala, Banda Aceh

ABSTRACT: This study aims to determine the relationship between corporate governance, intellectual capital, and company size with the financial performance of manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange (IDX) in 2017–2021. The objective of this study, which falls under the genre of causal investigation, is to undertake research to identify the cause of one or more issues. This research sample approach employed purposeful sampling, which led to the collection of 70 firms. The analysis method used in this study is panel data regression with the E views program. The study's findings suggest that the board of commissioners has a mixed impact on financial success. Financial performance is partially unaffected by the audit committee. Financial performance is partially influenced favorably by intellectual capital and firm size.

KEYWORDS: Corporate Governance, Company Size and Financial Performance, Intellectual Capital.

PRELIMINARY

Currently the global economy is developing very quickly, this is evidenced by the development of technology, information as well as intense competition and the growth of innovation that causes rapid changes in human thinking in business (Anik et al., 2021). Many businessmen are aware, according to Solikhah, et al., (2020) that having tangible assets is important, but so are innovation, information systems, management structures, and human resources.

According to the study's factors (IP Sari & Asyik, 2018) corporate governance may have an impact on financial performance. The application of good corporate governance can also assist businesses in effectively managing their financial performance in order to obtain success from all of their past endeavors (Filipe Sardo & Zelia Serrasqueiro, 2017). The board of commissioners' responsibility for setting strategy and monitoring management as they manage the company to better goals is the first aspect of corporate governance. The board of commissioners has the ability to efficiently and impartially oversee management.

The audit committee's role in making sure that daily activities adhere to the company's rules and that the financial statements provided comply with widely recognized financial accounting standards is another aspect of corporate governance. With an audit committee in place, the corporation should be able to increase internal control and take shareholders' interests into account (Singh et al., 2018). The findings of the research show that the audit committee has no statistically significant impact on firm performance (Sutisna, 2020).

Intellectual capital is the third element that may have an impact on financial performance. A manager's action that can be linked to knowledge-related endeavors is known as intellectual capital. There have been numerous knowledge-based sectors that urge businesses to grow firm value toward a knowledge-based business strategy, if it is related to the current global economic development (Yalama, 2001). Knowing how to effectively manage a firm's intellectual capital allows for the efficient use of a resource that the organization cannot replace while minimizing costs or costs borne by the company. By doing this, the business's financial performance can improve and its sales value will rise significantly (Filipe Sardo & Zelia Serrasqueiro, 2017) .

The size of the company is the fourth component that is thought to have an impact on financial performance. Total assets, total sales, average level of sales, and average total assets all serve as measures of a company's size (Silalahi & Ardini, 2017). The ease with which a firm can secure a loan as a source of finance to boost profitability will depend on how big the company is. Large organizations with ample resources will disclose more information and will be able to afford to pay for the dissemination of information for both internal and external uses. According to research on the impact of firm size on financial performance undertaken



by (Sari et al., 2020) and (Januarty, 2019), the size of the company was positively correlated with financial performance. As opposed to studies (Thio Lie Sha, 2020) that claim firm size has a detrimental impact on financial performance and studies (Laksito & Khafa, 2015) that claim firm size has no impact on financial performance.

THEORETICAL BASIS

Theory of Agency

According to Jensen & Meckling, (1976), an agency relationship is one in which the principal, or owner of the business, delegated decision-making responsibility to the agent. The principal and the agent may have competing interests in a relationship of agency. Increased corporate profitability and dividend payments are demanded by shareholders, whilst managers are agents driven to optimize satisfying both psychological and economic requirements.

According to agency theory, if the new owner truly has the power to make decisions, attempts would be made to boost shareholder wealth in the hopes that it will enhance the performance of the business (Chang & Mayers, 1992) .

Financial performance

How effectively a corporation can use the resources of its primary mode of business and create income is determined by its financial performance. This phrase is also used as a broad indicator of the business's long-term financial health (Anik et al., 2021). To estimate changes in the potential of economic resources that can be managed in the future, information on corporate performance, particularly profitability, is required (Anik et al., 2021) .

Corporate governance

The internal control structure and the outward control structure are the two components of the corporate governance structure. The stock market, money market, regulators, and other professions (paralegals, accountants, and so on) are a few examples of interested parties from outside the corporation that make up the external control system (Singh et al., 2018). The board of commissioners and the audit committee make up the company's internal control system, which is the subject of this study.

Adestian & Nuswantoro, (2014), claim that the board of commissioners is the top internal control mechanism and is jointly in charge of supervising, advising, and ensuring the board of directors is following corporate governance. Effendi (2009), asserts that the board of commissioners, which serves as the foundation of corporate governance, is responsible for guaranteeing the execution of corporate strategy, monitoring management's operations, and enforcing responsibility.

The audit committee is a body with a minimum of three members, according to (Nugrahanti & Novia, 2012). The audit committee's responsibilities and operations include monitoring corporate governance and external audits of the company's financial statements. The board of commissioners creates the audit committee and holds it accountable to the board of commissioners. A monitoring mechanism that can enhance the audit function for the company's external reporting is also how the audit committee is described. In order to make financial reports credible (relevant and dependable), company boards frequently designate the audit committee as accountable for errors in financial reporting (Nugrahanti & Novia, 2012) .

Intellectual Capital

Intellectual capital, a measurement of knowledge assets that focuses on different domains, including management, information technology, sociology, and accounting, is one of the variables employed in this study. As an intangible asset that is difficult to quantify, value added intellectual capital (VAIC), a notion created by (Pulic, 1998), is used in this study.

Company Size

According to (Silalahi, et., al. 2017), there are three types of businesses in Indonesia: small businesses, medium-sized businesses, and large businesses. According to (Silalahi, et., al. 2017), a company's size may be determined by looking at its total asset value, total sales, average level of sales, and average total assets. The management of the company's assets might be optimized when the overall assets are high.

RESEARCH METHODS

In this study, the hypothesis that corporate governance, intellectual capital, and firm size have an impact on the financial performance of manufacturing firms in the consumer products industry sector listed on the Indonesia Stock Exchange (IDX) from



2017 to 2021 was examined. This study is an example of a causal investigation, which seeks to identify the root causes of one or more issues (Sekaran & Bougie, 2017) . Purposive sampling was used in this study's sample method, which led to the collection of 70 firms. Panel data regression using the E views application served as the study's analysis method.

RESEARCH RESULT

Test for Data Stationarity

Table 1. Stationarity Test Results

Variable	Prob.	Information
X1 (Board of Commissioners)	0.000	Standing Still at Level
X2 (Audit Committee)	0.000	Standing Still at Level
X3 (Intellectual Capital)	0.000	Standing Still at Level
X4 (Company Size)	0.000	Standing Still at Level
Y (Financial Performance)	0.000	Standing Still at Level

According to Table 1, each variable in this investigation has a probability value of less than 0.05. It is clear from these findings that the data satisfy the premise of stationarity.

Test for Normality

The confounding or residual variables in the regression model were examined to see if they had a normal distribution using the normality test. If the residual value is normally distributed or very close to normal, the regression model is considered to have passed the normality test (Ghozali, 2018). The Kolmogorv-Smirnov method is typically used for the normalcy assumption test, although there are other options available if the significant value of the Kolmogorv-Smirnov yields aberrant findings. To determine if the data is freely dispersed and regularly distributed, the Monte Carlo normality test is performed (Prillacaprienta et al., 2021) .

Table 2. Results of the Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unrepeatable Residue	
N		70	
Standard Parameters ^{a,b}	mean	,0000000	
	Std. Deviation	9.80400595	
Most Dramatic Differenc	Absolute	,166	
	Positive	,123	
	negative	-,166	
Test Statistics		,166	
asympt. Sig (2-tailed)		,000 ^c	
Sig. Monte Carlo (2-tailed)	Sig.	0.040 ^d	
	Confidence Interval of 99%	Both Lower	0.035
		Upper Bounds	0.045

Table 2 demonstrates that the data are not normally distributed because the Monte Carlo significance value is $0.040 < 0.05$. The dependent variable data transformation is done using natural logarithms in order to satisfy the assumption of normality. This is done to address the assumption of normality and complete it. The normalcy test's findings following the improvement are as follows:



Table 3. Test Results for Normality Following Repair
One-Sample Kolmogorov-Smirnov Test

		Unrepeatable Residue
N		70
Standard Parameters ^{a,b}	mean	,0000000
	Std. Deviation	,89520983
Most Dramatic Differenc	Absolute	,111
	Positive	,076
	negative	-,111
Test Statistics		,111
asympt. Sig. (2-tailed)		0.031 ^c
Sig. Monte Carlo (2-tailed)	Sig.	,325 ^d
	Confidence Interval of 99%	Both Lower Upper Bounds

Table 3's normality test findings after the data transformation demonstrate that the data is normally distributed because the Monte Carlo significance value is $0.325 > 0.05$.

Test for Multicollinearity

Results of the Multicollinearity Test

Variable	Tolerance	VIF	Information
X1 (Board of Commissioners)	0.909	1,100	No multicollinearity exists
X2 (Audit Committee)	0.849	1.178	No multicollinearity exists
X3 (Intellectual Capital)	0.592	1,689	No multicollinearity exists
X4 (Company Size)	0.653	1.532	No multicollinearity exists

According to Table 4, the tolerance value is greater than 0.01 and the total VIF value is greater than 10. Therefore, this study can be recommended because there is no multicollinearity in it.

Test for Heteroscedasticity

The goal of the heteroscedasticity test is to determine whether there is an inequality in variance between the residual of one observation and the residual of another observation in the regression model (Ghozali, 2018). It is known as homoscedasticity if the variance is constant, and it is known as heteroscedasticity if the variance varies. One with homoscedasticity or no heteroscedasticity is a suitable regression model. Because cross-sectional data gathers information that represents different sizes, they are typically heteroscedastic.

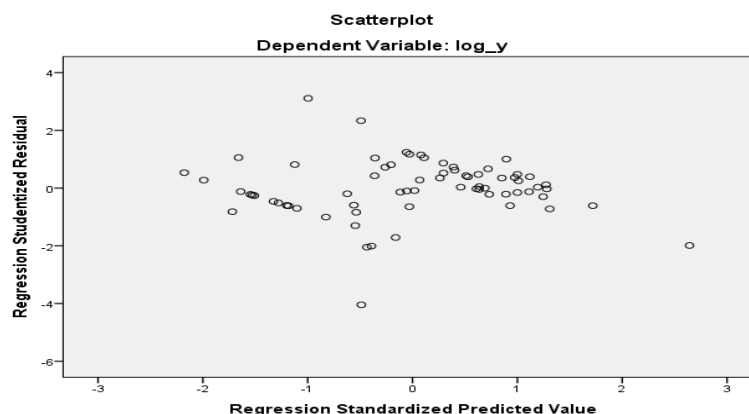


Figure 1Heteroscedasticity Test Results with Scatterplots



Figure 1 demonstrates that the points are randomly distributed above and below the number 0, as well. Therefore, it can be said that the regression model used in this study does not exhibit heteroscedasticity. Plots have a serious flaw in graph analysis. Therefore, statistical tests are required to ensure the validity of the findings. The Breusch Pagan test, which involves regressing the squared residual value against the independent variable, is the statistical test that is employed. The test findings are as follows:

Table 5. Results of the Heteroscedasticity Test Using Breusch-Pagan

Variable	Sig.	Information
X1 (Board of Commissioners)	0.075	No heteroscedasticity exists
X2 (Audit Committee)	0.450	No heteroscedasticity exists
X3 (Intellectual Capital)	0.448	No heteroscedasticity exists
X4 (Company Size)	0.540	No heteroscedasticity exists

Given that all of the test results in table 5 have significance values more than 0.05, it is possible to draw the conclusion that there is no evidence of heteroscedasticity.

Autocorrelation Test

The autocorrelation test seeks to determine if the confounding error in period t and the confounding error in period t-1 are correlated in the regression model (Ghozali, 2018). Because subsequent observations throughout time are tied to one another, autocorrelation results. The residuals are not independent from one observation to the next, which causes this issue. A regression without autocorrelation is a good regression model.

Table 6. Results of the Autocorrelation Test

dU Nilai value	Dwight-Watson scores	4-dU Nilai value
1.7351	2.013	2.2649

According to the test results in Table 6, the dw value is 2.013, the dU value is 1.7351, and the 4-dU value is 2.2649. It can be said that there is no autocorrelation issue if the value of dw is between the range dU dw 4-dU.

Testing a Regression Model

Table 7. Common Effect Model (CEM)

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	0.918419	0.722597	1.270998	0.2083
X1	-2.946486	1.107686	-2.660036	0.0098
X2	-0.811674	0.415107	-1.955338	0.0548
X3	0.129220	0.025904	4.988377	0.0000
X4	0.147969	0.072123	2.051617	0.0442
R-squared	0.545988	F-statistics	19.54203	
Adjusted R-squared	0.518049	Prob(F-statistic)	0.000000	

Processing of Secondary Data, 2022

The equation with the Common Effect Model regression has the following form, based on Table 7:

$$Y = 0.918 - 2.946 X_1 - 0.811 X_2 + 0.129 X_3 + 0.147 X_4$$



Table 8. Fixed Effect Model (FEM)

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	3.449716	3.529916	0.977280	0.3330
X1	-0.284292	1.427338	-0.199176	0.8429
X2	0.007124	1.504701	0.004735	0.9962
X3	0.058452	0.040286	1.450928	0.1528
X4	-0.270218	0.421430	-0.641193	0.5242
Effects Information				
Fixed cross-section (dummy variables)				
R-squared	0.754274	F-statistics		9.389296
Adjusted R-squared	0.673941	Prob(F-statistic)		0.000000

Processing of Secondary Data, 2022

Based on Table 8, the equation using Fixed Effect Model Regression has the following form:

$$Y = 3.449 - 0.284 X_1 + 0.007 X_2 + 0.058 X_3 - 0.270 X_4$$

Table 9. Random Effect Model (REM)

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	0.449720	0.983289	0.457363	0.6489
X1	-1.656228	1.175794	-1.408603	0.1637
X2	-0.738663	0.597487	-1.236284	0.2208
X3	0.098089	0.030482	3.217955	0.0020
X4	0.173158	0.102562	1.688317	0.0961
Effects Information				
			SD	Rho
cross-section at random			0.538910	0.3355
Randomly idiosyncratic			0.758371	0.6645
Statistical Weights				
R-squared	0.313260	F-statistics		7.412509
Adjusted R-squared	0.270999	Prob(F-statistic)		0.000055

Processing of Secondary Data, 2022

Based on Table 9, the equation using the Random Effect Model regression has the following form:

$$Y = 0.449 - 1.656 X_1 - 0.738 X_2 + 0.098 X_3 + 0.173 X_4$$

Test for Panel Data Regression Models

Test Chow

To choose between using a mixed model or a fixed effect model, the Chow test is a significance test. According to (Kosmaryati et al., 2019), the Chow test, the initial hypothesis (H0) is that there are no individual impacts on the model because it follows the combined model, and the alternative hypothesis (H1) is that there are one or more individual influences since the model follows the fixed influence model.

Table 10. Chow Test Findings

Results Test	Statistics	df	Prob.
F Cross Section	1.237785	(13.52)	0.2809
Chi-square in cross-section	18.872302	13	0.1271



Table 7's Chow test findings show that the probability value for Cross-section F is 0.2809 and the probability value for Cross-section Chi-square is 0.1271 > 0.05. The common effect is therefore preferable to the fixed effect. These findings led to the conduct of a Langrange multiplier test to determine whether there was a shared effect with a random effect.

Test for Langrange Multipliers

Than determine whether the random effect model is superior to the common effect (PLS) technique, the Lagrange multiplier (LM) test is used (Nandita et al., 2019).

Table 11. Results of the Langrange Multiplier Test

Breusch-Pagan	Test of Hypothesis		
	Cross-section	Time	Both
	0.174312 (0.6763)	0.507855 (0.4761)	0.682167 (0.4088)

The cross-section probability value for the Langrange multiplier test in Table 8 is 0.6763 > 0.05. Consequently, the common effect merits selection over the random effect. As a result, the common effect model method was used in this study to evaluate the hypothesis.

Hypothesis testing

Table 12. Hypothesis Test Results

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	0.918419	0.722597	1.270998	0.2083
X1	-2.946486	1.107686	-2.660036	0.0098
X2	-0.811674	0.415107	-1.955338	0.0548
X3	0.129220	0.025904	4.988377	0.0000
X4	0.147969	0.072123	2.051617	0.0442
R-squared	0.545988	F-statistics		19.54203
Adjusted R-squared	0.518049	Prob(F-statistic)		0.000000

Based on table 4.13, the equation using panel data regression has the following form:

$$Y = 0.918 - 2.946 X_1 - 0.811 X_2 + 0.129 X_3 + 0.147 X_4$$

Test for Coefficient of Determination

To determine how well the research model can account for the dependent variable, one method is to compute the coefficient of determination (adjusted R2). The influence of an independent variable on the dependent variable is more strongly correlated with the adjusted R2 of the independent variable. Between zero and one, the adjusted value of R2 ranges. When the modified R2 value is near to 1, it suggests that the independent variables can almost completely predict the dependent variable (Ghozali, 2018). According to Table 9, the Adjusted R-squared value of 0.5180 implies a 51.80% ability to describe the influence of dependent variation. Other factors not included in the study account for the remaining 48.20%.

F Statistic Test

The sample regression function's accuracy in guessing the real value is evaluated using the F statistic test (Goodness of Fit). The F test determines if the model is fit or not by determining whether the independent variable can adequately explain the dependent variable (Ghozali, 2018). By examining the prob value (F-statistic), this test is conducted. Given that Table 9's prob value (F-statistic) is 0.000 0.05, it is clear that the board of commissioners, audit committee, intellectual capital, and firm size can all have an impact on financial performance.



Test Statistics t

The significance level of the independent variable's effect on the dependent variable was examined using the t test. Depending on the chosen significance level, decisions are made by comparing the t-count value of each t-regression coefficient with the t-table. The significance level for the test is set at 0.05 (or =5%), and it is run. The outcomes of this t test, which are displayed in table 10, are as follows:

1. The probability value of the board of commissioners variable is calculated from the test data to be 0.0098. It is statistically proven that the board of commissioners partially negatively and significantly affects financial performance because the probability value is less than 0.05 (α) and the coefficient is negative. From the test results, the probability value of the board of commissioners variable is obtained of 0.0098. Because the probability value is less than 0.05 (α) and the coefficient is negative, it is statistically confirmed that the board of commissioners partially has a negative and significant effect on financial performance.
2. Finance According to the test results, the audit committee variable's probability value is 0.0548. The audit committee partially has a negative and minor impact on financial performance, according to statistics, because the probability value is bigger than 0.05 (α) and the coefficient is negative.
3. Based on the test results, the probability value for the variable measuring intellectual capital is 0.0000. It is statistically proven that intellectual capital partially positively and significantly affects financial performance because the probability value is less than 0.05 (α) and the coefficient is positive.
4. Based on the test findings, the firm size variable's probability value is 0.0442. It is statistically proven that company size partially positively and significantly affects financial performance because the probability value is less than 0.05 (α) and the coefficient is positive.

DISCUSSION

Board of Commissioners' Impact on Financial Performance

From the statistical test findings, it is known that the board of commissioners has a detrimental influence on financial performance. The percentage of independent commissioners was used in this study to measure the board of commissioners' variable. This means that the company's financial performance will suffer greatly when the independent board of commissioners has a high share.

The findings of this study are justified by the idea that electing and appointing an inefficient independent board of commissioners can lower the company's productivity in generating profits from managing its capital. This is crucial since many Independent commissioners are unable to show their independence, which makes it difficult for the supervisory function to work effectively. The appointment of the independent commissioner may also be impacted by the independent commissioner's particular position or affiliation. This is possible as a result of the nomination of independent commissioners who represent particular interests based on their positions or relationships. Additionally, a corporation may have independent commissioners just for regulatory compliance, and not all current independent officers are competent to perform their tasks in line with their intended roles. The findings of Saifi (2019) , Rahardjo & Wuryani (2021) and Putri & Muid (2017), which confirm that the board of commissioners has a negative impact on the company's financial performance, are consistent with the conclusions of this study.

Financial Performance and the Audit Committee's Influence

According to statistical analysis of the test results, the audit committee has no impact on the company's financial results. Therefore, adding more audit committees does not always result in an improvement in the company's financial performance. This demonstrates that the performance of the corporation is unaffected by the size of the audit committees. The findings of this study are not a guarantee that many audit committees will keep an eye on the firm's financial performance, and having an audit committee within a corporation is merely a prerequisite for having one.

The independence, legal expertise, and member attitudes and obligations all play a role in the audit committee's performance. Ideally, if these elements are present, the audit committee's function in an organization can enhance organizational performance, particularly in the implementation of GCG. According to Bapepam regulations, corporations are only permitted to have a minimum of three members on each audit committee. The audit committee's ability to perform its oversight role is less effective under this method of observing the regulations governing the number of audit committees. The findings of this study



concur with those of Hartati (2020), Prayanthi & Laurens (2020) and Sembiring & Saragih (2019), who explained that a high percentage of audit committees will not have an impact on the company's financial performance in their respective studies.

Intellectual Capital's Impact on Financial Performance

According to the statistical analysis, intellectual capital has a favorable impact on a company's financial success. This implies that if the company's intellectual capital grows, its financial performance will also grow dramatically. The company's human resources are a sort of value known as intellectual capital. And the management of human resources is unquestionably crucial to the operation of the business. The Effect of Intellectual Capital on Financial Performance

The fundamental component of a firm's intellectual capital is its people resources. When a company has human resources with high intellectual capital, its business operations will be more effective, which will raise sales and steadily improve financial performance. Understanding how to utilize the organization's intellectual capital in the most cost-effective way involves resources that the company cannot replace. By doing this, the business can increase its financial performance and obtain a very strong selling point. The criteria for assets and resources that can elevate a business and produce significant added value include intellectual capital. The organization makes an effort to add value by enhancing its human resources' capacity to obtain a competitive edge and further improve its financial performance, which has a ripple effect on financial performance. The conclusions of this study are consistent with those of Kurniawati et al. (2019), William & Ekadjaja (2020) and Rosiana & Mahardhika (2021), which claim that a company's high level of intellectual capital will improve financial performance.

Firm Size's Impact on Financial Performance

According to the statistical analysis, a company's size has a beneficial impact on its financial performance. This implies that financial performance will greatly increase if a huge corporation owns the company. The size of the business gives a general idea of its financial strength as determined by the value of its assets. A company will find it simpler to turn a profit when it has substantial assets. The Effect of Firm Size on Financial Performance

Larger businesses typically have more robust financial positions to support their operations. Since large organizations reflect both high and low levels of business activity, it is believed that they will be able to increase economies of scale and lower the costs of information gathering and processing. Large businesses are more likely to perform better than their rivals and stay in business, making them more appealing to outside investors. In other words, investors are more keen to fund large corporations. The additional funding received from these investors can be applied by the business to operations and production in order to advance the business until eventually its financial performance improves. Additionally, it is a reflection of the scale of the business and a factor that investors take into account when choosing an investment strategy. Larger businesses typically have greater resources and broader monitoring and control capabilities, which is expected to boost their financial performance. This is consistent with studies by Kurniawati et al. (2020), Sari et al. (2020) and Nahar (2016) that find that firm size affects financial performance favorably.

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