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Research Article

The Influence of Good Corporate Governance (GCG) on Corporate Financial Performance: A Moderated Relationship by Firm Size

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Abstract: This study is conducted to assess the relationship between Good Corporate Governance (GCG) practices and the financial performance of LQ45-listed companies, in which firm size plays a moderating role. A sample of 23 firms, consistently listed in the LQ45 index between 2019 and 2023, was utilized in this study. The selection of companies relied on purposive sampling as the selection technique. The analysis of the data was conducted by utilizing a regression model with a data panel, with the software EViews 13 being utilized for this purpose. The findings of the study demonstrated that independent commissioners contributed positively and significantly to the firm's return on assets (ROA). Insider share ownership and board size demonstrated no significant impact. Conversely, ROA was adversely and significantly influenced by of the audit committee. The results of the moderation test demonstrate that the correlation between insider ownership and ROA is strengthened, while the correlation between independent board commissioners and ROA is weakened. Moreover, the study determined that the board size and the audit committee were not moderated by return on assets (ROA).

Keywords: GCG; Firm Size; Financial Performance; ROA; LQ45; Agency Theory

1. Introduction

Along with the increasing attention of investors on environmental and social issues, one of the primary concerns in the international business community, including in Indonesia, is about making good corporate governance (GCG) work in practice. This has encouraged companies to implement GCG in a transparent and responsible manner. Airlangga Hartato, Indonesia's Coordinating Minister for Economic Affairs for the 2019-2024 period, emphasized the importance of GCG implementation to maintain business sustainability and attract investors. This supports the assertion made by (Ningsih et al., 2023) that GCG is part of corporate social responsibility to build shareholder trust, maintain reputation, and ensure the company's sustained performance.

For both investors and related stakeholders, a company's performance is crucial. Regarding the Indonesia Stock Exchange, the LQ45 index is one that can be used by investors to find stock issuers with high liquidity, good financial performance, and good company growth potential. Prasetyo (2024) states that the LQ45 index consists of companies that show superior performance, reflecting Indonesia's rapid economic growth in the last two decades. In addition, the stocks in the LQ45 are the most actively traded on the IDX, making them a good representation of the dynamics of the Indonesian capital market (Ulfah & Refitamasi, 2023).

Good Corporate Governance (GCG), defined by Asian Corporate Governance Association (2023), is a structure and process for directing and controlling a company through the implementation of the principles of discipline, transparency, independence, responsibility, and fairness. Insider share ownership is often analyzed in GCG studies as an internal control mechanism that can support governance outcomes, as shown in the studies of Achyani et al. (2021) and (Ningsih et al., 2023). Although insider share ownership is not a direct measure of GCG implementation, Jensen & Meckling (1976) argue that share ownership by managers

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can align their financial interests with shareholders, thereby helping to reduce agency problems and increase the effectiveness of overall governance practices. Higher insider share ownership fosters a sense of dual ownership in management, both as owners who are interested in the value of the company and as professionals who are responsible for its performance (Wiyono & Kusuma, 2017). This motivation encourages a focus on long-term value creation and increased profitability, as the success of the company is aligned with their professional responsibilities and personal benefits. This alignment of interests increases investor confidence in the company's fundamentals and financial prospects, which has the potential to increase market valuation (Cahyaningdyah et al., 2023)

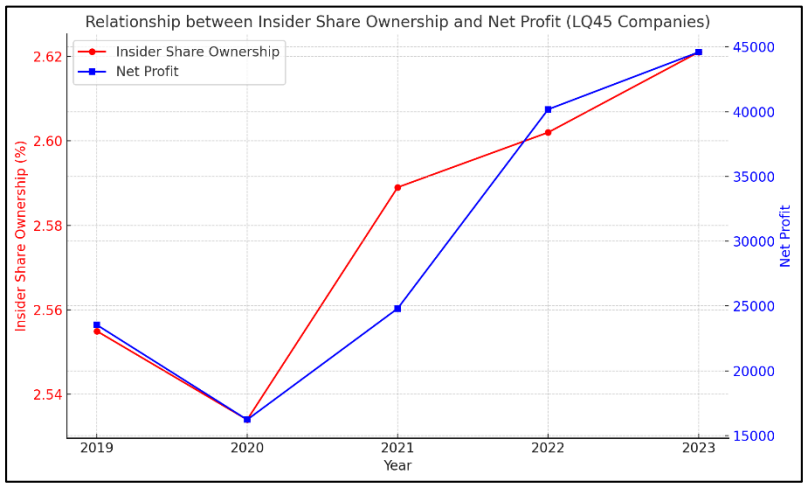

Figure 1. Relationship between Insider Share Ownership and Net Profit
Source: Processed by the author, 2024

Throughout the 2019–2023 timeframe, the graph above shows the trend of a positive correlation between GCG and the financial performance of firm featured in the LQ45 index. Based on this graph, the increase in Insider Share Ownership is in line with the increase in Net Profit, and vice versa. This may happen as a result of managers tending to make decisions that align with the interests of business owners when insider ownership increases, which lowers agent costs. In 2020, there was a decrease in average Insider Share Ownership from 2.55% to 2.53%, which was followed by a decrease in average Net Profit from IDR 23,549 billion to IDR 16,222 billion. Furthermore, the 2021-2023 period shows a consistent increase in Insider Share Ownership, accompanied by Net Profit growth. This trend strengthens the evidence of a good correlation between GCG and financial performance.

However, the implementation of GCG in companies is also influenced by internal company factors, one of which is firm size (Madhani, 2016). Large companies have advantages in access to funding, resources, organizational structures, and stronger internal control systems, thus potentially strengthening the good impact of GCG on financial performance (Oktarina, 2020). However, these conditions do not always apply to small and medium-sized companies. Based on the findings of Jaswadi's (2016) interviews with several small and medium-sized companies in East Java, it was found that limited funds were the main obstacle in implementing GCG principles, for example, small and medium-sized companies had doubts about using additional independent audit services because the rates were considered burdensome. These resource limitations cause the implementation of GCG to not run optimally, which in turn may weaken its effectiveness in driving financial performance. Therefore, the firm's scale might influence how GCG affects financial performance, because the effectiveness of GCG implementation might be different according to the company's scale. This aligns with Oktarina's (2020) research, which indicated that firm size can reinforce the link between GCG and financial performance.

The effect of GCG has been examined in earlier research, the results of these studies are not always in line. According to Affes & Jarboui (2023), implementing Good Corporate Governance (GCG) can lead to an improvement in a firm's financial performance, with ROA serving as the indicator. These results are consistent with by Agustin & Sutjahyani (2023) and Ratih Juwita (2022), which also found that GCG improves financial performance. However, research by Laksmanta & Rachmawati (2023) shows that GCG does not affect financial performance. Meanwhile, Hong et al. (2023) discovered that GCG negatively impacts financial performance.

The conflicting results of prior research serve as a motivation for the researcher to undertake further studies on the link between GCG and financial performance. Taking into account that the effectiveness of GCG may vary with the size of the firm, this study uses firm size as a moderating variable. Hopefully, this approach can provide a more in-depth explanation and bridge the differences in findings in previous studies. Thus, the goal of this study is to understand how firm size can strengthen or weaken the effect of GCG on corporate financial performance, and contribute to a more comprehensive understanding specifically within Indonesian corporate governance.

2. Literature Review

Agency Theory

Popularised by Jensen & Meckling (1976), agency theory explains the agency connection that arises when the principal (shareholder) gives the agent (manager) decision-making authority. Agency theory is often used to elucidate the issue of information asymmetry that arises in the principal-agent relationship due to the agent's informational advantage concerning the company's status (Intia & Azizah, 2021). Due to information asymmetry can lead to moral hazard when managers (agents) are more concerned with maximizing their own wealth and power, while principals (company owners) try to maximize the value of their shares.

Based on a number of earlier studies, Affes & Jarboui (2023) came to the conclusion that agency theory is vital for examining how GCG influences financial performance, and may be applied to the development of efficient governance procedures for businesses. Agency costs are required to monitor or oversee manager activities in order to lessen moral hazard brought on by conflicts of interest.

Good Corporate Governance

A system known as "good corporate governance" (GCG) was developed to control and oversee businesses in order to ensure that they operate legally, enhance performance, and safeguard the needs of all stakeholders. According to The Asian Corporate Governance Association (2024), firms that wish to have strong corporate governance must adhere to the following principles: independence, responsibility, transparency, discipline, and fairness. GCG can be a tool to convince investors that the funds they invest can be managed effectively and efficiently (Mahrani & Soewarno, 2018).

Multiple matrices are available for measuring Good Corporate Governance (GCG). Nastiti et al. (2022) use the percentage of independent board of commissioners, insider share ownership, and number of audit committees to measure GCG. Meanwhile, Ningsih et al. (2023) included the size of the board of directors as part of their calculation of a company's GCG.

Insider Share Ownership	=	$\frac{Number\ of\ Shares\ Owned\ by\ Management}{Number\ of\ Shares\ Outstanding}$
Board Size	=	*Number of Board of Directors*
Independent Board of Commissioner	=	$\frac{Number\ of\ Independent\ Commissioners}{Number\ of\ Board\ of\ Commissioners}$
Audit Committees	=	*Number of Audit Committees*

Firm Size

A corporation's size is indicated using a scale called firm size. Yuliana & Sulistyowati (2023) argue that large companies tend to have better access to investor capital. Investors are more likely to gain advantages from investing in large companies because of the transparency and completeness of the information provided (Haryani & Susilawati, 2023). According to Saputri & Setiawati (2024), a firm's scale is reflected in the quantity of assets it has. In order to minimise excessive data variation, Sari (2018) calculates the firm size using the natural logarithm of its total assets.

Firm Size	=	*Natural Logarithm of Total Assets*

Financial Performance

Financial performance describes its financial situation over a specific time period, reflects its ability to manage and control its resources (Mahrani & Soewarno, 2018), demonstrates how a company's level of financial health becomes a significant determinant in investor decision-making processes and can provide insight into a company's growth prospects, and can give an overview of a company's growth prospects (Yuliana & Sulistyowati, 2023). Sari (2018) adopts ROA to represent financial performance in her study because this ratio is considered more representative in measuring how effective the company is in utilizing each unit of assets to generate earnings.

$$ROA = \frac{Net\ Profit}{Total\ Asset}$$

Hypothesis

The shareholding percentage held by the board of directors and the board of commissioners, who are the people involved in managing the business, is known as insider share ownership or managerial ownership. According to agency theory, management's ownership of shares can help the principle and agent align their interests (Wiyono & Kusuma, 2017). By acting as both agents and principals, the effect will be to motivate management to improve how the company performs. Reduced agency costs to monitor management activities may lead to an improvement in financial performance (Ningsih et al., 2023). This is because management will be more inclined to increase the business's operational effectiveness and profitability if they hold company stock. This is because management will be more inclined to increase the business's operational effectiveness and profitability if they hold company stock. Earlier research undertaken by Fauziyah et al. (2024), Yurifani et al. (2024), dan Zulfizaredo (2024), insider share ownership significantly and favourably affects financial performance. However, insider share ownership has little influence on the firm's financial results, as shown in studies by Ningsih et al. (2023) and Syifa & Poerwati (2024).

H1: Insider share ownership has a positive effect on financial performance (ROA)

The number of members on a company's board of directors, which acts as the leader of the organisation and has the power and duty to manage it, including formulating operational policies, strategy, and managerial health, is known as the board size. From the perspective of agency theory, the board of directors functions as a control mechanism to minimize conflicts of interest between management (agents) and shareholders (principals) (Jensen & Meckling, 1976). A larger board is considered to enhance the effectiveness of oversight due to the involvement of more diverse perspectives, experiences, and expertise, thereby supporting more accurate and transparent decision-making (Ningsih et al., 2023). Haryani & Susilawati (2023) state that a clear division of tasks within a larger board contributes to improved financial performance. Because it has the ability to lessen conflicts of interest and increase operational effectiveness, this is consistent with agency theory and can help the business's financial success. Kyere & Ausloos (2021) and Zulfizaredo (2024) both support a significant positive link between the size of the board and financial performance.

H2: Board size has a positive effect on financial performance (ROA)

In order to maintain objectivity and independence in supervision, an independent board commissioner is defined as an individual appointed to the board of commissioners who possesses no financial or managerial interests, holds no controlling share ownership, and has no familial ties to internal corporate stakeholders (Apriliana & Zulfikar, 2024). From the perspective of agency theory, which highlights the potential conflict of interest between principals (owners) and agents (managers), the presence of independent commissioners serves as a governance mechanism to reduce agency costs, as they are external and unaffiliated with management, thereby occupying a more neutral position in monitoring managerial actions, preventing opportunistic behavior, and ensuring that decisions made align with the interests of the owners (Jensen & Meckling, 1976; Wiyono & Kusuma, 2017). This supervisory function enhances accountability and reduces the likelihood of managers implementing self-serving policies, thereby positively impacting the company's financial performance (Widodo & Salam, 2024). According to research by Intia & Azizah (2021), independent commissioners significantly and favourably impact the financial results of the company. Research by Fauziyah et al. (2024) and Zulfizaredo (2024) also produced the same findings. The proportion of the board of commissioners rises in tandem with improved financial performance because

managers are subject to more oversight, which reduces the likelihood that they would implement self-serving policies.

H3: Independent board commissioner has a positive effect on financial performance (ROA)

An essential component of the company's implementation of the five GCG principles—discipline, transparency, independence, accountability, and fairness—is the creation of an audit committee. Preventing managers from engaging in fraud for personal benefit is the goal of audit committee monitoring, which should improve the company's financial performance. From the perspective of agency theory, the existence of an audit committee serves as a monitoring mechanism aimed at reducing conflicts of interest between management (agents) and owners (principals) through effective internal control and improved quality of financial reporting (Jensen & Meckling, 1976). An audit committee with an adequate number of members allows for more efficient task distribution and accommodates diverse backgrounds and expertise, ultimately enhancing the quality of oversight and accountability (Ningsih et al., 2023). This supervisory function can prevent managers from engaging in manipulative actions for personal gain and ensure compliance with financial reporting principles. The research by Zulfizaredo (2024) indicates a significant and favorable effect of audit committee size on financial performance. An adequately sized audit committee can enhance the oversight role of the business's internal monitoring and financial reporting procedures. The results of The findings of Putri & Supramono (2022) Yulianti & Cahyonowati (2023), and Fauziyah et al. (2024) support the notion that the ideal number of audit committee members enables efficient task allocation and a range of experience that can enhance the quality of supervision. More audit committee members may offer deeper and more comprehensive supervisory coverage in LQ45 enterprises with complex business operations. This might enhance the calibre of financial reporting and eventually boost financial performance.

H4: The number of audit committee members has a positive effect on financial performance (ROA)

Based on agency theory, company size creates higher managerial complexity and greater information asymmetry between the principal and the agent, making the mechanism for aligning interests through insider share ownership more crucial in large companies (Jensen & Meckling, 1976). In the context of large-sized companies, managerial share ownership not only serves as an incentive to increase company value but also provides a stronger motivation to optimize the use of more complex and diverse resources compared to small companies. Research by Ang et al. (2000) proves that the efficiency of asset utilization and the reduction of discretionary spending are more significant in large companies when managers have share ownership, because the potential profits that managers can obtain as shareholders are directly proportional to the scale of the company's operations. According to research by (Himawan & Fazriah, 2021), insider ownership has a greater favourable impact on financial performance in larger organisations. However, Ningsih et al. (2023) discovered the contrary, namely that the size of the company does not influence the association between how much of the company's shares insiders own and its Return on Assets (ROA).

H5: Firm size strengthens the positive effect of insider share ownership on financial performance (ROA)

Based on agency theory, large companies face higher operational complexity and ownership structures, thus requiring stronger oversight mechanisms to reduce principal-agent conflicts and agency costs (Jensen & Meckling, 1976).In the context of large-sized companies, an optimal board size becomes more crucial because the broad scope of business and diversification of operations require diverse expertise from board members to effectively oversee management (Fama & Jensen, 1983). Large companies have a comparative advantage in recruiting high-quality directors with diverse experience and expertise, so increasing the number of board members can optimize monitoring and advisory functions, ultimately improving the company's financial performance. However, empirical findings show mixed results, with research by Oktarina (2020), Putri & Supramono (2022), and Ningsih et al. (2023) finding that company size does not moderate the relationship between board size and financial performance, indicating that the effectiveness of the board of directors may depend more on the quality and composition of its members than on their number alone. Despite the inconsistency in research results, the logic of agency theory suggests that large companies with complex organizational structures require a larger board of directors to address more

intricate agency problems, so company size is expected to strengthen the positive influence of board size on financial performance.

H6: Firm size strengthens the positive effect of board size on financial performance (ROA)

Based on agency theory, large companies face more complex agency problems due to a wider separation of ownership and control, thus requiring stronger external oversight mechanisms to reduce agency costs and protect shareholder interests (Jensen & Meckling, 1976). In the context of large-sized companies, the proportion of independent commissioners becomes more crucial because the complexity of organizational structure and diversification of operations creates higher information asymmetry between management and shareholders, necessitating more objective and independent oversight (Fama & Jensen, 1983). Large companies have an advantage in attracting high-quality independent commissioners who are not only capable of providing objective oversight but also possess the ability to understand business complexities and provide a strong check and balance mechanism to reduce opportunistic management behavior and ensure optimal decision-making for shareholders Wiyono & Kusuma, 2017). Thus, company size is expected to strengthen the positive influence of the proportion of independent commissioners on financial performance because large companies have a greater need for oversight and a better ability to optimize the role of independent commissioners in their corporate governance structure.

H7: Firm size strengthens the positive effect of independent board commissioner on financial performance

Based on agency theory, large companies face higher internal control complexity and information asymmetry between the principal and the agent, thus requiring more comprehensive monitoring mechanisms to reduce agency costs and ensure the integrity of financial reporting (Jensen & Meckling, 1976). In the context of large-sized companies, the size of the audit committee becomes more crucial because the complexity of operations and financial transactions requires more in-depth oversight to detect potential financial manipulation that could harm shareholders (Fama & Jensen, 1983). Large companies have an advantage in forming an optimal audit committee with qualified members, where a larger audit committee can provide more comprehensive oversight of the complexities of financial reporting and risk management (Jaswadi, 2016). Research by Erin (2025) and Appuhami & Tashakor (2017) supports this argument by showing that an appropriate audit committee size contributes significantly to the legitimacy and transparency of financial reporting, which ultimately enhances investor confidence and company financial performance. Thus, based on the logic of agency theory, company size is expected to strengthen the positive influence of audit committee size on financial performance because large companies face more complex agency problems and have a better ability to optimize the monitoring function of the audit committee.

H8: Firm Size strengthens the positive effect of audit committee on financial performance (ROA)

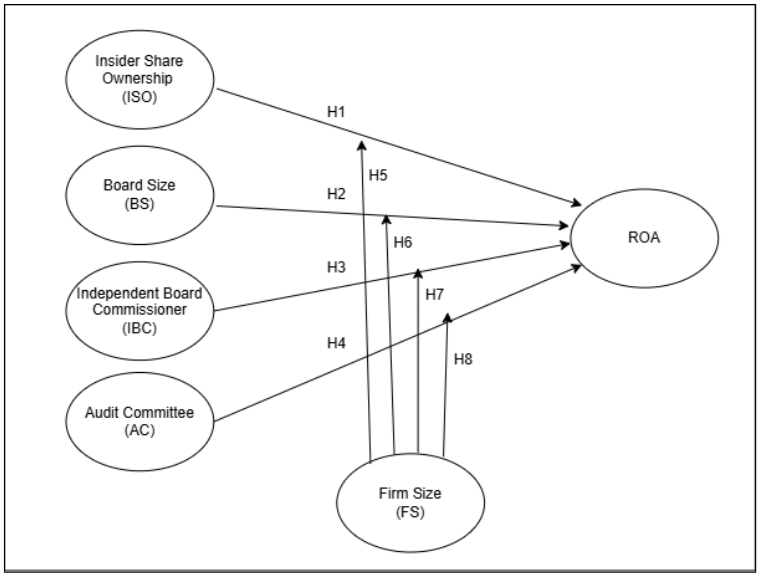

Figure 2. Conceptual Framework

3. Method

This study utilizes quantitative methods to analyze secondary data from financial statements and the company's annual reviews, which are available on the IDX website or the official website of each company. The purposive sampling technique is used to find samples that satisfy specific research criteria. Purposive sampling is a sampling technique that allows researchers to focus on groups or individuals most relevant to the research objectives by deliberately selecting subjects based on specific criteria (Subhaktiyasa, 2024). One of the most important criteria in this study is companies that were consistently listed in the LQ45 index during the 2019–2023 period. By excluding companies that were not consistently listed, this study likely aims to focus on more established and stable companies within that category over the research timeframe. The following sample criteria were applied in this research.

Table 1. Population and Sample

Criteria	Total
Companies listed in the LQ45 index on the Indonesia Stock Exchange 2023	45
Companies that are not consistently listed on the LQ45 index in 2019-2023	(22)
LQ45 index listed companies that do not publish financial reports or have incomplete GCG data in	0
Number of samples meeting the criteria	**23**
Total Sample (23 companies x 5 years)	**115**

The resulting 115 data will be observed or processed further using Eviews 13 with the Panel Data Regression approach. According to Madany et al. (2022), before conducting panel data regression, it is necessary to estimate the appropriate panel regression model and perform classical assumption testing. The estimation of the panel regression model is done using the Chow test, Hausman test, or Breusch-Pagan test to determine whether the Common Effect Model, Fixed Effect Model, or Random Effect Model is the most suitable regression model. According to (Napitupulu et al., 2021), classical assumption testing for panel data includes only multicollinearity and heteroscedasticity tests. In addition, a model feasibility test was carried out using the F-test and R-squared. Subsequently, panel data regression is conducted in two stages, before and after the inclusion of the moderating variable, in order to examine the moderating effect on the relationships between variables in the model.

Tabel 2. moderating effect on the relationships

Panel Data Regression		$ROA = \alpha + \beta_1 ISO + \beta_2 BS + \beta_3 IBC + \beta_4 AC + \varepsilon$
Moderated Regression Analysis		$ROA = \alpha + \beta_1 ISO + \beta_2 BS + \beta_3 IBC + \beta_4 AC + \beta_5 FS + \beta_6 (ISO*FS) + \beta_7 (BS*FS) + \beta_8 (IBC*FS) + \beta_9 (AC*FS) + \varepsilon$
Information:		
α	:	Intercept
$\beta_1\ \beta_2\ \beta_3 \ldots \beta_9$	:	regression coefficient
ISO	:	Insider Share Ownership
BS	:	Board Size
IBC	:	Independent Board Composition
AC	:	Audit Committee
FS	:	Firm Size
ISO*FS	:	Interaction Beetween Insider Share Ownership & Firm Size
BS*FS	:	Interaction Beetween Board Size & Firm Size
IBC*FS	:	Interaction Beetween Independent Board Composition & Firm Size
AC*FS	:	Interaction Beetween Audit Committee & Firm Size
ε	:	Other Factors Outside the Model

4. Results and Discussion

Descriptive Statistic

Table 3. Descriptive Statistic

	Return on Assets	Insider Share Ownership	Board Size	Independent Board Composition	Audit Committee	Firm Size
Mean	0.078621	0.005902	8.121739	0.456716	3.982609	32.41617
Median	0.054983	8.60E-05	7.000000	0.428600	4.000000	32.26000
Maximum	0.454550	0.128166	12.00000	0.833300	8.000000	35.32000
Minimum	-0.035142	0.000000	4.000000	0.200000	2.000000	30.09000
Std. Dev.	0.084532	0.025814	2.513639	0.136003	1.324417	1.420410
Observations	115	115	115	115	115	115

Source: Processed by the author, 2024

ROA shows a standard deviation of 0.0845 and an average of 0.0786, according to the findings of a descriptive statistical analysis of 115 observations. This suggests that the average company profitability is 7.86% of total assets with modest variation. Companies who suffered losses amid the financial downturn triggered by COVID-19 were indicated by the ROA values that ranged from -0.0351 by PT PGAS in 2020 to a maximum of 0.4545 by PT ITMG in 2022.

Insider Share Ownership (ISO) has a standard deviation of 0.0258 and the mean value of 0.0059, or roughly 0.59%. This indicates that internal management's share ownership is generally minimal and that there are notable variations within businesses. With an average of 12%, PT ADRO has the highest amount of insider share ownership. Seven firms have shares that are not owned by management at all, and the minimum figure of insider share ownership is 0%.

With an average of 8.12 board members, with values spanning between 4 & 12, and a standard deviation of 2.51, Board Size (BS) shows that board sizes vary from company to company. The PT INCO has the smallest number of directors (four), whereas a number of banking businesses, including BBCA, BBRI, BBNI, and BMRI, have the most number of directors (12).

With a standard deviation of 0.136 and an average of 0.4567, or around 45.67% of board members are independent commissioners, the Independent Board Composition (IBC) shows that nearly half of the board is normally independent. This indicates that LQ45 firms still have an average of at least 30% of their board of commissioners being independent commissioners, which is required by OJK Regulation Number 33 of 2014. PT INCO owns the least value of 20%, while PT UNVR owns the maximum value of 83.33%.

Additionally, the mean number of members in the Audit Committee (AC) is 3.98, with values spanning between 2 and 8, and a standard deviation of 1.32. This suggests that the audit committee structure varies from company to firm. Bank BTN owns the minimum value of 2, which is still less than the minimum number of audit committees required by OJK regulation number 55 / POJK.04 / 2015, which calls for a minimum of three audit committee members. In the meantime, Bank BRI is the owner of the maximum number of audit committees, which is eight members.

Finally, the average value of Firm Size (FS), which is determined by taking the natural logarithm of total assets, is 32.42 with a standard deviation of 1.42. This suggests that, although the sample of companies examined is mostly large, there is still a significant amount of variance in size. PT UNTR is the owner of the lowest value, which is 30.09. With a value of 35.32, Bank Mandiri has the highest value.

Classic Assumption Test

Multicollinearity

Table 4. Multicollinearity Test

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.037862	1039.946	NA
Insider Share Ownership	0.063124	1.205663	1.145270
Board Size	1.58E-05	31.40923	2.723806
Independent Board Commissioner	0.003140	19.57132	1.581390
Audit Committee	3.43E-05	16.59531	1.639567
Firm Size	4.58E-05	1324.246	2.515670

Source: Processed by the author, 2024

As shown in the table, all variables exhibit multicollinearity indicators (VIF) not exceeding 10. This suggests that the data does not have a substantial multicollinearity issue. In order for each independent variable in the model to contribute legitimately and independently to explaining changes in the dependent variable (ROA), they do not have a strong linear relationship with one another.

Heteroscedasticity

Table 5. Heteroscedasticity Test

F-statistic	1.150624	Prob. F(20,94)	0.3148
Obs*R-squared	22.61669	Prob. Chi-Square(20)	0.3080
Scaled explained SS	81.64234	Prob. Chi-Square(20)	0.0000

Source: Processed by the author, 2024

The p-value of the Obs*R-squared statistic is 0.3080, which exceeds the 0.05 threshold, according to the above table. These findings suggest that the research data is free from heteroscedasticity issue. The regression model satisfies one of the traditional presumptions that are crucial for generating accurate and efficient parameter estimates since this outcome reveals that the residuals of the model have consistent variance (homoskedasticity)

Estimate Model Effect

Table 6. Chow Test

Redundant Fixed Effects Tests Equation: Untitled Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	8.478839	(22,87)	0.0000
Cross-section Chi-square	131.734738	22	0.0000

Source: Processed by the author, 2024

According to the aforementioned Chow test results, the probability value is 0.0000 and the cross-section chi-square value is 131.734738. Given that the probability value is less than 0.05, this implies that the fixed effect model provides a more suitable choice for estimation than the common effect model.

Table 7. Hausman Test

Correlated Random Effects - Hausman Test Equation: Untitled Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	55.258125	5	0.0000

Source: Processed by the author, 2024

As shown in the Hausman test outcomes above, the random cross-section value is 55.258125, with a probability value of 0.0000. Since the p-value is below 0.05, it suggests that the fixed effect model is more suitable for estimation than the random effect model.
The Lagrange multiplier test becomes unnecessary, as the findings of the Chow and Hausman tests consistently demonstrate the outcomes of the fixed effect model. Consequently, an approximation of the effects was made using the fixed effect model in this investigation.

Hypothesis Test

Table 8. T Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Result
Insider Share Ownership	0.176506	0.295393	0.597529	0.5514	H1 rejected
Board Size	-0.005747	0.003914	-1.468315	0.1449	H2 rejected
Independent Board Commissioner	0.226658	0.067491	3.358324	0.0011	H3 accepted
Audit Committee	-0.017611	0.006254	-2.816222	0.0058	H4 rejected
Insider Share Ownership_ Firm Size	2.232313	0.843622	2.646107	0.0094	H5 accepted
Board Size_ Firm Size	0.002284	0.003098	0.737050	0.4627	H6 rejected
Independent Board Commissioner_ Firm Size	-0.102922	0.042817	-2.403783	0.0180	H7 rejected
Audit Committee_ Firm Size	8.84E-05	0.004180	0.021144	0.9832	H8 rejected

Source: Processed by the author, 2024

The relationship between each Good Corporate Governance indicator and financial performance before being moderated by firm size is presented in Hypotheses 1 through 4. H1 is rejected because ISO has a positive t-statistic of 0.5975529 and a p-value greater than 0.05, which is 0.5514. H2 is also rejected because BS has a negative t-statistic of -1.468315 and a p-value exceeding 0.05, which is 0.1449. Meanwhile, H3 is accepted because IBC shows a positive t-statistic with a value of 3.358324 and has a p-value less than 0.05, which is 0.0011. Despite having a significant p-value below 0.05 (0.0058), H4 is rejected as AC shows a negative t-statistic of -2.3816222.

Furthermore, hypotheses 5 through 8 show the relationships after being moderated by firm size. H5 is accepted because both ISO_FS shows a positive t-statistic of 2.646107 and a p-value below 0.05, which is 0.0094. H6 is rejected because although the BS_FS interaction yields a positive t-statistic (0.737050), its p-value (0.4627) is above the significance threshold of 0.05. H7 was also rejected because although the IBC_FS relationship had a p-value <0.05 (0.0180), the negative t-statistic of -2.403783 resulted in the hypothesis being rejected. Meanwhile, H8 was accepted because the AC_FS interaction produced a positive t-statistic of 0.021144 and a p-value above 0.05 (0.9832).

F Test

Table 9. F Test Result

F-statistic	11.98489
Prob(F-statistic)	0.000000

Source: Processed by the author, 2024

The Prob(F-statistic) value shows a very small value, which is 0.000000 ($p < 0.05$), this means that the overall regression model is significant. Overall, this model is suitable for explaining changes in the dependent variable (ROA). Furthermore, the p-value below 0.05 indicates that simultaneously, the independent variables in the model together have a significant effect on the dependent variable (ROA). This shows that the regression model used has good predictive ability in explaining the company's financial performance. Therefore, it can be concluded that the combination of Good Corporate Governance indicators—namely insider share ownership, board size, independent commissioner, and audit committee—along with firm size as a moderating variable, together have a statistically significant relationship with ROA. These findings reinforce the relevance of using this model in empirical analyses to evaluate the impact of corporate governance on financial performance.

Determinant Coefficient

Table 10. Determinant Coefficient

R-squared	0.506727
Adjusted R-squared	0.464447

Source: Processed by the author, 2024

Overall, this model is able to explain approximately 46.44% of the variation in the ROA (Return on Assets) variable through the independent variables of insider share ownership, board size, independent commissioner, audit committee, firm size, and the interaction terms between firm size and each Good Corporate Governance (GCG) variable, namely: insider share ownership moderated by firm size, board size moderated by firm size, independent commissioner moderated by firm size, and audit committee moderated by firm size. The

remaining 53.56% is influenced by other factors outside the model that are not captured by the selected GCG indicators in this study. While variables such as insider share ownership, board size, independent commissioner, and audit committee represent key aspects of GCG, there are still other governance-related elements that may affect financial performance, such as gender diversity in board composition, transparency and quality of ESG report disclosure, executive compensation structure, institutional ownership, board meeting frequency, and audit quality (Achyani et al., 2021; Asian Corporate Governance Association, 2023; Khasanah et al., 2021; Natalia & Sihono, 2024). In addition, non-GCG factors such as leverage, liquidity, revenue growth, operational efficiency, macroeconomic conditions, and industry competition may also account for the unexplained variation (Cahyana & Suhendah, 2020). Therefore, future research is recommended to explore a broader set of GCG dimensions and consider external variables to provide a more comprehensive understanding of the determinants of corporate financial performance.

Discussion

The Effect of Insider Share Ownership on Financial Performance (ROA)

Results from the data processing indicate that the Insider Share Ownership variable shows no significant effect on Return on Assets (ROA), which means that the first hypothesis (H1) is rejected. This finding shows that share ownership by management does not necessarily encourage an increase in the company's financial performance. Contrary to agency theory, which suggests that insider share ownership can harmonize the objectives of management and shareholders, thus motivating managers to enhance company efficiency, this result indicates otherwise. This discrepancy can be caused by the low proportion of shares owned by management, so it is not strong enough to influence strategic or operational decisions that have a direct impact on profitability (Wiyono & Kusuma, 2017) . The results of this study are align with the findings of Ningsih et al. (2023) and Syifa & Poerwati (2024) which also concluded that insider share ownership does not have a significant effect on financial performance.

The Effect of Board Size on Financial Performance

The lack of a significant effect of Board Size on Return on Assets (ROA) in the regression analysis leads to the rejection of the second hypothesis (H2). This finding challenges the agency theory perspective, which suggests that larger boards should enhance monitoring effectiveness and reduce agency costs by providing more comprehensive oversight of management activities and bringing diverse expertise to strategic decision-making processes (Fama & Jensen, 1983). Although theoretically, a larger board can provide a variety of perspectives, improve oversight, and expand external networks, in practice, excess board members can actually lead to inefficiencies in decision making, internal conflicts, or suboptimal coordination (Krisnadewi & Wirasedana, 2019). Therefore, the effectiveness of the board of directors in mitigating principal-agent conflicts is suggested to depend more on the composition and quality of the board members rather than merely its quantitative size, indicating that the optimal board size for effective governance is specific to firm-specific characteristics. The result is align with the findings of Ningsih et al. (2023) which also found that board size does not have a significant effect on the company's financial performance.

The Effect of Independent Board Commissioner on Financial Performance

The results of data processing show that the proportion of independent commissioners has a positive and significant effect on Return on Assets (ROA), so the third hypothesis (H3) is accepted. This finding strongly supports agency theory, which emphasizes that independent directors serve as effective external monitoring mechanisms to mitigate principal-agent conflicts by providing objective oversight of management decisions and reducing information asymmetry between shareholders and managers (Jensen & Meckling, 1976). With supervision that is more objective and free from conflicts of interest, independent commissioners can suppress potential policy deviations by management and minimize agency problems, thereby having a positive impact on the company's financial performance (Wiyono & Kusuma, 2017). This result demonstrates that independent commissioners effectively fulfill their role as external monitors in the agency relationship, providing checks and balances that constrain opportunistic managerial behavior and promote efficient resource allocation. These results are in line with research Intia & Azizah (2021), Fauziyah et al. (2024), and Zulfizaredo (2024)which states that an increase in the proportion of independent commissioners can

increase corporate efficiency and accountability, which is ultimately reflected in an increase in ROA.

The Effect of Audit Committee on Financial Performance

The results of this study found that the audit committee has a significantly negative effect on the financial performance (ROA) of LQ45 companies, so the third hypothesis (H4) is rejected. This finding contradicts agency theory expectations, which suggest that audit committees should reduce agency costs by providing enhanced monitoring of management and improving financial reporting quality, thereby aligning the interests of principals and agents (Jensen & Meckling, 1976). This is also contrary to the initial hypothesis and research findings Putri & Supramono (2022), Yulianti & Cahyonowati (2023), Fauziyah et al. (2024), and Zulfizaredo (2024) . A larger number of audit committee members has the potential to incur additional agency costs such as remuneration and operational costs that reduce company profitability without commensurate supervisory benefits (Simanjuntak & Sinaga, 2021) . In LQ45 companies that already have strong external oversight mechanisms and high visibility, increasing the number of audit committee members may create excessive layers of bureaucracy and decision-making complexity, thus inhibiting the operational flexibility and strategic responsiveness of the company (Khasanah et al., 2021) . This finding provides important implications that the effectiveness of the audit committee cannot be measured solely by the number of members, but needs to consider aspects of the quality, independence, and competence of audit committee members.

The Effect of Insider Share Ownership on Financial Performance Moderated by Firm Size

The analysis shows that directly, insider share ownership has no significant effect on financial performance (ROA). However, when moderated by firm size, the effect becomes significant and positive, so the fifth hypothesis (H5) is accepted. This finding supports agency theory, which suggests that the effectiveness of alignment mechanisms between principals and agents varies depending on firm characteristics, particularly firm size, which influences the magnitude of agency problems and the potential benefits of managerial ownership (Jensen & Meckling, 1976). The significant positive moderating effect indicates that in larger companies, where agency conflicts are more pronounced due to separation of ownership and control, insider share ownership becomes a more effective mechanism for aligning managerial interests with shareholder wealth maximization because the potential financial gains from improved performance are more substantial, making managerial ownership a more powerful tool for reducing principal-agent conflicts. This finding is in line with research (Himawan & Fazriah, 2021) which states that the positive effect of insider share ownership on financial performance is stronger in companies with a large scale. Thus, firm size acts as a significant moderating variable in the relationship between insider share ownership and ROA.

The Effect of Board Size on Financial Performance Moderated by Firm Size

The results of the analysis show that directly, board size has no significant effect on financial performance (ROA). In addition, firm size is also unable to moderate the effect of board size on ROA of LQ45 companies, so the sixth hypothesis (H6) is also rejected. The insignificance of the moderating effect implies that in large companies, the potential benefits of a larger board size in addressing agency problems, as predicted by agency theory, can be neutralized or even worsened by increased coordination costs and decision-making inefficiency. This finding is consistent with the research of Oktarina (2020), Putri & Supramono (2022) and Ningsih et al. (2023) which reveal that although large companies have more extensive resources to recruit competent board members, this is not always accompanied by improved financial performance. One of the reasons is that high organizational complexity in large companies can cause coordination and communication between board members to be less effective, thereby reducing efficiency in strategic decision making (Oktarina, 2020) . This is in line with the results of research Krisnadewi & Wirasedana (2019) that the addition of board members as the company grows creates diseconomies of scale in decision making. Therefore, the effectiveness of the board of directors in reducing agency conflicts is not only determined by the number of members or the scale of the company, but more by the quality, integrity, and independence of each member.

The Effect of Independent Board Commissioner on Financial Performance Moderated by Firm Size

The results of data processing show that before being moderated by firm size, the ratio of independent commissioners to the entire board of commissioners positively influences financial performance (ROA). However, when moderated by firm size, the effect is significantly weakened, so the seventh hypothesis (H7) is rejected. This finding contradicts the expectations of agency theory (Jensen & Meckling, 1976), which states that large companies with higher complexity and agency problems should benefit more from the oversight of independent commissioners in reducing principal-agent conflicts. The weakening of this effect in large companies indicates that organizational complexity and coordination challenges can reduce the effectiveness of independent oversight, creating information asymmetries and communication barriers that make it difficult for independent commissioners to monitor management and mitigate agency costs. Kao et al. (2019)) explain that too many boards of commissioners may adversely affect the firm's performance because it hinders quick decision making due to the many diverse interests and the difficulty of effective supervision. While Ningsih et al. (2023) state that in large-scale companies, the effectiveness of independent commissioners may decrease due to improper composition. This finding is different from previous research by Oktarina (2020) and Putri & Supramono (2022) which states that firm size does not moderate the effect of independent commissioners on financial performance. Thus, the effectiveness of independent commissioners in large companies does not always seem to be linear with firm size, and may be influenced by other factors such as board composition and organizational complexity.

The Effect of Audit Committee on Financial Performance Moderated by Firm Size

The data analysis reveals that, before being moderated by firm size, the size of the audit committee does not yield a significant impact on financial performance (ROA). When moderated by firm size, the relationship also still fails to reveal a significant influence, so the eighth hypothesis (H8) is rejected. This finding indicates that firm size is unable to strengthen or alter the relationship between audit committee size and financial performance. This finding also contradicts agency theory, which predicts that larger, more complex firms with greater information asymmetry should benefit more from stronger audit committee monitoring to lower agency costs and improve financial reporting quality (Jensen & Meckling, 1976). The lack of a significant moderating effect suggests that the expected benefits of a larger audit committee in mitigating agency problems might not be realized across different firm sizes, potentially due to the committee's limited role or inefficiencies in its monitoring structure. Research (Anita & Cahyati, 2023) shows that meeting the required number of audit committee members does not inherently ensure the audit committee functions effectively. An adequate number is not always accompanied by optimal supervisory performance, because in practice the audit committee focuses more on reviewing financial and accounting reports, without being directly involved in solving financial problems that influence company performance. The results are in agreement with the research of Oktarina (2020), Putri & Supramono (2022), and Ningsih et al. (2023) which concludes that firm size does not significantly moderate how audit committee size affects financial performance.

5. Conclusions

The analysis results indicate that without moderation, insider share ownership does not significantly affect Return on Assets (ROA), suggesting that the small percentage of shares held by management is likely insufficient to influence the company's strategic decisions. Board size also shows no statistically significant impact on ROA, implying that an excessive number of board members may hinder decision-making efficiency and coordination. On the other hand, independent board commissioners were found to have a significant and positive influence on ROA, indicating that independent commissioners are able to carry out objective oversight functions free from conflicts of interest. Meanwhile, the audit committee demonstrates a statistically significant adverse impact on ROA, suggesting that an increase in audit committee size tends to raise agency costs that are not offset by proportional oversight benefits.

With firm size moderation, insider share ownership emerges as a significant positive contributor to ROA, especially in large companies due to higher stakeholder pressure. Firm size does not moderate the impact of board size on ROA because the organizational complexity in large companies actually reduces the effectiveness of coordination and

communication among board members. The advantageous effect of independent board commissioners on ROA significantly weakens when moderated by firm size because in large-scale companies, independent commissioners become less effective due to the complexity of the organization and the variety of interests that must be accommodated. Finally, firm size also fails to influence the effect of the audit committee on financial performance, confirming that the committee's effectiveness is shaped more by the quality and competence of its members than by its numerical composition or the firm's scale.

These results conclude that organizational complexity in large firms is a double-edged sword in GCG. Large size increases management's share ownership incentives, but its complexity reduces the effectiveness of traditional monitoring mechanisms due to poor coordination, information asymmetry, and diverse stakeholder interests.

6. Limitation

This research has several limitations. First, its scope is limited to LQ45 companies on the Indonesia Stock Exchange for the 2019-2023 period, which may limit the generalization of findings to other market segments, developing companies, or different economic contexts. Second, this research only focuses on insider share ownership, board size, the proportion of independent commissioners, and audit committee size, overlooking other relevant variables such as audit quality and qualitative aspects like board experience and competence. Third, the five-year timeframe might not fully capture the long-term effects of governance or cyclical variations in company performance. Fourth, this research only uses ROA as a measure of financial performance, potentially overlooking other important metrics.

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