Enhancing Financial Performance:
Investigating the Influence of Good Corporate Governance, Leverage, and Sales Growth in the Food and Beverage Sector

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ABSTRACT

This study investigates how good corporate governance, leverage, and sales growth impact companies' financial performance. It analyzes data from 24 out of 33 food and beverage manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the years 2020-2022, totaling 72 observations. Sample selection utilized purposive sampling. Classical assumption tests, including normality, multicollinearity, heteroskedasticity, and autocorrelation, were conducted. Data analysis employed multiple linear regression analysis, t-tests, and coefficient of determination tests using SPSS. Results indicate that only leverage significantly influences financial performance, with other variables showing no significant impact on the financial performance of food and beverage manufacturing companies listed on the IDX.

Keywords: *Good Corporate Governance, Leverage, Sales Growth, Financial Performance.*

1. INTRODUCTION

The food and beverage industry in Indonesia is a vital sector that continues to demonstrate strength and resilience in supporting the national economy. According to data from the Ministry of Communication and Information Technology of the Republic of Indonesia (Kominfo) in 2022, the GDP of the food and beverage industry experienced a significant increase of 4.90%. The contribution of this sector to the GDP of non-oil and gas processing industries reached 38.35%, making it the largest contributor. The prowess of the food and beverage industry does not stop there. In 2022, this industry also ranked among the top five industries with the highest export contributions, reaching a fantastic value of USD48.61 billion.

The Central Bureau of Statistics (BPS) also recorded impressive growth in the food and beverage industry. In the first quarter of 2023, the GDP of this industry grew by 5.33% compared to the same period the previous year. This growth ranked fourth largest among other subsectors of manufacturing industries. This certainly sends a positive signal for investors to invest in this sector, which ultimately will drive further growth in the food and beverage industry.

Good Corporate Governance (GCG) plays a crucial role in improving the financial performance of companies. According to The Indonesian Institute For Corporate Governance, GCG is a process and structure aimed at enhancing shareholder value in the long term while considering the interests of other stakeholders. However, previous research results still vary. Studies by Yanti & Suzan (2021), Kusumawardhany & Shanti (2021) show that good corporate governance has a positive effect on financial performance. In contrast, research by Tertius & Christiawan (2015), Azizah & NR (2020), and Hartati (2020) state that GCG does not affect the financial performance of companies.

Leverage, as the second factor affecting a company's financial performance, refers to a ratio that measures how much a company's assets are funded by debt (Firmansyah & Idayati, 2021). The Debt to Equity Ratio (DER) illustrates a company's ability to pay long-term debt using its own equity. A high DER ratio indicates a company's ability to operate its business using debt as its capital. However, several studies have found that the influence of leverage on a company's financial performance can vary. Research by Sari (2020) reveals that leverage affects the financial performance of companies. However, according to studies conducted by Lutfiana & Hermanto (2021), Firmansyah & Idayati (2021), and Rahmatin & Kristanti (2020), leverage does not affect the financial performance of companies.

The increase in sales over time reflects a company's ability to increase profits. Studies by Ayuningtya & Mawardi (2022), Yuniastuti (2019), and Suhartanti (2021) show that increasing sales growth directly impacts the improvement of a company's financial performance, as management can generate profits from investments made to increase sales. Companies with high sales growth have the opportunity to expand their business, which in turn increases the company's

value. However, research results on the relationship between sales growth and a company's financial performance still vary. Mardaningsih, Nurlaela & Wijayanti (2021) and Puspitasari (2023) reveal that sales growth does not affect a company's financial performance.

2. RESEARCH METHODS

This study is an associative causal research aimed at evaluating the impact of good corporate governance, leverage, and sales growth on financial performance as the dependent variable. The population studied consists of companies in the food and beverage subsector listed on the Indonesia Stock Exchange (IDX) during the period of 2020-2022, totaling 33 companies. Sampling was conducted using a non-probability sampling method with purposive sampling technique, where 24 samples were selected based on specific criteria.

2.1. Operational Definition of variable

The following is an operational definition of the research variables

2.1.1. Dependent Variable

Dependent Variable is the indicator used to measure financial performance is profitability, which is approximated by ROA. The use of this proxy is widely adopted in previous studies such as those conducted by (Rahmawati, Rikumahu, Brady & Dillak (2017), thus ROA can be formulated as follows:

$$\text{ROA} = \frac{\text{EBIT}}{\text{Total Assets}} \times 100\% \quad \text{.... (1)}$$

2.1.2. Independent Variabel

The measurement of Good Corporate Governance is assessed using the board of commissioners size. The selection of this measurement is similar to previous studies conducted by Rahmawati, Rikumahu, Brady & Dillak (2017), thus the board of commissioners size can be formulated as follows:

$$\text{Board of Commissioners Size} = \sum \text{Board of Commissioners Members} \quad \text{....... (2)}$$

Leverage is proxied by Debt to Equity Ratio (DER). This ratio indicates the proportion or structure of capital used by a company to finance its long-term obligations by comparing total debt to total equity. The use of this proxy is consistent with previous research conducted by Sari (2020), thus Debt to Equity Ratio (DER) can be formulated as:

$$\text{DER} = \frac{\text{Total Debt}}{\text{Total Equity}} \quad \text{..... (3)}$$

Sales growth is measured using sales growth. The selection of this measurement is consistent with previous research conducted by Ruzikna (2021), so sales growth can be formulated as follows:

$$\text{Sales Growth Ratio} = \frac{\text{Current Year Sales} - \text{Previous Year Sales}}{\text{Previous Year Sales}} \times 100\% \quad \text{....... (4)}$$

2.2. Data Analysis Techniques and Hipothesis Testing

The research involves conducting descriptive statistics to organize and present data effectively, aiming to provide a clear overview for analysis. Classic assumption tests, including normality, multicollinearity, heteroskedasticity, and autocorrelation tests, are performed to ensure the regression model's validity. Multiple regression analysis is then employed to assess the impact of Good Corporate Governance (GCG), Leverage, and Sales Growth on the Financial Performance of Manufacturing Companies in the Food and Beverage Sub-Sector from 2020 to 2022. The analysis utilizes a regression model to determine the coefficients of the independent variables and their influence on financial performance. Additionally, the coefficient of determination (R2) is calculated to gauge the model's explanatory power. Finally, hypothesis testing is conducted using t-tests to determine the individual significance of each independent variable on the dependent variable, with a significance level of 0.05.

3. RESULTS AND DISCUSSION

3.1. Data Analysis Result

3.1.1. Descriptive Statistics

Table 1. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Commissioner Board Size	72	2	9	3,75	1,685
DER	72	0,02	4,58	0,9146	0,81600
Sales Growth	72	-0,56	3,10	0,1638	0,43142
ROA	72	0,00	0,27	0,0844	0,06413
Valid N (listwise)	72				

Based on table 1 the study utilized 72 samples over the period of 2020-2022. The dependent variable is financial performance, proxied by ROA. Independent variables include Good Corporate Governance (GCG), proxied by board size; Leverage, proxied by DER; and Sales Growth, proxied by sales growth.

3.1.2. Classic Asumption Test

The Kolmogorov-Smirnov test result indicates an Asymp. Sig (2-tailed) value of 0.077 > 0.05. This proves that the data testing in this study follows a normal distribution. The Collinearity Statistics indicate that the tolerance values for Board Size is 0.992, Debt to Equity Ratio (DER) is 0.998, and Sales Growth is 0.990. These values suggest that all independent variables have tolerances close to 1, indicating no multicollinearity issues. Additionally, the VIF values for Board Size is 1.008, Debt to Equity Ratio (DER) is 1.002, and Sales Growth is 1.010. All VIF values for the three variables are < 10, indicating no independent variable has a Variance Inflation Factor (VIF) above 10. Therefore, it can be concluded that there is no multicollinearity among the independent variables in the regression model used. The autocorrelation test using Spearman's rho indicates correlations between the variables Board Size, Debt to Equity (DER), and Sales Growth with the Unstandardized Residual having a significance value (Sig 2-tailed) greater than 0.05. The significance value for the Board Size variable is 0.427 > 0.05, for the DER variable is 0.245 > 0.05, and for the Sales Growth variable is 0.655 > 0.05. Therefore, it can be concluded that there is no heteroscedasticity. Based on the run test results, the test value is -0.01143 and the significance value is 0.154 > 0.05, indicating that there is no autocorrelation in this study.

3.1.3. Determination Coefficient Test

The results of the coefficient of determination (R2) test indicate that the three independent variables (independents) on financial performance are expressed by the coefficient of determination R Square of 0.163, meaning that board size, debt to equity ratio (DER), and sales growth have an influence on financial performance of 16.3%, while the remaining 83.7% is influenced by other variables outside the study.

3.1.4. Hypothesis Test

The hypothesis testing results indicate that in terms of financial performance, the board size does not have a significant impact (p = 0.092), whereas the debt to equity ratio (DER) shows a significant influence (p = 0.007). However, sales growth does not exhibit a significant effect on financial performance (p = 0.076). Therefore, in this context, leverage appears to play a more crucial role in determining the financial performance of food and beverage companies compared to board size or sales growth.

Table 2. T Test Result

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	0,075	0,020		3,824	0,000
	X1_UkuranDewanKomisaris	0,007	0,004	0,190	1,709	0,092
	X2_DER	-0,025	0,009	-0,312	-2,808	0,007
	X3_Growth	0,030	0,017	0,201	1,803	0,076

3.2. Discussion

The study's findings indicate that board size does not significantly influence the financial performance of food and beverage manufacturing companies listed on the Indonesia Stock Exchange from 2020 to 2022, leading to the rejection

of the first hypothesis (H1). Contrary to signaling theory, which suggests that the number of board members does not affect financial performance, the research reveals that the presence of a larger board does not necessarily lead to improved financial oversight or decision-making within companies. This aligns with previous studies by Rahmatin & Kristanti (2020), Tertius & Christiawan (2015), Azizah & NR (2020), and Hartati (2020), which found no significant correlation between board size and financial performance.

The study's findings also reveal that the debt to equity ratio (DER) significantly affects the financial performance of food and beverage manufacturing companies listed on the Indonesia Stock Exchange from 2020 to 2022, thus accepting the second hypothesis (H2). A high DER signifies that a company operates with debt as its equity, potentially reducing profitability. Consequently, as DER increases, the financial performance of the company decreases due to higher interest expenses, leading to reduced profits. This aligns with signaling theory, indicating that high debt negatively impacts financial performance by reducing profitability. The results corroborate previous research by Anthonie, Tulung, & Tasik (2019), Sari (2020), and Nur Amalia (2021), emphasizing the influence of leverage on financial performance.

Furthermore, the study's results indicate that sales growth does not significantly affect the financial performance of food and beverage manufacturing companies listed on the Indonesia Stock Exchange from 2020 to 2022, thereby rejecting the third hypothesis (H3). Research by Puspitasari (2023) supports this, showing that sales growth does not influence financial performance as revenue from sales may not cover production costs, leading to an inability to achieve expected financial performance. The findings suggest that sales growth is not a primary factor affecting financial performance, as variations in sales growth do not significantly impact financial performance. Additionally, increased sales growth often comes with higher operational and production costs, which may offset the revenue generated, preventing improved financial performance. This contradicts signaling theory, which suggests that sales growth does not affect financial performance. The results align with previous studies by Mardaningsih, Nurlaela, & Wijayanti (2021), Puspitasari (2023), and Zanetty & Efendi (2022), indicating that sales growth does not influence financial performance.

4. CONCLUSION

In conclusion, the study's findings shed light on the factors influencing the financial performance of food and beverage manufacturing companies listed on the Indonesia Stock Exchange from 2020 to 2022. Firstly, the research indicates that board size does not significantly impact financial performance, contrary to signaling theory. Secondly, the debt to equity ratio (DER) emerges as a significant determinant, with higher debt levels adversely affecting profitability. Lastly, sales growth does not substantially affect financial performance, as revenue increases may be offset by higher operational costs. These insights underscore the complexities of financial management within the sector, highlighting the need for nuanced approaches to leverage and operational efficiency. Ultimately, the findings provide valuable insights for stakeholders aiming to optimize financial performance in the dynamic landscape of food and beverage manufacturing.

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