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The Effect of Good Corporate Governance, Company Size, and Environmental Performance on Company Financial Performance

(Empirical Study of Manufacturing Companies in Consumer Goods Industry Sector Listed on Indonesia Stock Exchange for 2016-2019 Period)

Annaya Nabilah Hermayanti[1], Agus Endro Suwarno[2]

Faculty of Economics and Business Muhammadiyah University of Surakarta, Indonesia[1&2]

Abstract: This research aims to analyze the effect of Good Corporate Governance, company size, and environmental performance on company financial performance. This is quantitative research and the research sample includes nineteen manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange over 2016-2019 period. The analysis method of this research is multiple linear regression analysis. Financial performance is measured by Net Profit Margin. Good Corporate Governance is measured by board of commissioners, board of directors, and audit committee. Company size is measured by total of assets and environmental performance is measured with PROPER rating by Ministry of Environment and Forestry Indonesia. The results show that environmental performance had a significant effect on financial performance. While board of commissioners, board of directors, audit committee, and company size had no significant effect on financial performance.

Keywords: Financial Performance, Good Corporate Governance, Board of Commissioners, Board of Directors, Audit Committee, Company Size, Environmental Performance

I. INTRODUCTION

The business in consumer goods industry sector which continues to develop and grow makes the business climate in that sector more competitive. Therefore companies in that sector are expected to be able to increase their potential through effective and efficient resource management. The company's effectiveness in managing resources to generate profits can be measured through financial performance. Friani, et al. (2016) explained that financial performance is company's ability to manage and control its resources. Better financial performance will encourage investors to invest in the company.

A company is usually managed separately from its owner by management. In making decisions or implementing policies, management sometimes practice fraud. Therefore, the existence of Good Corporate Governance is very important for a company. Good Corporate Governance is a system that can direct and control company in order to achieve goals in the form of a balance between the strengths and authority of the company (Sutedi, 2011). According to the National Committee on Governance Policy (2006), the principles of Good Corporate Governance refer to fairness, transparency, responsibility, independence, and accountability. Good Implementation of Good Corporate Governance can increase the effectiveness, efficiency, and productivity of the use of company resources (Daniri, 2005).

According to the economies of scale theory, large company can enjoy the advantages due their large scale of operations where the cost per unit of output decrease because fixed costs are spread over more units of output (Junius, 1997). Large company can also enjoy advantages in the form of discounts from purchasing raw materials in large quantities and specialization or division of labor (Akinyi and Oima, 2019). Low production costs allow the company to sell products at more competitive prices than its competitors. In addition, size of the company can affect management's ability to operate company in the various conditions (Anggraini, et al. 2019).

Environmental performance is a measurable result of the environmental management system that related to the control of environmental aspects (Ikhsan, 2009). In some companies, testing products and processes can incur environmental costs, improve decision making, and become more profitable for the company (Putri and Herawati, 2017). Concept of eco-efficiency according to Hansen and Mowen (2005) explained that efficiency comes from improving environmental performance. The Ministry of Environment and Forestry Indonesia explained that eco-efficiency is an efficiency concept that incorporates aspects of natural resources and energy in the form of minimizing the use of raw materials, water, and energy as well as the environmental impact per unit of product in the production process. By doing that, company can achieve benefits because it has competitiveness. With good environmental management, company can avoid community and government claimsalso maintain andimprove the product quality.

Researchers use five variables based on theoretical and research gaps from several previous studies: board of commissioners, board of directors, audit committee, company size, and environmental performance. This study refers to previous research by Anggraini, et al. (2019) that examined the effect of board commissioners size, board of directors size, audit committee size, and company size on the financial performance of banking companies listed on the Indonesia Stock Exchange for 2014-2017 period. The difference is this study was conducted in consumer goods industry sector. Researches also add environmental performance variable because in its operations the company cannot be separated from its relationship with the environment. In addition, this study uses Net Profit Margin to measure financial performance, in contrast to previous research that use Cash Flow Return on Assets.

II. LITERATURE REVIEW

Agency Theory

Agency relationship occur when the owner hires and give authorization to the manager to be able to manage the owner's business and make decisions on behalf of the owner (Jensen and Meckling, 1976). That separation often creates agency conflicts. Company management will tend to act for their own shake. The problem between the owner and management arises when the owner does not know exactly what the management is doing and the management has more information about the company than the owner.

Economy of Scale

Economies of scale theory states that large company enjoy cost advantages because of their large scale of operations. According to Pearson and Wisner (1993), economies of scale can be divided into volume economies of scale and learning economies of scale. Volume economies of scale are reduced costs per unit obtained from increased production capacity. While learning economies of scale are reduced costs per unit due to transformations experienced by company such as increased employee capabilities, production processes, and planning that accumulate over time. Learning economies of scale are related to the concept of the learning curve which states that there is a decrease in the cost per unit if a process is carried out repeatedly.

Eco-Efficiency

The essence of eco-efficiency is to enable organizations to produce more useful goods or services while simultaneosly reducing negative impacts on the environment and reducing resource consumption and costs (Hansen and Mowen, 2005). The World Business Council for Sustainable Development identifies key factors in implementing eco-efficiency are reducing the amount of energy used, reducing pollution, increasing material recycling, maximizing the use of renewable natural resources, extending product life, and increasing intensity service.

Financial Performance

Financial performance is the achievement of the company's performance in a certain period contained in the financial statements (Munawir, 2010). Financial performance can be measured by Net Profit Margin (Haryono and Paminto, 2015). The NPM formula is:

$$\text{NPM} = \frac{\text{Net Profit After Tax}}{\text{Total Net Sales}} \text{x } 100\%$$

Good Corporate Governance

Good Corporate Governance concerned on making effective decisions to achieve profitable business through organizational culture, values, systems, processes, policies, and organizational structures. The Good Corporate Governence mechanism is a way to control the company so it stays within the limits. Three Good Corporate Governance mechanisms that used in this study are board of commissioners, board of directors, and audit committee.

Board of Commissioners

Board of commissioners is tasked with carrying out general and specific supervision and providing advice to the directors. The formula that can be used to measure board of commissioners is (Anggraini, et al. 2019):

Board of commissioners = ∑ Member of the Board of Commissioners

Board of Directors

Board of Directors is an agent or company manager who is fully responsible for the company's operational activities. The board of directors is tasked with determining company policies and strategies in the short and long term. The formula that can be used to measure board of directors is (Anggraini, et al. 2019):

Board of directors = ∑ Member of the Board of Directors

Audit Committee

Audit committee is a committee formed by board of commissioners that works to strengthen the supervision function by the board of commissioners. The audit committee is tasked with examining and supervising the process of financial reporting and internal control. Number of of audit committee consist of at least three people. The formula that can be used to measure audit committee is (Anggraini, et al. 2019):

Audit committee = ∑ Member of the audit committee

Company Size

Company size is a measure of the size of a company which is shown or assessed by total assets, total sales, total profits, tax expenses, and others (Brigham and Huston, 2010). This study uses total assets to measure company size where total assets are transformed into natural logarithm so that assets worth hundreds of billions or even trillions can be simplified without changing the proportion of actual total assets (Murhadi, 2013). The formula used in this study to measure company size is:

Company size = Ln (Total Assets)

Environmental Performance

Environmental performance refers to the level of environmental damage caused by the activities carried out by the company (Lankoski, 2000). Environmental performance can be measured by looking at the results of the environmental performance rating program by the Ministry of Environment and Forestry Indonesia (PROPER). The ranking is carried out in the form of assigning color status to each company. The gold rating will be given score 5, the green rating will be given score 4, the blue rating will be given score 3, the red rating will be given score 2, the black rating will be given score 1 (Andriana and Panggabean, 2017).

Hypothesis

H1 : Board of commissioners has a significant effect on the company's financial performance.
H2 : Board of directors has a significant effect on the company's financial performance.
H3 : Audit committee has a significant on the company's financial performance.
H4 : Company size has a significant effect on the company's financial performance.
H5 : Environmental performance has a significant effect on the company's financial performance.

III. RESEARCH METHOD

The type of this research is quantitative research. This research uses secondary data obtained through annual financial reports and PROPER rating reports of consumer goods companies for 2016-2019 period. The sampling technique used was purposive sampling. The data were processed using the SPSS program. The data analysis test that used is multiple linear regression model.

IV. DATA ANALYSIS AND DISCUSSION

IV.1. Descriptive Statistics

Table 1. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Financial Performance	73	-0,22712	0,39002	0,0932942	0,10289457
Board of Commissioners	73	2	8	4,60	1,664
Board of Directors	73	2	11	5,67	2,255
Audit Committee	73	2	4	2,96	0,423
Company Size	73	26,90336	32,20096	29,2051060	1,65226705
Environmental Performance	73	2	4	3,15	0,593
Valid N (listwise)	73				

Source: Secondary data processed by authors, 2023.

IV.2. Classic Assumption Test

IV.2.1. Normality Test

Normality test in this study used one sample kolmogorov smirnov. As the result, the value of Asymp. Sig (2-tailed) is 0,056 which is greater than the significance level (0,05). It can be concluded that the data is normally distributed.

IV.2.2. Multicollinearity Test

Table 2. Multicollinearity Test

Variable	Tolerance	VIF	Conclusion
Board of Commissioners	0,665	1,503	There is no multicollinearity
Board of Directors	0,311	3,213	There is no multicollinearity
Audit Committee	0,782	1,279	There is no multicollinearity
Company Size	0,256	3,914	There is no multicollinearity
Environmental Performance	0,778	1,285	There is no multicollinearity

Source: Secondary data processed by authors, 2023.

Based on that table, each variable has tolerance value more than 0,1 and VIF value less than 10. It can be concluded that there is no multicollinearity between the independent variables.

IV.2.3. Autocorrelation Test

Autocorrelation test in this study used Durbin Watson. As the result, the value of Durbin-Watson is 1,996 which means that the Durbin-Watson value is between -2 to +2. So, it can be concluded that the regression is free from autocorrelation.

IV.2.4. Heteroscedasticity Test

Table 3. Heteroscedasticity Test

Variable	Sig. (2-tailed)	Conclusion
Board of Commissioners	0,357	There is no heteroscedasticity
Board of Directors	0,437	There is no heteroscedasticity
Audit Committee	0,435	There is no heteroscedasticity
Company Size	0,757	There is no heteroscedasticity
Environmental Performance	0,420	There is no heteroscedasticity

Source: Secondary data processed by authors, 2023.

Heteroscedasticity test in this study used Rank-Spearman. Based on that table, the significance value of each variable is greater than the significance level (0,05). So, it can be concluded that there is no heteroscedasticity problem in the research data.

IV.3. Hypothesis Testing

IV.3.1. Multiple Linear Regression

Table 4. Multiple Linear Regression

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error	Beta		
1 (Constant)	-0,396	0,297		-1,337	0,186
Board of Commissioners	0,011	0,008	0,177	1,438	0,155
Board of Directors	-0,007	0,008	-0,155	-0,864	0,391
Audit Committee	0,019	0,028	0,079	0,695	0,490
Company Size	0,006	0,012	0,098	0,495	0,623
Environmental Performance	0,077	0,020	0,447	3,922	0,000

Source: Secondary data processed by authors, 2023.

Based on the table above, the following equation can be arranged:

FP= -0,396 + 0,011 (BOC) – 0,007 (BOD) + 0,019 (AC) + 0,006 (CZ) + 0,077 (EP) + e

FP : Financial Performance
BOC : Board of Commissioners
BOD : Board of Directors
AC : Audit Committee
CZ : Company Size
EP : Environmental Performance
e : Error

IV.3.2. R^2 Test

Table 5. R^2 Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,570	0,324	0,274	0,08767460

Source: Secondary data processed by authors, 2023.

Based on that table, the Adjusted R^2 value is 0,274. It means that the independent variables (board of commissioners, board of directors, audit committee, company size, and environmental performance) only affect financial performance 27,4%, while the rest 72,6% is affected by other variables that not be used in this study.

IV.3.3. F Test

Table 6. F Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0,247	5	0,049	6,434	0,000
	Residual	0,515	67	0,008		
	Total	0,762	72			

Source: Secondary data processed by authors, 2023.

Based on that table, the significance value is less than the significance level (0,05) so it can be concluded that board of commissioners, board of directors, audit committee, company size, and environmental performance simultaneously have significant effect on financial performance. In addition, it can also be concluded that the regression model is fit.

IV.3.4. T Test

Table 7. T Test

Variable	t	Sig.	Conclusion
Board of Commissioners	1,438	0,155	Not significant
Board of Directors	-0,864	0,391	Not significant
Audit Committee	0,695	0,490	Not Significant
Company Size	0,495	0,623	Not Significant
Environmental Performance	3,922	0,000	Significant

Source: Secondary data processed by authors, 2023.

IV.4. Discussion

IV.4.1. Effect of Board of Commissioners on Financial Performance

Based on the t test result, board of commissioners has significant value 0,155> 0,05. So, It can be concluded that partially board of commissioners has no significant effect on financial performance of consumer goods companies listed on Indonesia Stock Exchange for 2016-2019 period. It can happen because the supervisory function by board of commissioners has not carried out properly (Hartati, 2020).

IV.4.2Effect of Board of Directors on Financial Performance

Based on the t test result, board of directors has significant value 0,391 > 0,05. So, It can be concluded that partially board of directors has no significant effect on financial performance of consumer goods companies listed on Indonesia Stock Exchange for 2016-2019 period. It can happen because on the other hand the more members of the board of directors will cause a lot of conflict and make it difficult to make decisions (Febriana and Sri, 2022). In addition, according to Hardikasari in Anggraini, et al. (2019) it can happen when a company has many members of the board of director but cannot coordinate, communicate, and make decisions properly.

IV.4.3. Effect of Audit Committee on Financial Performance

Based on the t test result, audit committee has significant value 0,490 > 0,05. It can be concluded that partially audit committee has no significant effect on financial performance of consumer goods companies listed on Indonesia Stock Exchange for 2016-2019 period. It can happen because perhaps the existence of audit committee in companyis only for formality in fulfilling the minimum number of audit committee according to BAPEPAM regulations Kep-29/PM/2004 in the form of one independent commissioners member and two other members so that the audit committee become less effective in carrying out its duties (Widyatama and Wibowo, 2015). As evidence from the statistical result, the average number of audit committee members is 2,96.

IV.4.4 Effect of Company Size on Financial Performance

Based on the t test result, company size has significant value 0,623 > 0,05. So, it can be concluded that partially audit committee has no significant effect on financial performance of consumer goods companies listed on Indonesia Stock Exchange for 2016-2019 period. It can happen because according to Yus Epi in Erawati and Wahyuni (2019), in other hand large company will be faced with bigger agency problem which will increase the cost of the company.

IV.4.5. Effect of Environmental Performance on Financial Performance

Based on the t test result, environmental performance has significant value 0,000 < 0,05. So, it can be concluded that partially environmental performance has a significant effect on financial performance of consumer goods companies listed on Indonesia Stock Exchange for 2016-2019 period. Better company environmental performance means that the company is getting better at implementing environmental management systems and implementing eco-efficiency. By carrying out environmental management optimally, company can maintain even improve the product quality also avoid claims from community and government which can give disadvantages to the company. In addition, when company able to apply the eco-efficiency concept in the form of saving raw materials, water, and energy by reducing Non-Product Output also waste that can damage environment, company will become more efficient and even has competitiveness.

V. CONCLUSION

Conclusions

Based on the result of the test that be done, it can be concluded that:

a. Board of commissioners has no significant effect on financial performance. It means that H1 of this study is rejected.
b. Board of directors has no significant effect on financial performance. It means that H2 of this study is rejected.
c. Audit committee has no significant effect on financial performance. It means that H3 of this study is rejected.
d. Company size has no significant effect on financial performance. It means that H4 of this study is rejected.
e. Environmental performance has a significant effect on financial performance. It means that H5 of this study is accepted.

Limitations

Some limitations in this study are:

a. The sample used in this study is only from 2016-2019, so perhaps the results are still not close enough to the actual conditions.
b. The sample is limited only to manufacturing companies in consumer goods industry sector, so this research may not relevant to companies in other sectors.
c. The independent variables in this study are only board of commissioners, board of directors, audit committee, company size, and environmental performance with the value of adjusted R^2only 27,4%, so there are many other variables out there that can affect the company's financial performance but not used in this research.

Suggestions

Suggestions for future research are as follows:

a. Future research is expected to increase the observation period. With large number of samples, it will probably give results that closer to the actual conditions.
b. Future research is expected to expand the object of research in other business sectors, so it can be useful for those who need the information.
c. Future research is expected to add variations of the independent variables that have potential to affect the financial performance.

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