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Analysis Of The Influence Of Company Size And Corporate Governance Mechanism On Profit In Consumer Sector Manufacturing Companies Listed On The Indonesia Stock Exchange

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Abstract: *The purpose of this research is to provide empirical evidence of the affect of firm's size, and corporate governance mechanisms on earnings. Firms size was measure by natural logaritma of net sales, and corporate governance mechanisms were measure by three variabels (composition of independent board commisioner, audit quality were measure by industry specialize audit firm, and composition of audit committee). Earnings was measure by net profit. The population of this research is 36 companies in the manufacturing firms focusly consumntion sector which were listed in Indonesian Stock Exchange (IDX). The research data were collected from manufacturing companies' financial statement for the period of 2018 to 2020. Based on purposive sampling method, there are 16 samples. The reseacrh hypotesis were tested using multiple regression analysis. The results of this research show that firm size and composition of independent board commisioner have positive significant relationships with earnings and then simultaneously firm size and corporate governance mechanism have significant relationship with earning. Variable Auditors' industry spesialization and composition of audit committee have no significant relationship with earnings.*

Keywords: *corporate governance mechanisms; earnings; firms size*

I. Introduction

The financial report is a summary of a process of recording financial transactions that occurred during the financial year concerned. Financial reports are a medium for companies to convey financial information regarding the management's responsibility for meeting the needs of external parties, namely obtaining company performance information. The Profit/Loss Report is one of the most important components of financial statements because it contains profit information that is useful for users of financial statement information to determine the company's financial capabilities and performance.

Financial statements are basically a source of information for investors as one of the basic considerations in making capital market investment decisions and also as a means of management responsibility for the resources entrusted to them (Prayoga and Afrizal 2021). Financial performance is a measuring instrument to know the process of implementing the company's financial resources. It sees how much management of the company succeeds, and provides benefits to the community. Sharia banking is contained in the Law of the Republic of Indonesia No.21 of 2008 article 5, in which the Financial Services Authority is assigned to supervise and supervise banks. (Ichsan, R. et al. 2021)

Indicators to measure the performance of management accountability in achieving predetermined operating goals and helping owners to estimate the company's earnings power in the future are earnings information according to agency theory, to overcome the problem

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of increasing company profits and the misalignment of interests between principal and agent can be done through management good company.

Several studies have been conducted on corporate governance mechanisms that affect earnings and found mixed results. Nasution and Setiawan (2007) with a sample of banking companies did not find any significant effect of firm size on earnings. On the other hand, Nuryaman (2008) found a significant relationship between the size of manufacturing companies and profits in manufacturing companies listed on the BEI. Research gaps and inconsistent results encourage further research on earnings in manufacturing companies.

The research of Chtourou (2001), Wedari (2004) and Nasution and Setiawan (2007) analyzed the effect of the proportion of independent commissioners on earnings. Their research reports that the proportion of independent commissioners has a significant negative relationship to earnings. This means that the proportion of independent commissioners is not able to influence the increase in profits in the company. This study seeks to investigate the effect of earnings on factors that influence it, such as firm size, and corporate governance mechanisms. In addition, this study also adds the audit committee variable as a proxy for corporate governance mechanisms. The purpose of this article is to investigate the company's ability to increase the profits of manufacturing companies in Indonesia. Meanwhile, the specific objective is to investigate the effect of firm size and corporate governance mechanisms on earnings.

II. Review of Literature

2.1 Company Size

Company size is a scale where the size of the company can be classified where the size of the company can be expressed in total assets, sales and market capitalization. The larger the total assets, sales and market capitalization, the larger the size of the company. Basically, the size of the company is only divided into 3 (three) categories, namely: large companies (large firms), medium-size companies (medium-size), and small companies (small firms) (Suwito and Herawati, 2005). Firm size is measured by the natural logarithm of market value at the end of the year (Siregar and Utama, 2005).

2.2 Definition, Basic Theory, and Mechanisms of Corporate Governance

The Forum for Corporate Governance in Indonesia (FCGI, 2003) explains that corporate governance is a set of regulations that regulate the relationship between shareholders, company management, creditors, government, employees and internal and external stakeholders relating to rights and obligations or can be This is called a system, process, and set of rules that regulate the relationship between various interested parties (stakeholders), especially in the narrow sense of the relationship between shareholders, the board of commissioners, and the board of directors in order to achieve company goals. The benefits of corporate governance are improving the company's performance through the creation of a better decision-making process, increasing the company's operational efficiency and further improving services to stakeholders, making it easier to obtain cheaper financing funds so as to increase corporate value, restoring investor confidence to invest their capital where shareholders will feel satisfied with the company's performance because at the same time it will increase shareholder value and dividends. Meanwhile, the purpose of good corporate governance is to create added value for all interested parties (stakeholders).

The basic principles of implementing good corporate governance Fairness (fairness), Transparency (transparency), Accountability (accountability), Responsibility (responsibility).

2.3 Profit

The main goal of the company is to maximize profit. Profit is an indicator of company performance or performance, the amount of which can be seen in the financial statements, specifically profit and loss. Earnings or net income indicate a company's profitability where profits reflect returns to equity holders for the period, while items in the report detail how profits were earned. Profit consists of four main elements, namely revenue, expenses, gains and losses. The types of profit are gross profit, operating profit, profit before tax, net profit. Good corporate profit growth reflects that the company's performance is also good for that profit is a measure of the performance of a company, the higher the profit achieved by the company, indicating the better the company's performance is the same as if the company's financial ratios are good, the company's profit growth is also good For this reason, the company must carry out its operational activities. The profit referred to in this study is operating profit. The operating profit figure is the difference between gross profit and operating costs.

III. Research Method

This research was conducted on Manufacturing Sector Companies Listed on the Indonesia Stock Exchange by taking the necessary data through www.idx.co.id. Methodology The research uses a descriptive method, the type of data obtained is a combination of time series data and quantitative cross section where the data used are numbers from financial statements and dummy variables, meaning the value is 1 if the company is audited by the big four, and 0 if not. The population in this study was 36 companies but the sample that matched the criteria in this study were 16 consumption sector companies listed on the Indonesian stock exchange in 2018-2020.

The regression model developed to test the hypotheses that have been formulated in this study are:

$$Y = \alpha_0 + \beta_1 SIZE + \beta_2 BOC + \beta_3 KAP + \beta_5 AC$$

Description:

Y = Profit
α_0 = Constant
$\beta_{1,2,3,4,5}$ = variable coefficient
SIZE = log total sales (proxy of company size)
BOC = the proportion of independent commissioners from the total members of the board of commissioners
KAP = 1 if the company is audited by a specialist KAP (big four), namely KAP that has at least 15% of the total clients in the i-industry group and 0 if other
AC = percentage of external audit committee members to all audit committee Members

IV. Discussion

Table 1. Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
PROFIT	64	2657665,00	10808000000,00	1800592022,4495	2772873021,02823
SIZE	64	17843921,42	89069306000,00	15374353498,7097	22078727291,10842
BOC	64	,11	,50	,2464	,09251
KAP	64	,00	1,00	,6875	,46718
AC	64	,33	1,33	,7129	,27924
Valid N (listwise)	64				

Based on Table 4.1 above shows:

1. The minimum value of the Profit variable is 2657665.00, the maximum value is 10808000000.00 with an average value of 1800592022.4495 and the standard deviation is 2772873021.02823.
2. The minimum value of the SIZE variable which is proxied by the natural logarithm of total sales is 17843921.42, the maximum value is 89069306000.00 with an average value of 15374353498.7097 and a standard deviation of 22078727291,10842.

The next descriptive statistical measurement is the corporate governance mechanism which is measured by 3 variables, namely, the composition of the board of commissioners, the specialization of the public accounting firm, and the audit committee showing:

1. The first measurement of corporate governance is the composition of the independent board of commissioners (BOC) with a minimum value of 0.11, a maximum value of 0.50 with an average value of an independent commissioner of 0.2464 or 24.64%. and the standard deviation value of 0.09251 indicates that the distribution of the BOD variable data is classified as good because the standard deviation value is below 2.5.
2. The second measurement of corporate governance is the KAP variable with a minimum value of 0 , a maximum value of 1 with an average ownership concentration of 0.6875 and a standard deviation of 0.46718 indicating that the distribution of KAP variable data is classified as good because the standard deviation value is below 2 ,5.
3. The minimum value of the AC variable shows a minimum value of 0.33, the maximum value of 1.33 with an average value of 0.7129 and a standard deviation of 0.27924 indicating that the distribution of AC variable data is classified as good because the standard deviation value is below 2.5

4.1 Classic assumption test

a. Normality Test

Table 2. Normality Test Result with Kolmogorov Smirnov

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		64
Normal Parameters[a,b]	Mean	-1E-7
	Std. Deviation	721998689,21502520
Most Extreme Differences	Absolute	,161
	Positive	,161
	Negative	-,113
Kolmogorov-Smirnov Z		1,291
Asymp. Sig. (2-tailed)		,071

a. Test distribution is Normal.
b. Calculated from data.

Based on **Table 2**, it can be seen that according to the provisions of the Kolmogorov-Smirnov test, the Asymp sig (2-tailed) value of 0.071 > 0.05 can be concluded that the data distribution is normally distributed.

b. Multicollinearty Test

Table 3. Multicollinearty Test Result
Coefficients[a]

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
SIZE	,904	1,107
BOC	,634	1,577
KAP	,918	1,089
AC	,656	1,525

a. Dependent Variable: LABA
Understandarized Residual

Based **Table 3** it can be seen that the requirements to pass the multicollinearity test are met by all existing independent variables. In Tolerance value, SIZE has a value of 0.904 > 0.100, BOC has a value of 0.634 > 0.100, KAP has a value of 0.918 > 0.100 and AC has a value of 0.656 > 0.100. Then viewed from the Variance Inflation Factor (VIF), SIZE has a value of 1.107 < 10, BOC has a value of 1.577 < 10, KAP has a value of 1.089 < 10 and AC has a value of 1.525 < 10. It can be concluded that all independents used in this study are not there are symptoms of multicollinearity in the regression equation.

c. Heteroscedasticity Test

Table 4. Glejser Test Results
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	452013612,827	189953313,479		2,380	,021
	SIZE	,015	,002	,654	6,273	,010
	BOC	805888141,026	692805630,211	,145	1,163	,249
	KAP	-76300039,620	114012578,321	-,069	-,669	,506
	AC	-464079123,239	225686151,475	-,252	-2,056	,044

a. Dependent Variable: ABSUt

From the results of the previous page, it can be seen that the regression model is free from Heteroscedasticity problems. This can be seen from the significance value of the independent variables (SIZE, KAP, BOC, AC) which is greater than the significance level of 0.05.

d. Autocorrelation Test

Table 5. Autocorrelation Test result with Durbin-Watson

Model	Durbin-Watson
1	1,984

From the statistical test, the Durbin-Watson value was obtained at 1,984 (du = 1,780; 4 – du = 2,220). This means that the regression model above has no autocorrelation problem as indicated by the Durbin-Watson number being between du tables and (4-du tables), therefore this regression model is declared feasible to be used. The results of the analysis can be seen in Figure 4.5.1 below:

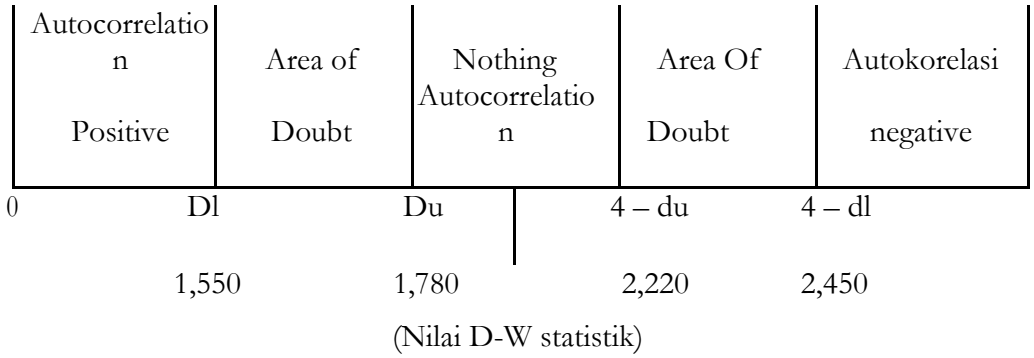

Figure 1. *Autocorrelation Test Result with Durbin-Watson (DW test)*

From figure 1 it can be seen that the D-W statistic is in the autocorrelation-free region. This means that it can be concluded that there is no autocorrelation in the regression model.

4.2 Multiple Linear Analysis Test

Table 6. Multiple Linear Analysis Test Result

Coefficients[a]

Model		Unstandardized Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	-427643260,442	349839257,340	-1,222	,226
	SIZE	,120	,004	26,727	,000
	BOC	2910754052,394	1275948298,633	2,281	,026
	KAP	-104637584,598	209978309,916	-,498	,620
	AC	-360970187,376	415648846,434	-,868	,389

a. Dependent Variable: Unstandardized Residual

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

Y = - 4276343260,442 + 0,120SIZE + 2910754052,394BOC – 104637584,598KAP – 360970187,376AC

Description:

1) Constant of 427643260,442; it means that if SIZE (X1), KAP (X2), KAP (X3), AC (X4) are 0, then the PROFIT (Y) that occurs is 427643260,442.
2) SIZE (X1) variable regression coefficient is 0.0120; This means that if the other independent variables have a fixed value and SIZE increases by 1%, then PROFIT will

increase by 0.0120. The positive coefficient means that there is a positive relationship between SIZE and Profit.

3) The regression coefficient for the BOC variable (X3) is 2910754052,394; it means that if the other independent variables have a fixed value and the BOC has increased by 1%, then the PROFIT will increase by 2910754052,394. The coefficient is positive, meaning that there is a positive relationship between BOD and Profit.
4) KAP variable regression coefficient (X2) is -104637584.598; This means that if the other independent variables have a fixed value and KAP increases by 1%, then PROFIT will decrease by -104637584.598. A negative coefficient means that there is a negative relationship between KAP and Profit.
5) The regression coefficient of AC variable (X4) is -360970187,376; it means that if the other independent variables have a fixed value and AC increases by 1%, then Profit will decrease by -360970187,376. A negative coefficient means that there is a negative relationship between AC and Profit.

4.3 Hipothesis Test

a. Coefficient of Determination Test (R^2)

Table 7. Coefficient of Determination Test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.966[a]	.932	.928	746071891,33508	1.984

a. Predictors: (Constant), AC, KAP, SIZE, BOC
b. Dependent Variable: LABA

Based Tabel 7 above it can be seen that the Adjusted R Square (R2) is 0.928. This means that 92.8% of the profit variable can be explained by the independent variables, namely company size, independent board of commissioner's composition, KAP industry specialization and audit committee composition. While the remaining 6.8% is explained by other factors outside the analyzed model.

b. Simultaneous Significance Test (F Statistics Test)

Table 8. Simultan Test Result (F Test)

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	451555189061633100000	4	112888797265408280000	202,810	,000[b]
	Residual	32840772755377476000	59	556623267040296190		
	Total	484395961817010600000	63			

a. Dependent Variable: LABA
b. Predictors: (Constant), AC, KAP, SIZE, BOC

Based **Tabel 8** above it can be seen that this equation model has a significance level, namely 0.000 <0.05, it can be concluded that the independent variables in this research model can simultaneously affect the dependent variable, namely profit.

c. Individual Parameter Significance Test (Test Statistical t)

Table 9. Hypothesis Test Result Partial t

Coefficients[a]

Model		Unstandardized Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	427643260,442	349839257,340	-1,222	,226
	SIZE	.0120	.004	26,727	,000
	BOC	2910754052,394	1275948298,633	2,281	,026
	KAP	-104637584,598	209978309,916	-,498	,620
	AC	-360970187,376	415648846,434	-,868	,389

a. Dependent Variable: Unstandardized Residual

Based Tabel 9 processed from the SPSS model, it can be concluded that the results of the significance or influence of the independent variables on the dependent variable are as follows:

1. The tcount for Firm Size (SIZE) is 26,727 with a significance level of 0.000, so the Firm Size (SIZE) variable has an effect on earnings with tcount (26,727) > ttable (1,998) and significant value (0,000) < 0,05.
2. The tcount for the Composition of the Independent Board of Commissioners (BOC) is 2.281 with a significance level of 0.026, so the variable Composition of the Independent Board of Commissioners (BOC) has an effect on Profit with a value of tcount (2.281) > ttable (1.998) and a significant value (0.026) < 0 ,05.
3. The tcount value for KAP Industry Specialization (KAP) is -0.498 with a significance level of 0.620, the KAP Industrial Specialization (KAP) variable has no effect on Profit with a tcount value (-0.498) < ttable (1.998) and a significant value (0.620) > 0.05.
4. The tcount for the Audit Committee (AC) is -0.868 with a significance level of 0.389, then the Audit Committee (AC) variable has no effect on Profit with a tcount (-0.868) < ttable (1.998) and a significant value (0.389) > 0, 05.

V. Conclusion

Based on the results of the research and discussion carried out, the conclusions that can be drawn are:

1. The results of the partial test of company size (SIZE) have an effect on profits in the Consumption Sector Manufacturing Companies Listed on the Indonesia Stock Exchange.
2. Partial test results The composition of the Independent Board of Commissioners (BOC) has an effect on profits in the Consumption Sector Manufacturing Companies Listed on the Indonesia Stock Exchange.
3. Partial test results KAP Industry Specialization (KAP) has no effect on profits in the consumption sector manufacturing companies listed on the Indonesia Stock Exchange.
4. The results of partial testing of the Audit Committee (AC) have no effect on profits in the Manufacturing Sector Consumption Companies Listed on the Indonesia Stock Exchange.
5. Simultaneous test results show that there is an influence between company size variables (SIZE), Independent Board of Commissioners Composition (BOC), KAP Industry Specialization (KAP) and Audit Committee (AC) on Profits in Manufacturing Sector Companies Listed on the Indonesia Stock Exchange.

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