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# **Moderation Analysis of Company Size and Capital Structure on the Influence of Liquidity, Corporate Governance, and Business Risk on Financial Performance**

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**Abstract.** Financial performance is an important aspect to consider as it reflects the company's condition and the effectiveness of fund utilization towards the set targets, serving as an evaluation tool and facilitating the company in analyzing and considering factors that can influence any changes, especially in facing the massive economic changes caused by the Covid-19 pandemic. This study aims to analyze the influence of liquidity, corporate governance with institutional ownership mechanism, managerial ownership and audit committee, as well as business risk on financial performance, moderated by company size and capital structure in manufacturing sector companies listed on the Indonesia Stock Exchange (BEI) during the 2020-2021 period. The sample was determined using purposive sampling method, and a total of 168 samples were obtained during the research period. The data analysis methods used were multiple linear regression and Moderate Regression Analysis (MRA). The results indicate that liquidity has a positive influence on financial performance, institutional ownership and managerial ownership do not have a significant influence on financial performance, the audit committee has a negative influence on financial performance, business risk has a positive influence on financial performance, and company size and capital structure cannot directly moderate the occurring influences.

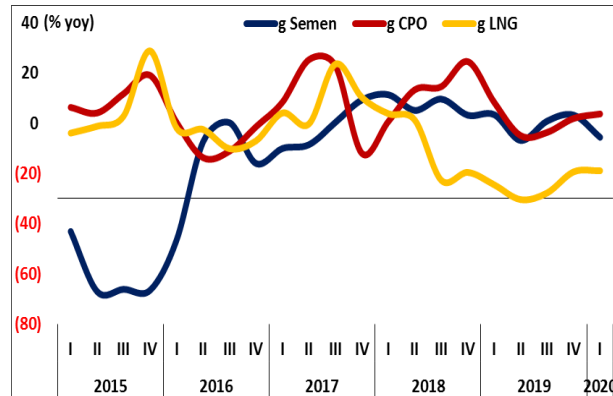
**Keywords.** Business Risk, Capital Structure, Firm Size, Good Corporate Governance, Liquidity

## **A. Introduction**

The Covid-19 outbreak, which began to affect Indonesia in March 2020, has had a massive impact on the changes in economic activities and people's lives, requiring individuals and businesses to adapt and withstand the challenges in their environment [1]. Companies are expected to be creative and innovative in order to remain competitive, as many have failed to adapt to the current environmental conditions, leading to negative impacts on production, sales, and declining profitability [2].

The Indonesian Issuers Association (AEI) confirms this phenomenon and states that in mid-2020, more than 50 issuers from various sectors, including manufacturing, experienced cash flow difficulties due to the Covid-19 pandemic [3]. Reports from Bank Indonesia also explain the dynamics of global uncertainty, which is expected to continue, causing disruptions

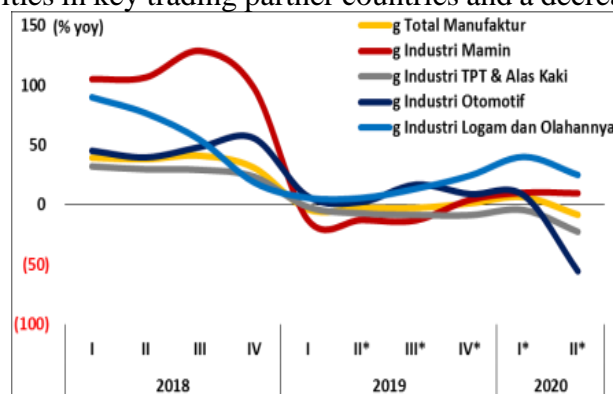
in the supply chain and posing risks to the performance of the domestic manufacturing industry [4].



Source:[4]

Figure 1. Manufacturing Production Growth

Based on Figure 1, it is known that the manufacturing industry experienced a decline in production levels in the early part of 2020 and is expected to weaken further in the second quarter of 2020. The decline is influenced by the drop in foreign export demand, as well as limited economic activities in key trading partner countries and a decrease in domestic demand.



Source:[4]

Figure 2. Manufacturing Export Performance and Sub-Industry

Based on Figure 2, it can be observed that there was a decline from the first quarter to the second quarter of 2020. This decline is attributed to the ongoing global demand weakening due to the implementation of regional lockdowns in various countries [4].

Table 1. ROA Acquisition in Industrial Sectors Listed on the Indonesia Stock Exchange in 2020-2021

Sector	2020	2021
Primer/Ekstractive	-0.31	0.02
Secondary/Manufacture	0.42	0.03
Tertiary/Services	-7.68	0.04

Source: (www.idx.co.id)

Based on Table 1.1, it can be observed that manufacturing sector companies experienced a decline in performance during the two years of the Covid-19 pandemic, with the initial score of 0.43 decreasing to 0.03. On the other hand, other sectors such as extractive and services managed to improve their financial performance, indicating that companies in those

sectors were able to maintain their financial condition despite external threats from the current environment.

Assessing financial performance in a given period is crucial as it reflects the financial condition and the effectiveness of fund mobilization and utilization in achieving predetermined targets [5]. The results serve as an evaluation for future policy-making to prevent difficulties in analyzing business activities and considering factors that can affect them to avoid losses [6].

Improving financial performance using financial factors such as liquidity needs to be considered in decision-making processes, as a good liquidity level can maximize company profits and enable future operational cost planning. Studies by Demirgünes, (2016); Kariuki et al. (2021) indicate a positive influence of liquidity on financial performance. However, Waswa et al. (2018); Kurniawati et al. (2022) found a negative impact, while Muthohharoh & Pertiwi, (2021); Nugraha et al. (2020) reported no significant influence.

Other factors such as good corporate governance, including institutional ownership, managerial ownership, and audit committees, should not be overlooked as they create control systems and balance in strategies and performance, preventing resource misuse [13]. Studies by Ahmad et al. (2019); Mahrani & Soewarno (2018) revealed a positive impact of institutional ownership on financial performance. However, Tsouknidis, (2019); Kurniawati et al. (2022) found negative effects, while Putri & Dewi, (2019); Artha et al. (2021) reported no influence. Anželika et al. (2017); Katper et al. (2018) indicated a positive influence of managerial ownership on financial performance, while Saidu et al. (2018); Sani, (2020) reported negative effects, and Regina, (2021); Savestra et al. (2021) found no influence. Pulungan et al. (2019); Shatnawi et al. (2022) revealed a positive impact of audit committees on financial performance, while Irma (2019) reported a significant negative influence, and Lusiana et al. (2018); Rosiana & Mahardhika, (2020) found no influence.

Business risks are also important to continuously monitor, as they represent vulnerable aspects for companies concerning cost and debt fulfillment failures that can occur due to unforeseen losses [29]. Valentina & Ruzikna, (2017); Permana & Agustina, (2021) explained a positive influence of business risks on financial performance, while Luciana et al. (2022) found contrasting results indicating no influence.

Company size has been found to moderate and strengthen the influence of liquidity on financial performance [33], [34], but Muthohharoh & Pertiwi (2021) reported different results, stating that company size does not moderate the relationship between liquidity and financial performance. Additionally, company size has been found to moderate the impact of corporate governance (GCG) factors, such as institutional ownership, managerial ownership, and audit committees, on financial performance (Himawan & Fazriah, 2021; Novisheila, 2019).

The capital structure, on the other hand, has been found to moderate the influence of liquidity on financial performance [37], while Salsabil *et al.* (2020) found that the capital structure cannot moderate it. Pulungan *et al.* (2019) revealed that the capital structure can moderate the impact of institutional ownership on financial performance, whereas Lusiana *et al.* (2018); Savestra *et al.* (2021) found that the capital structure cannot moderate it. Itung & Lasdi (2018); Tinambunan *et al.* (2021) showed that the capital structure can moderate the influence of managerial ownership on financial performance, while Lusiana et al. (2018); Pulungan et al. (2019) found that the capital structure cannot moderate it. Tinambunan *et al.* (2021) stated that the capital structure can also moderate the impact of audit committees on financial performance, while Lusiana *et al.* (2018); Pulungan *et al.* (2019) explained that the capital structure cannot moderate it.

This study aims to analyze the influence of liquidity, GCG with mechanisms of institutional ownership, managerial ownership, and audit committees, as well as business risks on financial performance, moderated by company size and capital structure in manufacturing sector companies listed on the Indonesian Stock Exchange (BEI) during the period of 2020-2021.

## **B. Literature Review**

### **Agency Theory**

Jensen & Meckling (1976) explain agency theory as the agency relationship between one or more owners (principals) and other individuals (agents) involving delegation with the goal of taking actions on behalf of the owners due to the limitations of the owners' ability to simultaneously manage a growing company. The established relationship aims to maximize utility to minimize information asymmetry and agency conflicts, thus requiring good corporate governance for owners to entrust managers' abilities to utilize company resources effectively and improve profitability [42].

### **Signaling Theory**

Signaling theory describes a company's efforts to provide signals or information to users of financial statements, particularly investors who are considering investment activities [43]. Brigham and Houston (2010:185) explain that the signals given by a company are information derived from management's actions in running the company with the aim of fulfilling the desires of investors or shareholders to gain insights into the company's prospects.

### **Financial Performance**

Financial performance represents the results of management's abilities in terms of strategies, policies, and operations implemented to manage the finances of the company using the resources it possesses for sustainability, such as all assets, capabilities, organizational processes, information, and systematic knowledge over a specific period, which can be reviewed through financial statements (Makhdalena, 2014). Return on assets (ROA) is one of the ratios used as a measure of performance in assessing a company's ability to generate profits from its assets' utilization [46].

### **Liquidity**

Liquidity is defined as the company's ability to meet its short-term financial obligations using its available liquid funds. It is important to manage, maintain, and preserve the company's liquidity level effectively to ensure its financial health. This is also useful in maintaining the company's credibility with creditors [47].

### **Good Corporate Governance**

Good corporate governance is a mechanism that involves a series of management practices by both internal and external stakeholders, such as the board of commissioners, board of directors, and shareholders of a company, based on principles of transparency, accountability, responsibility, professionalism, and fairness, with the aim of achieving the company's objectives and monitoring its performance (Agoes & Ardana, 2018: 101). Good corporate governance is also necessary as an added value for stakeholders to support improvements in financial performance by providing security guarantees for the company's assets [49].

### **Institutional Ownership**

Elisetiawati & Artinah (2016) explain that institutional ownership refers to the percentage of shares held by institutional entities or organizations invested in a company out of the total outstanding shares, serving as additional capital for the advancement of the company's business activities.

### **Managerial Ownership**

Lusiana *et al.* (2018) explain that managerial ownership refers to the proportion of shares owned by internal parties such as owners, management, board members, or executives in a company, with the aim of aligning interests among managers and effectively monitoring the company to avoid financial difficulties and improve performance.

### **Audit Committee**

The Audit Committee is a body formed by the board of commissioners and is considered as a link between shareholders and the board of commissioners with management. It assists in the task of oversight and internal auditing, particularly in the financial domain, thereby encouraging management to improve asset organizational efficiency [51]. In its reporting, the committee is expected to minimize the possibility of misconduct or negligence and provide recommendations to the board of directors regarding decision-making in financial matters [52].

### **Business Risk**

Business risk refers to the risk that a company may face in its business activities, particularly in the financial domain, related to the fulfillment of relatively high debt and the use of capital by the company to support its business. Companies that are unable to meet their high debt levels are more likely to face the risk of losses and even bankruptcy (Hanafi, 2014:17).

### **Firm Size**

Firm size refers to the scale, whether large or small, of a company, which can be measured by total assets. It aims to indicate the condition of the company and determine its ability and the level of risk it faces in managing investment funds. Additionally, firm size can also be used to classify whether a company performs well or not based on its experience and development [54].

### **Capital Structure**

According to Kristianti (2018), capital structure refers to the decision regarding the use of the company's capital composition, which can be sourced from debt as well as the company's own capital from owner contributions or retained earnings for long-term financing activities in an optimal manner. It considers the company's growth with the varying utilization of funding sources, which has an impact on its financial performance.

### **The Influence of Liquidity on Financial Performance**

Liquidity, measured by the current ratio, is used to indicate the financial condition of a company and its ability to meet short-term obligations, which is expected to have a positive impact on the return on assets (ROA). This is based on the signaling theory, which suggests that companies with good liquidity management capabilities send signals to investors about the favorable prospects of their financial performance [56]. Demirgünes, (2016); Kariuki *et al.* (2021) found a positive influence of liquidity on financial performance, indicating that better liquidity conditions are accompanied by improved financial performance.

H1: Liquidity has a positive influence on financial performance.

### **The Influence of Institutional Ownership on Financial Performance**

Elisetiawati & Artinah (2016) explain that institutional shareholders generally act as monitors of the company and managers as the operators. Supervision activities facilitate control over the company and are expected to have a positive impact on its performance. This aligns with the agency theory, which states that company owners must maintain a good relationship with managers who play a crucial role in managing the company's activities for its progress and smooth operation [41]. Ahmad *et al.* (2019); Mahrani & Soewarno, (2018) found a positive

influence of institutional ownership on financial performance, indicating that the presence and proportion of institutional shareholding can enhance a company's financial performance.

H2: Institutional ownership has a positive influence on financial performance.

#### **The Influence of Managerial Ownership on Financial Performance**

Ownership of shares by management has a positive impact on company performance because it increases management's motivation to work well and make careful decisions that do not harm the company [57]. This relates to agency theory, which emphasizes the alignment of interests between agents and owners in the pursuit of increased returns [41]. Anželika et al. (2017); Katper et al. (2018) found a positive influence of managerial ownership on financial performance, indicating that managerial ownership can enhance a company's financial performance.

H3: Managerial ownership has a positive influence on financial performance.

#### **The Influence of Audit Committee on Financial Performance**

The audit committee plays a crucial role in ensuring the credibility of financial reporting and maintaining adequate oversight of corporate governance, thereby reducing the likelihood of agency conflicts [14]. This aligns with agency theory, emphasizing the importance of managing good relationships between agents and stakeholders to foster cooperation in improving financial performance [36]. Pulungan et al. (2019); Shatnawi et al. (2022) found a positive influence of the audit committee on financial performance, indicating that an optimal performance of the audit committee can enhance financial performance.

H4: The audit committee has a positive influence on financial performance.

#### **The Influence of Business Risk on Financial Performance**

Utami (2017) explains that business risk refers to the level of financial risk that a company faces due to its inability to cover operational costs from debt and the instability of its income. This is based on signaling theory, which suggests that effective risk management can serve as a positive signal for investors and enhance a company's performance. Valentina & Ruzikna, (2017); Permana & Agustina, (2021) found a positive influence of business risk on financial performance, indicating that companies that effectively manage the risks they face, including high interest payments resulting from debt, can achieve better financial performance.

H5: Business risk has a positive influence on financial performance.

#### **The Influence of Liquidity on Financial Performance with Company Size as a Moderating Variable**

Company size can play an important role in the relationship between liquidity and financial performance as it reflects the company's ability to cope with uncertainties in business activities. Larger companies tend to be more stable due to their higher asset base, and this aligns with previous research findings [33]. This relationship is consistent with agency theory, which suggests that larger companies have agents who are more capable of managing finances and improving performance to be accountable to the owners, thus minimizing agency conflicts [34].

H6: Company size moderates the influence of liquidity on financial performance.

#### **The Influence of Institutional Ownership on Financial Performance with Company Size as a Moderating Variable**

Company size is a factor that can influence and strengthen the relationship between institutional ownership and financial performance. In business activities, larger companies are generally more trusted by investors, and the size of the company can indicate the quality of its performance. The monitoring function of institutional investors is also more effective in larger companies, leading to more careful decision-making and improved financial performance (Himawan & Fazriah, 2021). This relationship is based on agency theory, where managers strive

to benefit stakeholders through the information they possess and aim to minimize the likelihood of agency conflicts [59].

H7: Company size moderates the influence of institutional ownership on financial performance.

**The Influence of Managerial Ownership on Financial Performance with Company Size as a Moderating Variable**

Company size can also strengthen the relationship between managerial ownership and financial performance. As the size of the company increases, there is a greater demand for better corporate governance systems. Managerial ownership aligns the interests of management with other shareholders, and this is consistent with Himawan & Fazriah (2021) and agency theory. The size of the company reflects the ability of management, as both managers and shareholders, to foster good relationships with owners and strive to increase the company's utility, thereby minimizing agency conflicts and associated costs, which are expected to positively impact financial performance [59].

H8: Company size moderates the influence of managerial ownership on financial performance.

**The Influence of Audit Committee on Financial Performance with Company Size as a Moderating Variable**

Company size can strengthen the influence of the audit committee on financial performance. Through its larger scale, a company encourages and strengthens the effectiveness of the audit committee in dealing with high asset turnover and helping improve financial performance. This is in line with the findings of previous research [36]. The relationship is grounded in agency theory, where company size provides information that helps mitigate potential conflicts of interest, as an optimal audit committee's role, particularly in financial management, contributes to enhancing the company's financial performance (Sudarmadji & Sularto, 2007).

H9: Company size moderates the influence of the audit committee on financial performance.

**The Influence of Liquidity on Financial Performance with Capital Structure as a Moderating Variable**

Capital structure can contribute to moderating the influence of liquidity on a company's financial performance. When a company has an appropriate and well-managed capital structure, it can contribute to profitability and also affect the liquidity's impact on the company's performance. This aligns with Teng & Simorangkir (2018) and is based on signaling theory, as the ability of the capital structure to strengthen the relationship between liquidity and financial performance can provide positive information to investors, instilling confidence [38].

H10: Capital structure moderates the influence of liquidity on financial performance.

**The Influence of Institutional Ownership on Financial Performance with Capital Structure as a Moderating Variable**

Capital structure can strengthen the influence of institutional ownership on financial performance. When a company effectively manages its capital structure policies, it provides positive information to investors, which encourages optimal supervision and supports the company's efforts to improve its financial performance. This is consistent with the findings of Savestra *et al.* (2021) and is based on signaling theory. Pulungan *et al.* (2019) have demonstrated the role of capital structure in moderating and strengthening the influence of institutional ownership on a company's financial performance.

H11: Capital structure moderates the influence of institutional ownership on financial performance.

**The Influence of Managerial Ownership on Financial Performance with Capital Structure as a Moderating Variable**

Capital structure can actively moderate the influence of managerial ownership on a company's financial performance. Management considers financing decisions and optimization to create profitability for the company. Management also strives to ensure the company consistently performs well, providing positive information to shareholders. This aligns with the research of Itung & Lasdi (2018); Tinambunan et al. (2021), and is grounded in signaling theory. H12: Capital structure moderates the influence of managerial ownership on financial performance.

### **The Influence of Audit Committee on Financial Performance with Capital Structure as a Moderating Variable**

The company's capital structure can moderate the influence of the audit committee on financial performance. This means that the level of debt utilized by the company can actually strengthen the effectiveness of the audit committee in overseeing the financial reporting process. An effective audit committee's role can also help improve financial performance, acting as a positive signal to gain investor trust. This is in line with signaling theory and the findings of (Tinambunan *et al.*, 2021).

H13: Capital structure moderates the influence of the audit committee on financial performance.

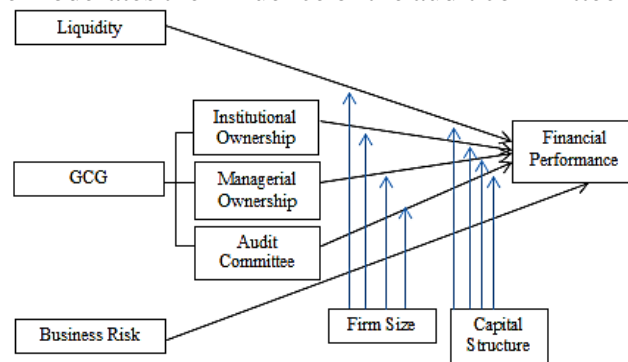


Figure 3. Conceptual Model

### **C. Methods**

This research belongs to the quantitative research category. The population in this study consists of manufacturing sector companies listed on the Indonesia Stock Exchange in the years 2020-2021. The sampling method used is purposive sampling, with the criteria that the companies must be in the manufacturing sector, listed on the Indonesia Stock Exchange, and have published financial and annual reports for the years 2020-2021. The companies also need to have the necessary data for the research period of 2020-2021. Based on the criteria and research period, a total of 168 samples were obtained. The statistical data analysis technique includes testing classical assumptions such as normality, autocorrelation, multicollinearity, and heteroscedasticity. Hypothesis testing is then conducted using steps such as testing the determination coefficient R<sup>2</sup>, the F-statistic test, followed by multiple linear regression analysis and Moderate Regression Analysis (MRA).

$$ROA = 4,144 + 0,002CR - 1,019AC + 8,390BRISK + e$$

**D. Results and discussion**

**Classic Assumption Test**

Table 2. Classical Assumption Test Results

Variable	Normality	Autokorelation	Multicollinearity		Heteroskedasticity
	Sig.		Tolerance	VIF	Sig.
	,200	1,919			
CR			,869	1,151	,866
IO			,547	1,828	,503
MO			,542	1,845	,608
AC			,986	1,014	,332
BRISK			,966	1,036	,346
SIZE			,831	1,203	,721
LTDER			,704	1,421	,148

Source: (SPSS Output, 2023 data processed)

Table 2 presents the results of the normality test using the Kolmogorov-Smirnov test, which obtained a significance value of  $0.200 > 0.05$ , indicating that the data is normally distributed. Furthermore, the autocorrelation test using Durbin-Watson statistic yielded a result of 1.919. When compared to the criteria of  $1.826 < du < 4 - du$ , it indicates that there is no autocorrelation present in the data. The multicollinearity test revealed that all independent variables have tolerance values  $> 0.1$  and VIF values  $< 10$ , indicating no multicollinearity issue. The heteroskedasticity test using the Park test shows that all independent variables have sig. values  $> 0.05$ , indicating the absence of heteroskedasticity symptoms.

**Hypothesis Testing**

Tabel 3. Hypothesis Testing Results

	Model	B	T	Sig.	Adj. R Square
Determination (R <sup>2</sup> )					,153
Test F				,001	
Equation I	(constant)	4,144	3,169	,002	
	CR	,002	2,882	,005	
	IO	,006	1,136	,259	
	MO	,005	,530	,597	
	AC	-1,019	-2,483	,015	
Equation II	BRISK	8,390	2,419	,017	
	(constant)	2,393	1,063	,290	
	CR	,003	3,365	,001	
	AC	-1,026	-,277	,016	
	SIZE	,082	,119	,204	
Equation III	(constant)	4,922	3,890	,000	
	CR	,002	2,550	,012	
	AC	-,977	-2,359	,020	
	LTDER	-,00	-2,063	,042	
	(constant)	23,366	-,979	,330	
	CR	-,004	,222	,825	
	AC	-,7,383	-,996	,322	

SIZE	-,650	-,781	,437
CR*SIZE	,000	,372	,711
AC*SIZE	,222	,858	,393
(constant)	6,083	3,056	,003
CR	,002	1,812	,073
KA	-1,347	-2,016	,047
SIZE	-,047	,965	,337
CR*LTDER	1,648E-5	,509	,612
AC*LTDER	,012	,766	,446

Source: (SPSS Output, 2023 data processed)

The determination test (R<sup>2</sup>) in Table 3 yielded a result of 0.153 or 15.3%, indicating that the model's ability to explain the dependent variable can be explained by the independent variables CR, IO, MO, AC, and BRISK, accounting for 15.3%, while the remaining 84.7% is explained by other factors outside the model. The F-test resulted in a significance value of 0.001 < 0.05, indicating that CR, IO, MO, AC, and BRISK collectively have a significant impact on ROA. Furthermore, from the t-test results shown in Table 3, in the summary of the MRA test in Equation 1, CR obtained a calculated t-value of 2.882 with a significance value of 0.005 < 0.05, thus accepting H1 and indicating that liquidity has a positive impact on financial performance. The next result is the t-test for IO, which yielded a t-value of 1.136 with a significance value of 0.259 > 0.05, indicating that H2 is rejected, and IO does not have a significant impact on financial performance. The t-test for MO resulted in a t-value of 0.530 with a significance value of 0.597 > 0.05, leading to the rejection of H3, implying that MO does not have a significant impact on financial performance. AC obtained a t-value of -2.483 with a significance value of 0.015 < 0.05, rejecting H4 because AC has a negative impact on financial performance. Lastly, BRISK yielded a t-value of 2.419 and a significance value of 0.017 < 0.05, indicating that H5 is accepted, and BRISK has a positive impact on financial performance.

Based on Table 3, it is known that in Equation I, the variables CR and AC have significance values < 0.05, indicating significance. However, IO and MO have significance values > 0.05, indicating insignificance, and therefore cannot proceed to participate in the moderation test. As for SIZE, in its role as an independent variable, it has a t-value of 0.119 and a significance value of 0.204 < 0.05, indicating that it does not have a direct impact on financial performance. On the other hand, LTDER, as an independent variable, has a t-value of -2.063 and a significance value of 0.042 < 0.05, indicating that LTDER has a direct impact on financial performance.

In the moderation test results, Equation III shows that SIZE has a t-value of 0.781 and a significance value of 0.437 > 0.05, indicating that it does not have an effect on financial performance. LTDER has a t-value of 0.965 and a significance value of 0.337 > 0.05, indicating that it does not have an effect on financial performance. The t-value obtained from the interaction variable CR\*SIZE is 0.372 with a significance value of 0.711 > 0.015, meaning it is not significant, and SIZE cannot moderate the relationship between CR and ROA. Furthermore, the t-value for AC\*SIZE is 0.858 with a significance value of 0.393 > 0.05, indicating that it is not significant, and SIZE cannot moderate the relationship between AC and ROA. The t-value for the interaction variable CR\*LTDER is 0.509 with a significance value of 0.612 > 0.05, indicating insignificance, and LTDER cannot moderate the relationship between CR and ROA. AC\*LTDER has a t-value of 0.766 and a significance value of 0.446 > 0.05, meaning it is not significant, and LTDER cannot moderate the relationship between AC and ROA.

Based on the obtained results, it can be concluded that firm size (SIZE) acts as a homogenizing moderator variable since its  $\beta_2=0$  (insignificant), and  $\beta_3=0$  (insignificant), indicating its potential to become a moderating variable. On the other hand, capital structure (LTDER) functions as a predictor moderator variable as its  $\beta_2 \neq 0$  (significant), and  $\beta_3=0$  (insignificant), indicating its role as an independent variable in the relationship formed.

### **The Influence of Liquidity on Financial Performance**

The results obtained indicate that liquidity has a positive influence on financial performance, indicating that higher levels of company liquidity can enhance its financial performance. This is because sample companies like PT Gunawan Dianjaya Steel Tbk and PT Japfa Comfeed Indonesia Tbk have effectively managed their finances and ensured the availability of sufficient funds during the crisis caused by the pandemic. They have also made efforts to delay some capital expenditures, implemented strict financial management and cash control, and conducted regular monitoring. These measures have enabled them to meet obligations and support their operational activities, ultimately maximizing company profits through increased sales volume. These findings are consistent with the signaling theory, which suggests that management actions, especially in conditioning liquidity levels, can provide positive signals to investors and creditors regarding the company's prospects, thereby instilling confidence (Brigham dan Houston, 2010:185).

These research findings align with previous studies by (Demirgünes, 2016; Kariuki et al., 2021). The practical implication of this research is that companies, especially management, need to pay continuous attention to liquidity components through indicators such as the current ratio. By doing so, they can effectively manage their finances and ensure that short-term obligations do not hinder efforts to improve financial performance.

### **The Influence of Institutional Ownership on Financial Performance**

The results obtained indicate that the percentage of institutional ownership held by companies does not have a significant impact on financial performance. This may be due to the fact that through institutional shares, which are part of shares sold to the public, the level of control remains primarily in the hands of the company as the largest controlling entity. This allows them to maintain financial stability, especially in the face of the Covid-19 pandemic and the resulting economic instability. Based on these results, the minority and weak nature of institutional ownership in terms of oversight can still be explained by agency theory. Through institutional shares, it is possible to minimize agency problems and the associated agency costs resulting from differing interests between agents and principals in implementing policies to improve company performance (Jensen & Meckling, 1976).

These findings are supported by previous studies by (Putri & Dewi, (2019; Artha et al. 2021). The practical implication of this research is that manufacturing sector companies do not need to consider the extent of institutional share ownership, as it does not affect their financial performance. Companies would be better off focusing on fund management for operational activities and considering other factors that can impact financial performance.

### **The Influence of Managerial Ownership on Financial Performance**

This research reveals that the percentage of managerial ownership, whether large or small, does not have an impact on financial performance. This indicates that managerial ownership has not yet been recognized as a mechanism that aligns the interests of shareholders outside of management. The financial performance of the company is not influenced by managerial ownership but rather relies on the management's ability to effectively manage it. These

results are inconsistent with agency theory, which suggests that managerial ownership programs are one way to reduce agency costs. It is expected that managers, as shareholders and managers, would feel more accountable to improve company performance to increase the benefits received (Jensen & Meckling, 1976).

These findings align with previous studies by (Regina, 2021; Savestra et al. 2021). The practical implication of this research is that manufacturing companies do not need to consider the extent of managerial share ownership, as it does not affect their financial performance. Instead, companies should focus on enhancing management skills and effectively managing the company.

### **The Influence of Audit Committee on Financial Performance**

The results obtained explain that the audit committee has a negative influence on financial performance. This indicates that increasing the number of audit committees in a company does not fully support their effectiveness and may even lead to a loss of focus and insufficient participation of members in resolving conflicts. Additionally, it can result in higher costs for the company, which can impact its finances, especially considering the economic instability caused by the Covid-19 pandemic. These research findings are not in line with agency theory, which suggests that an increasing number of audit committees should lead to better synergy between agents and company owners, working together for the company's progress. An effective audit committee should also minimize the possibility of agency conflicts that hinder efforts to improve financial performance (Jensen & Meckling, 1976).

These results are consistent with the study by (Irma, 2019). The practical implication of this research is that manufacturing companies should carefully determine the number of audit committees needed, ensuring they are not excessive but comply with the regulations outlined in the Financial Services Authority Regulation No. 55/POJK.04/2015. Ideally, the minimum requirement is three members with high integrity, a good financial reputation, and competence. This will help ensure effectiveness in their tasks and responsibilities related to internal supervision and auditing, ultimately contributing to improved financial performance.

### **The Influence of Business Risk on Financial Performance**

The results of this research reveal that business risk has a positive influence on financial performance. This means that higher financial risks faced by manufacturing companies, such as PT Astra Internasional Tbk, actually contribute to improved financial performance. The high risks, particularly in dealing with economic uncertainties caused by the Covid-19 pandemic, are not ignored but managed to minimize their impact. This is achieved through identification, calculation, and anticipation by formulating strategies and continuous innovation to maintain operational stability and ensure the repayment of debts to avoid bankruptcy. These efforts ultimately lead to increased output and improved financial performance. These findings are in line with the signaling theory, which suggests that a company's ability to face and manage high financial risks and improve its financial performance serves as a positive signal to investors, instilling confidence for them to invest in the company (Brigham dan Houston, 2010:185).

These research findings are supported by (Valentina & Ruzikna, 2017; Permana & Agustina, 2021). The implication of this research is that manufacturing companies should not be afraid of financial risks, whether in terms of costs or funding decisions through high levels of debt, as they can also yield high financial performance if managed effectively by the company.

### **The Influence of Liquidity on Financial Performance Moderated by Company Size**

Company size, reflected through its assets, is unable to moderate the influence of liquidity on financial performance. This could be because the scale of a company is not given

much attention by stakeholders regarding their efforts to maintain liquidity stability and achieve improvements in financial performance. These results are not in line with agency theory, which suggests that larger-scale companies are better equipped to manage company finances, particularly in providing sufficient liquid funds to meet short-term obligations and effectively drive operational activities to enhance financial performance (Jensen & Meckling, 1976).

These research findings align with (Muthohharoh & Pertiwi, 2021). The implication of these results is that companies should maintain their liquidity conditions to ensure stability and enhance financial performance, regardless of company size.

### **The Influence of Audit Committee on Financial Performance Moderated by Company Size**

The size of a company does not affect the relationship between the number of audit committees and financial performance. This is because information about the company's large scale does not necessarily enhance the performance of the audit committee in overseeing financial reports. These findings are contrary to agency theory, which suggests that the performance of audit committees in larger companies would be more optimal and accountable to the owners, leading to effective synergy and reduced potential conflicts of interest (Jensen & Meckling, 1976).

These research findings contradict Novisheila, (2019) who stated that company size can moderate the relationship between the influence of audit committees and financial performance. The implication of this research is that audit committees in all manufacturing companies should work optimally in overseeing operations, regardless of company size, to minimize resource misuse and potential agency conflicts.

### **The Influence of Liquidity on Financial Performance Moderated by Capital Structure**

Capital structure is unable to moderate the relationship between liquidity and financial performance. This is because a majority of manufacturing companies have significant short-term debt, making it difficult to finance long-term investments with large amounts of long-term debt. Furthermore, the capital structure does not contribute to improving financial performance. These results are not in line with signaling theory, which suggests that well-managed financial conditions and fulfilling obligations serve as signals influencing investment decisions (Brigham dan Houston, 2010:185).

These research findings are supported by (Salsabil *et al.*, 2020). The implication of this research is that manufacturing companies cannot rely on capital structure to strengthen the impact of liquidity on their financial performance. Companies still need to improve their financial conditions and ensure that both short-term and long-term debts are met to achieve optimal financial performance.

### **The Influence of Audit Committee on Financial Performance Moderated by Capital Structure**

Capital structure is unable to moderate the influence of the audit committee on financial performance. This is because the role of the audit committee in companies is primarily focused on overseeing financial reporting and ensuring the absence of resource misuse to enhance financial performance. The audit committee does not participate in decision-making regarding the company's capital structure. These findings also contradict signaling theory, which suggests that proper management of the capital structure serves as positive information indicating a well-

performing company due to the agent's ability to optimize resource utilization and improve financial performance (Brigham dan Houston, 2010:185).

This research is supported by (Lusiana *et al.*, 2018; Pulungan *et al.*, 2019). The practical implication of this research is that managers should not rely on capital structure to enhance the relationship between the audit committee and financial performance. Instead, they should focus on efficiently fulfilling the tasks and responsibilities of the audit committee and ensuring that the company's financial condition is in good shape to enhance performance.

### **E. Conclusion**

This research aims to examine the direct effects of liquidity, institutional ownership, managerial ownership, audit committee, and business risk on financial performance, as well as the moderating role of company size and capital structure in manufacturing sector companies listed on the Indonesia Stock Exchange (BEI) during the years 2020-2021. The results indicate that liquidity has a positive influence on financial performance, while institutional ownership and managerial ownership do not have a significant impact on financial performance. The audit committee has a negative influence on financial performance, and business risk has a positive impact on financial performance. Company size and business risk also do not moderate the direct effects that occur.

Based on the findings, companies are encouraged to maintain the quality of their financial management, especially regarding the fulfillment of short-term obligations, the level of risk they face, and the attention given to the number of audit committees owned to enhance effectiveness and improve financial performance. Companies should also be cautious when considering capital structure policies for financing activities to ensure the smooth running of their businesses since these policies have the potential to individually affect financial performance. Investors are also advised to consider factors that may influence a company's financial condition, such as liquidity and business risks in the financial field, before deciding to invest. Companies with good liquidity levels and the ability to handle risks effectively will gain investor trust and serve as a consideration to ascertain the company's favorable condition.

Future researchers are expected to expand the scope of their research to include all companies listed on the Indonesia Stock Exchange. This study only examines a small portion of variables from the model, with an Adjusted R<sup>2</sup> value of 15.3%. Therefore, future researchers can extend the research period and include additional or alternative variables such as CSR, intellectual capital, and macroeconomic variables like inflation that can influence financial performance. They can also add moderation variables such as company growth, company age, or dividend policies.

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