The Effect of Corporate Governance on Performance Modified by the Company Size

Syamsudin¹ Praswati, Aflit Nuryulia² Putra, Febrianur Ibnu Fitroh Sukono³

¹,²,³Faculty of Economics and Business, Universitas Muhammadiyah Surakarta, Surakarta, Indonesia
*Corresponding author. Email: syamsudin@ums.ac.id, Aflit.N.Praswati@ums.ac.id, febrianur3@gmail.com

ABSTRACT
This study aims to determine the effect of corporate governance on corporate financial performance which is moderated by company size. The population used is companies listed on the Indonesian stock exchange. The sample in this study amounted to 53 companies. The sampling technique uses MRA (moderated regression analysis). The results of this study indicate that (1) board of commissioner variables, audit committee variables, board of directors variables, company size variables affect company performance, (2) board of commissioners with company size as a moderating variable has no influence on company performance, (3) audit committee with company size as a moderating variable influences company performance, (4) variable of directors with company size as a moderating variable has no influence on company performance. For companies, the company should apply good corporate governance, so that company performance can be improved, and consider the size of the company assessed to see how much the company develops form of performance, the audit committee is assessed to see how much the company can be controlled and monitored its financial reporting so that no fraud and directors are assessed to see how much the company can run effectively. The board of commissioners is to function more optimally, not only as a fulfillment of regulations, because good corporate governance can be realized if the control function can run well. For future research it might be with the same theme, but by adding other variables that can strengthen the impact on company value.

Keywords: corporate governance, performance, company size

1. INTRODUCTION
Entering the era of globalization and increasingly competitive business competition Good corporate governance has become a fundamental requirement for companies. It is believed that the driving agent for the survival and growth of the company is primarily a 'Corporate Governance' policy. Corporate governance refers to the code of ethics in which companies are directed and controlled. Whether the company follows the stakeholder model (where all stakeholders are considered equally important) or follows the shareholder model (where it is more important given to shareholders because they are the owner of the company), corporate governance practices are increasingly important. Charreaux and Desbrières (2001) discuss this very important point of difference between stakeholder values and shareholder value. The increase in financial and managerial fraud has encouraged investors to increasingly seek transparency and professional management in handling company business.

The role of corporate governance can create value for the corporation and support transparency (Lamm, 2010). Good Corporate Governance is a necessity which in its journey must ensure the values needed by different stakeholder groups and improve company performance (Ganescu and Gangone, 2012). Application of Corporate Governance practices that can support the survival of the company and help increase the trust of the public and investors. The results of Gupta and Sharma's research (2014) show that corporate governance practices have a limited impact both on the company's stock price and on their financial performance. Other researchers indicate that the effect of corporate governance variables and their impact on company performance in the Gulf Cooperation Council (GCC) and the effect of Global Corporate Governance on performance during the current Global Financial Crisis (Ahmed and Hamdan, 2015). In other words, corporate governance can provide oversight of the company, so that the consequences for company performance.

In 2015, the growth of the food and beverage industry in Indonesia reached 8.16%. This figure is higher than the growth of the non-oil and gas industry at 5.21% (www.kemenperin.go.id, 05/26/15). Furthermore, in 2016 the growth of the food and beverage industry reached 8.2-8.5%. While in 2017, the Ministry of Industry is targeting growth of 7.5% to 7.8%. This figure is indeed smaller than the 2016 projected target. However, according to the Minister of Industry this figure is considered more realistic in the face of the 2017 economy (The Indonesia Institute, 2017). The food and beverage industry is also a labor-intensive industry because it can absorb labor. The number
of direct workers according to BPS in 2013 was 4,267,275 workers. In addition to workers who work directly in the food and beverage industry, this industry also creates indirect labor in its distribution chain, including the raw material industry (suppliers), distributors, advertising agencies, and marketing and merchant chains (www.gapmni.or.id , 3/31/18).

According to Lugman S, Bamiidele M., and Fatai K. (2017) show that company size in terms of total assets has negative effect on performance, while in terms of total sales, company size has a positive effect on the performance of non-financial Nigerian companies. Other researchers An, Davey and Eggleton (2011) stated that there is a positive relationship between company size and company performance. The relationship between the size of the company between corporate governance and the company's financial performance is the size of the company has a function as a moderation between corporate governance and corporate financial performance. The moderating effect captured by corporate governance and corporate value is that investment plays a role in developing a company to gain a competitive advantage (Barney, 1991).

1. Hypothesis Development
1.1 Relationship of the Board of Commissioners of the Company's Financial Performance
The main function of the board of commissioners is to oversee the completeness and quality of report information on the performance of the board of directors. Therefore, the position of the board of commissioners is very important in bridging the interests of the principal in a company (Panky, 2014). With the increasing number of board members, the supervision of the board of directors is much better, the input or options to be obtained by directors will be far more. The results of research conducted by Typhoon and Dogan (2014) show that board size has a positive relationship with return on assets.

H1: The Board of Commissioners has positive influence on the Company's Financial Performance
1.2 Relationship of Audit Committees to the Company's Financial Performance
The independence of the audit committee has a positive influence on the quality of earnings (Bryan & al, 2004). Besides, in a study of the main characteristics of the audit committee, Kasey & al (1993) showed that the independence of the audit committee members was the most important criterion that affected the reliability of the financial statements. The results of research conducted by Bouziz (2012) show the importance of the impact of the characteristics of the audit committee on the company's financial performance.

H2: The Audit Committee has positive influence on the Company's Financial Performance
1.3 Relationship of the Board of Directors to the Company's Financial Performance
The board of directors have to determine the policy direction and strategy of resources owned by the company, both in the short term and long term (Panky, 2014). The size of the board of directors is one of the mechanisms of corporate governance which is very important in determining company performance. However, given the differences in the findings of the researchers in previous studies, the evidence required is still debatable.

H3: The Board of Directors has positive influence on the Company's Financial Performance
1.4 Relationship of Company Size to Company Financial Performance
The size of the company in this study was measured by looking at how much assets owned by a company. The assets owned by this company illustrate the rights & obligations and the company's capital. Companies with large assets will usually get more attention from the public (Panky, 2014). This will cause companies to be more careful in their financial reporting. The company is expected to always try to maintain the stability of its financial performance. Reporting good financial condition is certainly not necessarily able to be done without going through good performance from all lines of the company. The results of research conducted by ISIK and INCE (2016) show that board size has a significant positive effect on bank financial performance.

H4: Company size has positive effect on Company Financial Performance
1.5 Relationship of the Board of Commissioners to the Company's Financial Performance with the moderating variable Company Size
In a company having a board of commissioners is as overseeing the completeness and quality of information reports on the performance of the board of directors. Therefore, the position of the board of commissioners is very important in bridging the principal interests in a company. With the increasing number of board members, the supervision of the board of directors is much better, the input or options to be obtained by directors will be far more. The results of a study conducted by Typhoon and Dogan (2014) show that board size has a positive relationship with return asset. Another researcher, Anonymous (2009) pointed out that board size has a negative relationship with the financial performance of the company.

H5: The Board of Commissioners has positive influences on the Company's Financial Performance with a moderating variable of Company Size
1.6 Relationship of the Audit Committee to the Company's Financial Performance with the moderating variable Company Size
The size of the company is important in the financial reporting process. Companies that have large assets will usually get more attention from the public (Panky, 2014). This makes the company more careful in financial reporting. The Blue Ribbon Committee (BRC) report considers independence as an important quality of the audit committee to fulfill its oversight role. So that the existence of an audit committee in the company can reduce the fraud in financial reporting and improve financial performance.

H6: The audit committee has positive influences on the Company's Financial Performance with a moderating variable of Company Size
1.7 Relationship of the Board of Directors to the Company's Financial Performance with moderating variables Company Size.
The size of the company is important in the financial reporting process. Companies that already have large assets
will usually get more attention from the community (Panky, 2014). This will cause companies to be more careful in their financial reporting. The size of the board of directors is one of the most important Corporate Governance mechanisms in determining company performance. the board of directors has great power in managing all the resources that exist in the company. The board of directors must determine the policy direction and strategy of the resources owned by the company, both in the short term and long term.

H7: The Board of Directors has positive influences on the Company's Financial Performance with a moderating variable of Company Size.

2. RESEARCH METHODS
This research is an empirical study in the form of quantitative research. The companies that are taken are listed on the Indonesia Stock Exchange with variables on the board of commissioners, audit committees, directors, company size and company financial performance. The population used in this study is manufacturing companies, especially in Food and Beverage which are listed on the Indonesia Stock Exchange by taking samples of the 2013-2016 data year. The number of samples based on criteria is 53. Analysis of the data in this study using MRA (Moderated Regression Analysis); for testing hypotheses that state the functional relationship between independent and dependent variables.

The econometric model formula used is as follows:

Y = β0 + β1 X1 + β2 X2 + β3 X3 + β4 X4 + e ……… (1)
Y = β0 + β1 X1 + β2 X2 + β3 X3 + β4 X4 + e ……… (2)
Y = β0 + β1 X1 + β2 X2 + β3 X3 + β4 X4 + β5 X1X4 + β6 X2X4 + β7 X3X4 + e .. (3)

Information:
Y = Company Performance
β0 = constant
β1,2,3,4,5,6,7 = regression coefficients of each variable
X1 = Board of Commissioners
X2 = Audit Committee
X3 = Director
X4 = Company Size
X1X4 = Interaction between Company Size and Independent Commissioner.
X2X4 = Interaction between Company Size and Audit Committee
X3X4 = Interaction between Company Size and Board of Directors

e = confounding factor

3. RESULTS AND DISCUSSIONS
3.1 Testing Classical Assumptions

<table>
<thead>
<tr>
<th>Variable</th>
<th>Unstandardized Residual</th>
<th>Kolmogorov – Smirnov p-value</th>
<th>Explanation</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,150</td>
<td>0,142</td>
<td>Normal data distribution</td>
<td></td>
</tr>
</tbody>
</table>

The normality test results in Table 3.1 show that this model has a normal distribution of data.

### Table 2. Autocorrelation Test Result

<table>
<thead>
<tr>
<th>Model</th>
<th>Durbin-Watson Result (d)</th>
<th>Test Criteria</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,586</td>
<td>1,5 &lt; d &lt; 2,5 value</td>
<td>Free autocorrelation</td>
</tr>
</tbody>
</table>

Source: Data processing, 2018

From the results of data processing above shows there is no autocorrelation.

### Table 3. Multicollinearity Test Result

<table>
<thead>
<tr>
<th>Free Variable</th>
<th>Tolerance</th>
<th>VIF</th>
<th>Explanations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Commissioners</td>
<td>0,734</td>
<td>1,363</td>
<td>Free multicollinearity</td>
</tr>
<tr>
<td>Audit Committee</td>
<td>0,931</td>
<td>1,074</td>
<td>Free multicollinearity</td>
</tr>
<tr>
<td>Directors</td>
<td>0,669</td>
<td>1,495</td>
<td>Free multicollinearity</td>
</tr>
<tr>
<td>Company Size</td>
<td>0,770</td>
<td>1,299</td>
<td>Free multicollinearity</td>
</tr>
</tbody>
</table>

Source: Data processing, 2018

Based on the results of multicollinearity testing the main independent variables do not experience multicollinearity.

### Table 4. Heteroscedasticity

<table>
<thead>
<tr>
<th>Variable Model</th>
<th>t Calculation</th>
<th>Significance</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Commissioners</td>
<td>0,716</td>
<td>0,478</td>
<td>Free</td>
</tr>
<tr>
<td>Audit Committee</td>
<td>-1,910</td>
<td>0,062</td>
<td>Free</td>
</tr>
<tr>
<td>Directors</td>
<td>0,131</td>
<td>0,897</td>
<td>Free</td>
</tr>
<tr>
<td>Company Size</td>
<td>1,112</td>
<td>0,272</td>
<td>Free</td>
</tr>
</tbody>
</table>

Source: Data processing, 2018

Based on the results of heteroscedasticity testing the variables tested did not experience heteroscedasticity.

3.2 Moderated Regression Analysis

### Table 5. Test Result of Moderated Regression Analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>β</th>
<th>Std. Error</th>
<th>t Calculation</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>-55,051</td>
<td>23,446</td>
<td>-20,348</td>
<td>0,023</td>
</tr>
<tr>
<td>Company Size (X4)</td>
<td>6,055</td>
<td>1,871</td>
<td>3,237</td>
<td>0,002</td>
</tr>
<tr>
<td>Board of Commissioners (X1)</td>
<td>0,435</td>
<td>4,390</td>
<td>0,099</td>
<td>0,921</td>
</tr>
<tr>
<td>Audit Committee (X2)</td>
<td>24,812</td>
<td>8,177</td>
<td>3,034</td>
<td>0,004</td>
</tr>
<tr>
<td>Director (X3)</td>
<td>-3,690</td>
<td>1,162</td>
<td>-3,175</td>
<td>0,003</td>
</tr>
<tr>
<td>DK*Size (X5)</td>
<td>0,362</td>
<td>0,334</td>
<td>1,085</td>
<td>0,284</td>
</tr>
<tr>
<td>KA*Size (X6)</td>
<td>-2,273</td>
<td>0,585</td>
<td>-3,888</td>
<td>0,000</td>
</tr>
<tr>
<td>D*Size (X7)</td>
<td>-0,008</td>
<td>0,081</td>
<td>-0,097</td>
<td>0,923</td>
</tr>
</tbody>
</table>
From this table can be arranged multiple linear regression equations as follows.

\[ Y = -55.051 + 0.435X_1 + 24.812X_2 - 3.690X_3 + 6.055X_4 + 0.362X_5 - 2.273X_6 - 0.008X_7 \]

The board of commissioners does not affect on company performance, this is possible because the board of commissioners cannot coordinate, communicate, and make decisions in carrying out better control functions to improve company performance. Theoretically, the role of the board of commissioners in a company is more emphasized in the monitoring function of the implementation of directors’ policies. The role of the commissioner is expected to minimize agency issues that arise between the board of directors and shareholders. Therefore the board of commissioners should be able to oversee the performance of the board of directors so that the resulting performance is following the interests of shareholders.

Agency problems arise when principal finds it difficult to ensure that the agent acts to maximize the welfare of the principal. According to agency theory, one mechanism that is widely used and is expected to align the objectives of the principal and agent is through the financial reporting mechanism. The existence of an audit committee has a very important and strategic role in terms of maintaining the credibility of the process of preparing financial statements as well as maintaining the creation of an adequate corporate supervision system and the implementation of good corporate governance. With the audit committee functioning effectively, control of the company will be better, so that agency conflicts that occur due to management’s desire to improve their own welfare can be minimized. So that the audit committee oversight function becomes more effective in controlling the company.

The results of this study are consistent with research by Anonymous (2009) which shows that the board of directors has a negative influence on company performance. Another researcher Panky (2014) The results showed that the board of directors influences on the company’s financial performance. With the negative results between the board of directors and the performance of companies listed on the IDX, this indicates that the shareholders did not provide the best performance because the board of directors still had personal interests that they liked more than for themselves improving the company’s financial performance. This can also be caused by the proportion of ownership by the manager in the company is still very small so that the manager may not have benefited from the ownership.

The size of the company in this study was measured by looking at how much assets owned by a company. The assets owned by this company illustrate the rights & obligations and the company's capital. Companies with large assets will usually get more attention from the public (Panky, 2014). According to Astuti and Zuhrotun (in Basir, 2003), companies with large total assets reflect the reliability of the company. The large size of the company is expected to increase economies of scale and reduce the costs of information gathering and processing. Sudarmadji and Sularto (2007) state that large companies that have large resources will also make wider disclosures and be able to finance the provision of information for internal purposes. This information also becomes material for the need for disclosure of information to external parties such as investors and creditors, so it does not require a large additional cost to make disclosure more widely. This will cause companies to be more careful in its financial reporting. The company is expected to always try to maintain the stability of their financial performance. Reporting good financial condition is certainly not necessarily able to be done without going through good performance from all lines of the company. Beside, large companies have lower production costs of information than smaller companies. A large and well-established company will be easy to go to the capital market. Ease of contact with the capital market means greater flexibility and greater levels of investor confidence because it has greater operational performance. Large companies are able to attract greater investor interest than smaller companies because they have better investment placement flexibility.

The size of the company is important in the financial reporting process. The existence of companies with large assets will usually get more attention from the public (Panky, 2014). The large size of the company is expected to increase economies of scale and reduce the costs of information gathering and processing. Sudarmadji and Sularto (2007) state that large companies that have large resources will also make wider disclosures and be able to finance the provision of information for internal purposes. Coordination rarely makes the board of commissioners not function optimally. For this reason, the Board of Commissioners does not affect company performance, this is possible because the Board of Commissioners cannot coordinate, communicate and make decisions in carrying out better control functions to improve company performance. Darwis (2009) shows that the Board of Commissioners does not affect company performance. The size of the company is important in the financial reporting process. The existence of companies with large assets will usually get more attention from the public (Panky, 2014). The large size of the company is expected to increase economies of scale and reduce the costs of information gathering and processing. Sudarmadji and Sularto (2007) state that large companies that have large resources will also make wider disclosures and be able to finance the provision of information for internal purposes. The information also becomes material for the need for disclosure of information to external parties such as investors and creditors, so it does not require a large additional cost to make wider disclosure. So that the audit committee is effective, the control of the company will be better, so that agency conflicts that occur due to the desire of management to improve their welfare can be minimized.
The size of the company reflects how much total assets the company has. The total assets owned by the company illustrate the capital, as well as the rights and obligations they have. The larger the size of the company, we can be sure the greater the funds that are managed and the more complex the management. Large companies tend to get more attention from the wider community. Thus, usually large companies tend to always maintain the stability and condition of the company. Sudarmadji and Sularto (2007) state that large companies that have large resources will also make wider disclosures and be able to finance the provision of information for internal purposes. The information also becomes material for the need for disclosure of information to external parties such as investors and creditors, so it does not require a large additional cost to make wider disclosure. So, the ineffectiveness of the board of directors makes the company size less than the maximum to be used.

4. CONCLUSION
The Board of Commissioners has no significant effect on the company's performance in manufacturing companies, especially the food and beverage sector listed on the Indonesia Stock Exchange, so H1 which states that the board of commissioners affect the company's value is not proven true. The audit committee has a significant effect on the performance of companies in manufacturing companies, especially the food and beverage sector which is listed on the Indonesia Stock Exchange, so H2 stating that the audit committee influences the company’s performance is proven to be true. Directors have a negative and significant effect on company performance in manufacturing companies, especially the food and beverage sector which is listed on the Indonesia Stock Exchange, so H3 which states that the Board of Directors influences the company's performance is proven to be true. Company size significantly influences company performance in manufacturing companies, especially the food and beverage sector which are listed on the Indonesia Stock Exchange, so H4 which states that Company Size influences company performance is proven true. Company size can moderate between the Board of Commissioners on company performance in manufacturing companies especially the food and beverage sector listed on the Indonesia Stock Exchange, so H5 which states that the Board of Commissioners on company performance with company size as a moderating variable is not proven true. Company Size can moderate between the Audit Committee on company performance in manufacturing companies especially the food and beverage sector listed on the Indonesia Stock Exchange, so H6 which states that the audit committee on company performance with company size as a moderating variable is proven to be true. Company size can moderate between the board of directors to the performance of companies in manufacturing companies, especially the food and beverage sector listed on the Indonesia Stock Exchange, so H7 which states that the board of directors of company performance with company size as a moderating variable is not proven true.

For companies, the company should apply good corporate governance, so that company performance can be improved, and consider the size of the company assessed to see how much the company develops form of performance, the audit committee is assessed to see how much the company can be controlled and monitored its financial reporting so that no fraud and directors are assessed to see how much the company can run effectively. The board of commissioners should function more optimally, not only as a fulfillment of regulations, because GCG can be realized if the control function can run well. For future research with the same theme, it can add more variables that can strengthen the impact on the company's value.

REFERENCES


