International Conference on Finance, Economics, Management, Accounting and Informatics

"Digital Transformation and Sustainable Business: Challenges and Opportunities for Higher Education Research and Development"

The Effect of Good Corporate Governance, Firm Size and Leverage Company Financial Performance

Hasna Suci Haerunnisa[1], **Heti Herawati[2]**, Sutarti[3], Yayuk Nurjanah[4]
[1,2,3,4] *Institut Bisnis dan Informatika Kesatuan*
* heti@ibik.ac.id

Abstract

This study aims to analyze the effect of the board of commissioners, independent commissioners, firm size, and leverage on the financial performance of manufacturing companies in the basic and chemical industry sector listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period. A quantitative approach was used with secondary data obtained from annual reports of these manufacturing companies. The research sample consisted of 99 observations, covering 33 companies over three years, selected using purposive sampling. Data processing was carried out with SPSS version 27. The results show that the board of commissioners has a negative effect on financial performance, independent commissioners have a negative effect, firm size has a positive effect, and leverage has a negative effect on financial performance.

Keywords: Board of Commissioners, Independent Commissioners, Firm Size, Leverage, Financial Performance, Manufacturing Companies.

Introduction

The era of globalization and the industrial revolution 4.0 has brought significant changes to the dynamics of the business world. Rapid technological and informational developments push companies to continuously innovate to maintain business sustainability. Fierce competition between companies has made financial performance a key indicator to attract investor attention and maintain public trust. Companies are required not only to generate profits but also to demonstrate managerial efficiency in managing resources to survive and grow sustainably.

Financial performance has become an essential benchmark in investment decision-making. Well-prepared financial reports are a primary reference for investors and other stakeholders to evaluate business prospects. One of the ratios often used to measure financial performance is Return on Assets (ROA), which reflects the company's ability to generate profits from its total assets. The higher the ROA, the better the company's efficiency in utilizing its assets to generate profit.

The manufacturing sector, especially the basic and chemical industry, is one of the strategic sectors that contributes significantly to Indonesia's economic growth. According to *Bisnis.com* (2022), in the first quarter, there was a revenue increase of 28.59% and net profit growth of 145.14% among 14 issuers in the basic and chemical industries. However, interestingly, some companies in this sector still experienced significant losses, such as PT Polychem Indonesia Tbk, PT Indo Acidatama Tbk, and PT Chandra Asri Petrochemical Tbk. This shows that not all companies in this promising sector have positive financial performance, requiring an evaluation of the factors that influence it. One factor believed to affect financial performance is the implementation of Good Corporate Governance (GCG). GCG plays a crucial role in ensuring that companies are managed transparently, accountably, and responsibly. GCG's key components, such as the board of commissioners and independent commissioners, have a strategic role in supervising management policies and maintaining the company's financial integrity. Unfortunately, according to the Asian Corporate Governance

Association (2023), Indonesia still ranks last among 12 Asian countries in GCG implementation, indicating weak corporate governance practices in the country.

Apart from GCG, internal company factors such as firm size and leverage are also considered to influence financial performance. Firm size reflects resource capacity and operational strength, potentially increasing company efficiency and competitiveness. Meanwhile, leverage reflects the company's capital structure, where excessive use of debt can increase financial risk and reduce profitability, but if managed correctly, can be a profitable source of funding. Previous studies have shown inconsistent results regarding the effect of GCG, firm size, and leverage on financial performance, in terms of both significance and the direction of influence. Therefore, this study aims to re-examine the effect of Good Corporate Governance (as represented by the board of commissioners and independent commissioners), firm size, and leverage on the financial performance of manufacturing companies in the basic and chemical industry sector listed on the IDX during the 2021–2023 period.

Literature Review

Agency theory was first stated by Jensen and Meckling (1976) stating that this theory assumes that each individual acts according to their personal interests. In addition, agency theory also assumes the existence of an agency relationship that arises from the contract between shareholders (principals) and company management (agents) who act as company managers. An agency relationship is formed when someone contracts an agent to carry out tasks on behalf of the owner. Generally, the owner gives the agent the authority to determine. Challenges occur when conflicts arise for the owner and agent. However, company managers and all stakeholders have a responsibility to minimize these conflicts of interest. Each party must be able to negotiate to determine the terms of the agreement. In companies whose shares are still 100% owned by the owner, it will not cause agency problems (1976, Jensen and Meckling). one of the series applied is Good Corporate Governance. Good Corporate Governance is a series that provides direction and principles to align various interests, especially the interests of managers and shareholders. In this study, agency theory is applied to convey the role of the board of commissioners in efforts to increase company value through the company's financial performance. Based on The Indonesian Institute for Corporate Governance (IICG, 2012) "corporate governance is a set of mechanisms that direct and control the company so that its operational activities are in accordance with stakeholder expectations" (Efendi, 2016:11) reveals that Good Corporate Governance is generally known by the abbreviation TARIF, namely Transparency, Accountability, Responsibility, Independence and Fairness.

In this study, the Good Corporate Governance mechanisms used include

(1) The board of commissioners, has a crucial role for the company, especially for the implementation of Good corporate governance. The main task of the board of commissioners is to review management policies and their implementation and provide advice to the board of directors (Ghozali, 2016:101). The composition of the board of commissioners must be arranged in a way that allows decisions to be taken effectively, accurately, and quickly, and also allows for independent action (Sarafina & Saifi, 2017).

$$\text{Independent commissioner} = \sum \text{Independent commissioner.}$$

(2) Independent commissioners based on (Ghozali, 2016) are individuals who come from outside the company and have no affiliation with the main shareholders, members of the board of directors or other members of the board of commissioners.

Company Size, basically refers to a scale that categorizes the large or small dimensions of a company, can be measured through various parameters such as the number of assets, total income, stock market value, and others. the more optimal the use of company assets, the more profit will be obtained, because these assets are used in the company's operational activities to produce profits (Diana & Osesoga, 2020). In this study, company size is measured using the natural logarithm of the total assets owned by the company. The application of natural logarithms is applied with the aim of reducing data changes. The measurement of the company's total asset utilization is based on the assessment that total assets indicate the size of the company and are seen as influencing timeliness. (Suryani Elly, 2018). The larger the assets, the more effective the company is in carrying out investments and providing product demand.

Natural Logarithm = Total Assets

Leverage is a source of financing obtained by a company from debt (Fahmi, 2014:127). The use of Leverage in a company can be observed in the company's policy in taking external loans to fund its company. Leverage is an important element in company control, because Leverage can be used as a source of capital by the company if used effectively for the company's operational management activities will have a positive impact on increasing profits. Companies that have too much debt can face risks, because they can enter the extreme leverage group, where the company is trapped in a high level of debt and it is difficult to reduce its debt burden (Fahmi, 2014:127). If the Leverage ratio of a company is low, it means that more of the company's assets are financed by capital and do not depend on external loans. The leverage used in this study was measured through the Debt to Asset Ratio (DAR), This ratio is also known as the ratio that measures the comparison between the company's total liabilities, which is obtained by comparing total liabilities to total assets (Fahmi, 2014:127). Namely measuring how much

Research Methods

This research used a quantitative method. According to Sugiyono (2023), quantitative methods are research approaches based on positivist philosophy. They study certain populations or samples, with data processing conducted statistically, aiming to describe and test established hypotheses. This study intends to identify empirical evidence of the influence of the board of directors, board of commissioners, independent commissioners, managerial ownership, institutional ownership, and firm size. Considering the existing problems, this study is classified as causal research.

The research objects are firm size, leverage, and Good Corporate Governance mechanisms with proxies including the board of commissioners and independent commissioners. The research subjects are manufacturing companies in the basic and chemical industry sector listed on the IDX from 2021 to 2023.

Purposive Sampling Process

No.	Description	Number of Companies
1	Companies in the basic and chemical industry sector listed on IDX for the period 2021–2023	94

No.	Description	Number of Companies
2	Companies that did not publish financial statements consecutively during 2021–2023 and could not be accessed via the IDX website	-15
3	Financial statements not presented in Indonesian Rupiah	-24
4	Companies incurring losses during the research period	-22
	Companies meeting the criteria	33
	Total research data (n x research period)	99
	Number of outlier data	-14
	Number of sample data	85

Source: Processed Data, 2025

Descriptive Statistical AnalysisThe total amount of data, mean, maximum and minimum values, and standard deviations of each variable in this study are shown in the table below.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
DEWAN KOMISARIS	85	1	4	2.26	.915
KOMISARIS INDEPENDEN	85	.000	1.500	.69021	.287716
UKURAN PERUSAHAAN	85	25.161	32.036	28.63695	1.603542
LEVERAGE	85	.043	.742	.36368	.167199
KINERJA KEUANGAN	85	.003	.149	.05776	.039354
Valid N (listwise)	85				

Source: Secondary data processed using SPSS 27 (2025)

Based on the descriptive analysis results shown in Table 4.2, the following conclusions can be drawn:

1. **Board of Commissioners (X1):** minimum value 1, maximum 4, mean 2.26, standard deviation 0.915.
2. **Independent Commissioners (X2):** minimum 0.000, maximum 1.500, mean 0.69021, standard deviation 0.287716.
3. **Firm Size (X3):** minimum 25.161, maximum 32.036, mean 28.63695, standard deviation 1.603542.
4. **Leverage (X4, proxied by Debt to Asset Ratio):** minimum 0.043, maximum 0.742, mean 0.36368, standard deviation 0.167199.
5. **Financial Performance (Y, proxied by ROA):** minimum 0.003, maximum 0.149, mean 0.5776, standard deviation 0.39354.

Classical Assumption Tests

To obtain accurate, unbiased, and efficient information, it is necessary to test the classic assumptions, including:

1. **Normality Test**

Using the One-Sample Kolmogorov-Smirnov Test, the result showed an Asymp. Sig. (2-tailed) value of 0.075.

One-Sample Kolmogorov-Smirnov Test

			Unstandardized Residual
N			85
Normal Parameters[a,b]	Mean		.0000000
	Std. Deviation		.03271293
Most Extreme Differences	Absolute		.092
	Positive		.092
	Negative		-.060
Test Statistic			.092
Asymp. Sig. (2-tailed)[c]			.075
Monte Carlo Sig. (2-tailed)[d]	Sig.		.077
	99% Confidence Interval	Lower Bound	.070
		Upper Bound	.084

Since this value is greater than 0.05, it can be concluded that the residual data in the regression model are normally distributed.

2. **Multicollinearity Test**

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-.029	.068		-.423	.673		
	DEWAN KOMISARIS	-.019	.005	-.444	-3.663	<,001	.588	1.700
	KOMISARIS INDEPENDEN	-.038	.015	-.276	-2.494	.015	.703	1.423
	UKURAN PERUSAHAAN	.007	.003	.267	2.524	.014	.771	1.297
	LEVERAGE	-.088	.024	-.372	-3.701	<,001	.854	1.170

a. Dependent Variable: KINERJA KEUANGAN

Using SPSS version 27, the multicollinearity test showed no indication of multicollinearity in this research model. All independent variable tolerance values exceeded 0.10, and VIF values did not exceed 10, indicating no significant correlation among independent variables.

3. **Heteroskedasticity Test**

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.105	.033		3.195	.002
	DEWAN KOMISARIS	-.003	.003	-.167	-1.264	.210
	KOMISARIS INDEPENDEN	-.011	.007	-.184	-1.519	.133
	UKURAN PERUSAHAAN	-.002	.001	-.175	-1.520	.132
	LEVERAGE	-.022	.011	-.214	-1.955	.054

a. Dependent Variable: ABS_RES

The results showed significance values of 0.210 for the board of commissioners, 0.133 for independent commissioners, 0.133 for firm size, and 0.054 for leverage. Since all these significance values are greater than 0.05, it can be concluded there is no heteroskedasticity in this research model.

4. **Autocorrelation Test**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.564[a]	.318	.284	.02998	2.038

Based on statistical data processing, the Durbin-Watson (DW) value was 2.038 with α = 0.05, K = 4, N = 85, dL = 1.5752, dU = 1.7210, and 4-dU = 2.279. Since 1.7210 < 2.038 < 2.279, it can be concluded that the regression model does not experience autocorrelation.

Multiple Linear Regression Analysis

The results of the multiple linear regression analysis are as follows:

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-.029	.068		-.423	.673
	DEWAN KOMISARIS	-.019	.005	-.444	-3.663	<,001
	KOMISARIS INDEPENDEN	-.038	.015	-.276	-2.494	.015
	UKURAN PERUSAHAAN	.007	.003	.267	2.524	.014
	LEVERAGE	-.088	.024	-.372	-3.701	<,001

a. Dependent Variable: KINERJA KEUANGAN

ROA = 0.029 - 0.019X1 - 0.038X2 + 0.007X3 - 0.088X4 + e

Where:

a. Y = Financial Performance
b. α = Constant
c. β = Coefficient of independent variables
d. X1 = Board of Commissioners
e. X2 = Independent Commissioners
f. X3 = Firm Size
g. X4 = Leverage
h. e = Regression error term

HYPOTHESIS TESTING

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-.029	.068		-.423	.673
	DEWAN KOMISARIS	-.019	.005	-.444	-3.663	<,001
	KOMISARIS INDEPENDEN	-.038	.015	-.276	-2.494	.015
	UKURAN PERUSAHAAN	.007	.003	.267	2.524	.014
	LEVERAGE	-.088	.024	-.372	-3.701	<,001

a. Dependent Variable: KINERJA KEUANGAN

Partial Test (T-test)

Based on the SPSS 27 output, with α = 0.05 and df = (n-k-1) = 80, the critical t-table value was 1.66412. The results were:

a. **Board of Commissioners (H1):** t-value 3.663 > 1.66412, significance 0.001 < 0.05 → H1 is rejected, indicating a negative effect.
b. **Independent Commissioners (H2):** t-value 2.494 > 1.66412, significance 0.015 < 0.05 → H2 accepted, indicating a negative effect.
c. **Firm Size (H3):** t-value 2.524 > 1.66412, significance 0.014 < 0.05 → H3 accepted, indicating a positive effect.
d. **Leverage (H4):** t-value 3.701 > 1.66412, significance 0.001 < 0.05 → H4 accepted, indicating a negative effect.

Simultaneous Test (F-test)

The F-test result showed an F-value of 8.945 with a significance value of < 0.001. Since this is smaller than 0.05, it can be concluded that the independent variables together (board of commissioners, independent commissioners, firm size, and leverage) have a significant simultaneous influence on financial performance (as proxied by ROA).

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.040	4	.010	8.945	<,001[b]
	Residual	.090	80	.001		
	Total	.130	84			

a. Dependent Variable: KINERJA KEUANGAN

b. Predictors: (Constant), LEVERAGE, KOMISARIS INDEPENDEN, UKURAN PERUSAHAAN, DEWAN KOMISARIS

Coefficient of Determination (R^2 Test)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.556[a]	.309	.274	.033521

a. Predictors: (Constant), LEVERAGE, KOMISARIS INDEPENDEN, UKURAN PERUSAHAAN, DEWAN KOMISARIS

b. Dependent Variable: KINERJA KEUANGAN

The adjusted R^2 value was 0.274 or 27.4%, indicating that 27.4% of the financial performance of manufacturing companies in the basic and chemical industry sector listed on the IDX from 2021–2023 is explained by the four independent variables. The remaining 72.6% is explained by other factors outside this regression model.

Result and Discussion

The Influence of the Board of Commissioners on Financial Performance

The results showed a significant negative influence of the board of commissioners on financial performance (ROA), with a regression coefficient of -0.029 and significance <0.01. This means H1 is rejected because it

contradicts the initial assumption of a positive relationship. The negative effect may be due to a larger board size creating coordination and communication inefficiencies, and ineffective supervision if the commissioners lack adequate quality and professionalism.

The Influence of Independent Commissioners on Financial Performance

The results showed a significant negative influence, with a regression coefficient of -0.038 and significance of 0.015. The second hypothesis is accepted, suggesting that an excessive proportion of independent commissioners may slow decision-making, especially if they only fulfill regulatory obligations without actively contributing to supervision.

The Influence of Firm Size on Financial Performance

Firm size showed a significant positive influence on ROA with a coefficient of 0.007 and significance of 0.014, supporting the third hypothesis. Larger firms tend to have more resources, higher operational efficiency, and wider market access.

The Influence of Leverage on Financial Performance

Leverage, proxied by the Debt to Asset Ratio (DAR), showed a significant negative effect with a coefficient of -0.088 and significance <0.001. Higher leverage increases the risk of interest burden and default, which reduces profitability.

Simultaneous Effects The simultaneous testing results showed that the four variables together significantly affect financial performance, although the degree of influence (R^2) is moderate.

Conclusions

Based on the analysis, the following conclusions are drawn:

1. The board of commissioners negatively affects financial performance.
2. Independent commissioners negatively affect financial performance.
3. Firm size positively affects financial performance.
4. Leverage negatively affects financial performance.
5. Together, these variables significantly influence the financial performance of manufacturing companies in the basic and chemical industry sector listed on the IDX from 2021 to 2023.

References

Alfiana, S. N., & S. (2023). The impact of corporate social responsibility (CSR) and firm size on company financial performance.

Amelya Dwi Ade Irma. (2019). The influence of commissioners, audit committee, ownership structure, size, and leverage on the financial performance of property, housing, and construction companies in 2013–2017. *Journal of Management Science*, 7.

Amiyanto, Y., & Riduwan, A. (2022). The influence of firm size, firm age, institutional ownership, and managerial ownership on financial performance. *Journal of Accounting Science and Research*.

Aprila, N. W., Ayu, N. N., & Gede Bagus, A. A. P. (2022). The influence of good corporate governance on company financial performance. *Jurnal Kharisma*, 4.

Arhinful, R., & Radmehr, M. (2023). The effect of financial leverage on financial performance: Evidence from non-financial institutions listed on the Tokyo Stock Market. *Journal of Capital Markets Studies*, 7(1), 53–71. https://doi.org/10.1108/jcms-10-2022-0038

Arya, M. (2020). The influence of capital structure and asset growth on the financial performance of companies listed in the Jakarta Islamic Index (JII). *Journal of Accounting and Financial Studies*, 3.

Bagiana, D. G. A., Suwendra, I. W., & Wibawa, I. M. M. (2022). The effect of independent commissioners, leverage, and company size on company financial performance. *International Journal of Applied Business and Management*, 3(2), 90–100.

Dahlia, C. (2018). The influence of capital structure, company size, and liquidity on financial performance moderated by inflation. *Jurnal Muara Ilmu Ekonomi dan Bisnis*, 2.

Diana, L., & Osesoga, M. S. (2020). The influence of liquidity, solvency, asset management, and firm size on financial performance. *Jurnal Akuntansi Kontemporer*, 12(1), 20–34. https://doi.org/10.33508/jako.v12i1.2282

Fajar Ibnu Ghani, Santoso Budi, & Haryanto Eko. (2025). The influence of leverage, firm size, and capital structure on company financial performance.

Fitriyani, E., & Zamzami, Z. (2020). Analysis of the influence of firm size, leverage, and good corporate governance on financial performance.

Gunawan, H., Pambelum, Y. J., & Angela, L. M. (2019). The influence of corporate governance, intellectual capital, leverage, and firm size on the financial performance of banking companies. *Jurnal Akuntansi dan Governance Andalas*.

Herman & Ineke. (2018). The influence of the proportion of independent commissioners and the number of directors on financial performance. *Journal of Economics*.

Honi, H. Y., Saerang, I., & Tulung, J. E. (2020). The effect of good corporate governance on the financial performance of conventional commercial banks during 2014–2018. *Jurnal EMBA*, 8.

Martin Kyere & Marcel Ausloos. (2021). Corporate governance and firms' financial performance in the United Kingdom.

Mulianita, A., & Triandi, S. (n.d.). The influence of the board of commissioners and audit committee on the financial performance of Islamic banks registered with Bank Indonesia.

Muzahidul Islam, M. D., et al. (2019). *Editorial Board Chief Editor*.

Ni Wayan, et al. (2022). The influence of good corporate governance on company financial performance. *Jurnal Kharisma*, 4.

Nur Amalia, A. (n.d.). The effect of firm size, leverage, and capital structure on financial performance. STIESIA Surabaya.

Permatasari, F., & Patricia Widianingsih, L. (2020). Disclosure of corporate social responsibility and its effect on financial performance with good corporate governance as a moderating variable. *Media Akuntansi dan Perpajakan Indonesia*, 1(2).

Permono, B., & Puspitaningsih, A. (2022). The influence of good corporate governance and firm size on financial performance.

Potharla, S., & Amirishetty, B. (2021). Non-linear relationship of board size and board independence with firm performance: Evidence from India. *Journal of Indian Business Research*, 13(4), 503–532. https://doi.org/10.1108/jibr-06-2020-0180

Rosiana, A., & Mahardhika, S. (2020). The influence of good corporate governance and intellectual capital on financial performance. *Journal of Information Systems, Finance, Auditing, and Taxation*, 5.

Ruslim, H., & Santoso, I. (2018). The influence of the proportion of independent commissioners, the number of directors, number of audit committees, institutional ownership, managerial ownership, and firm size on financial performance. *Journal of Economics*, 23.

Sarafina, S., & Saifi, M. (2017). The influence of good corporate governance on financial performance and firm value (study on state-owned enterprises listed on the Indonesia Stock Exchange for the period 2012–2015). *Jurnal Administrasi Bisnis (JAB)*, 50.

Sugiyono. (2010). *Metode Penelitian Kuantitatif Kualitatif dan R&D*. Alfabeta.

Suryani, E. (2018). Capital structure, liquidity, and firm size. *Jurnal Riset Akuntansi Kontemporer*.

Wicaksono, T. (2014). The effect of good corporate governance mechanisms on company profitability. *Diponegoro Journal of Accounting*, 3.

Zahidah, D. A., & Aris, M. A. (n.d.). The influence of good corporate governance and leverage on financial performance (study on LQ45 companies listed on the Indonesia Stock Exchange in 2020–2022). https://doi.org/10.46306/rev.v5i1