

CHAPTER I

INTRODUCTION

1.0 Introduction

The manufacturing sector in Indonesia has attracted much attention, especially when considering the issue of corporate governance and firm performance. This study provides information on corporate governance mechanisms and firm performance in the consumer goods industry sectors listed on the Indonesia Stock Exchange. This study also looks board committees, board meeting, and board size to better understand the impact of the board on corporate achievement. Therefore, Chapter 1 begins by presenting the research context, problem and problem statement, and research justification. The chapter explains the aims, objectives, research questions, limitations and importance of the experimental research. The chapter concludes with operational definitions of the key terminology used in this study.

1.1 Background Study

Firm performance is the final result of management actions taken during operational activities that aim to achieve company goals (Dewi & Widagdo, 2013). Financial reports can be used to view company performance data. The management of the company, one of the users of financial statements, will need this information to make choices and implement policies. Consequently, it is crucial to consistently track the company's progress from year to year. Along with helping managers, this information helps investors keep tabs on the business's performance so they may have confidence in management to get the most of their money from the return on their investments (Aprilliani & Totok, 2018).

The practice of directing and managing business affairs towards enhancing business prosperity and corporate accountability with the ultimate goal of realizing organizational objectives and long-term stakeholder value is another definition corporate governance (Puni & Anlesinya, 2020). According to the Organization for Economic Co-operation and development (OECD) principles of CG,2004, It is a framework for creating the organization's goals and objectives as well as the means to attain these goals and objectives. In order to protect the interests of minority capital providers and all stakeholders while simultaneously fulfilling the

organization's aim, CG created systems, policies, rules, and laws that were framed by regulatory agencies. The real adoption of CG by businesses benefits these businesses in particular, and the nation draws in international investment (Farooq et al., 2022)

One of the most studied topics over the past two decades has been the connections between corporate governance and firm performance, which suggests that the corporate governance mechanism improves firm performance by reducing agency conflicts between the owner and the managers (Waheed & Malik, 2019). This is particularly true in emerging economies like Indonesia, where the dynamics of corporate governance mechanisms and their impact on firm performance are crucial for sustainable economic development and investor confidence. Corporate governance mechanisms in Indonesia encompass a wide array of practices, regulations, and institutions. According to Jesuka & Peixoto (2022) corporate governance affects business performance in developing countries. Two corporate governance indices were created by using variables across several developing countries.

Corporate governance is a system that deals with the exercise of authority over corporate entities and describes the structures and procedures connected to strategic decision-making and control inside an organization (Erena et al., 2022). Studies on corporate governance (CG) primarily examine agency-theory-based hypotheses about the association between a particular governance mechanism and a metric of business performance over a limited period of time and in a certain geographic area. Although agency theory yields a variety of intriguing findings, expanding the methodology may be necessary to add to the global theory of CG. Due to its lack of contextualization and inability to fairly assess and explain the variety of CG arrangements across various institutional contexts, agency theory is thus critiqued. As a result, depending on the economic, political, and social settings, the way that CG is organized varies throughout nations (Amin et al., 2021).

So the main purpose of this study is to examine the relationship of governance performance with the presence of important company characteristics, namely, board size, board meetings, board committees in companies listed on the Indonesian stock exchange and also this research provides a unique opportunity to fill the gap in developing countries.

1.2 Problem Statement

Corporate governance mechanisms play an important role in shaping firm performance, influencing financial stability, transparency, and overall effectiveness. In the context of Indonesia, a country with a diverse corporate landscape and economic challenges, the relationship between corporate governance mechanisms and firm performance remains a significant concern and research interest.

Issues concerning corporate governance over the past few years have attracted much attention, one of which is the potential performance consequences on corporate governance mechanisms for companies in Indonesia. This can be seen from the results of the quality and effectiveness of corporate governance implemented by a company. Good corporate governance implementation can have a positive impact on the sustainability of company performance, while poor corporate governance implementation can have a negative impact on the sustainability of company performance. Corporate governance refers to the systems, mechanisms, processes and structures by which a company is controlled and directed. Thus, corporate governance mechanisms play an important role in determining the potential consequences of company performance, as the quality of corporate governance has a direct impact on aspects of company performance and sustainability.

Therefore, authorized national and international bodies issue corporate governance mechanisms. These mechanisms contain principles or legislation on good corporate governance mechanisms that are encouraged or mandated to adopt or comply with. So that the main objective of this study is to examine the relationship between corporate governance mechanisms and company performance using board size, board committees, board meetings, in companies listed on the Indonesia Stock Exchange (IDX).

1.3 Research Objectives

The general aim of this study is to examine impact corporate governance mechanisms and company performance in Indonesia listed on the Indonesia Stock Exchange. The specific objectives of this study are:

RO 1 : To investigate the impact of board size on firm performance.

RO 2: To investigate the impact of board committees on firm performance.

RO 3: To investigate the impact of board meeting on firm performance.

1.4 Research Question

The research questions were created to help achieve the main aims and objectives of the research. The purpose of this research is to answer the following questions:

RQ 1: What is the impact of board size on firm performance?

RQ 2: What is the impact of board committees on firm performance?

RQ 3: What is the impact of board meeting on firm performance?

1.5 Definition of key terms

1.5.1 Corporate governance

Economic Co-operation and Development Organization (OECD): A company's board of directors, management, shareholders, and other external stakeholders are all included in the OECD's definition of corporate governance, which also includes a set of interactions between them. The OECD's corporate governance standards offer recommendations for efficient and open governance.

1.5.2 Firm Performance

The outcome of all business operations or operations that gauge the business's success is the company's performance. (Aprilliani & Totok, 2018). By putting effective corporate governance practices into practice, company performance can be enhanced. The corporation gains significant advantages by adhering to the principles of good corporate governance, in addition to enhanced performance. To increase business success, all stakeholders in the organizational structure of the company must put excellent corporate governance into practice. Corporate governance concepts to enhance business performance.

1.5.1 Indonesia Stock Exchange

The Indonesia Stock Exchange (IDX) is the official stock exchange in Indonesia. The IDX is a secondary market, where trading in stocks, bonds, and other

financial instruments takes place. It plays a very important role in the Indonesian economy, allowing companies to raise capital through initial public offerings (IPOs) and giving investors the opportunity to buy and sell shares of listed companies.

1.6 Significant of study

This result of this study is expected to be beneficial both theoretically and practically elaborated in the following section:

1.6.1 Theoretically Significance

This research is expected to provide an overview of the factors that influence corporate governance mechanisms and company performance in manufacturing companies listed on the Indonesian Stock Exchange as well as a means of developing theories and knowledge obtained in the banking sector. Also to reinforce some of the positive results as well as provide information on negative findings in previous literature.

This study also explores corporate governance variables that contribute to company performance and data from the annual reports of companies listed on the stock exchange in Indonesia. It also provides a deeper understanding of how corporate governance mechanisms play an important role in ensuring the competitiveness and sustainability of companies.

1.6.2 Practically Significance

1. For Public

The findings of this study provide new insights and in-depth information on corporate governance mechanisms and firm performance of manufacturing companies in Indonesia. Students can learn the variables of corporate governance mechanisms affecting company performance.

2. Other Researchers

This study can help other researchers to further study in this field. It can also be used to provide additional information for other researchers who wish to conduct further research in these fields.