

The Influence of Board of Directors, Board of Commissioners, and Independent Commissioners on Company Financial Performance

Alifia Izzah Islam

Master of Accounting, Faculty of Economics and Business, Airlangga University

Correspondence: alifia.izzah.islam-2023@feb.unair.ac.id

Received: 14 Maret, 2024 | Revised: 1 Agustus 2024 | Accepted: 11 Agustus, 2024

Keywords:

Board of
Commissioners;
Board of Director;
Company Value;
Independent Board of
Commissioners

Abstract

Assessing a company's financial performance is crucial, as it serves as a benchmark for potential investors when considering investment in the company's stocks. This research sought to examine the impact of the board of directors, board of commissioners, and independent commissioners on a firm's financial performance, evaluated using financial ratios. The study concentrated on pharmaceutical companies registered on the Indonesia Stock Exchange (IDX) during the period from 2018 to 2022. The results indicate that while the size of the board of directors does not exert a significant influence, both the board of commissioners and independent commissioners contribute to shaping the financial performance of the company.

Kata Kunci:

Direksi; Dewan
Komisaris; Dewan
Komisaris
Independen; Nilai
Perusahaan.

Abstrak

Menilai kinerja keuangan perusahaan merupakan hal yang krusial, karena menjadi tolak ukur bagi calon investor dalam mempertimbangkan investasi pada saham perusahaan. Penelitian ini bertujuan untuk menguji dampak dewan direksi, dewan komisaris, dan komisaris independen terhadap kinerja keuangan perusahaan yang dievaluasi dengan menggunakan rasio keuangan. Penelitian ini berkonsentrasi pada perusahaan farmasi yang terdaftar di Bursa Efek Indonesia (BEI) selama periode 2018 hingga 2022. Hasil penelitian menunjukkan bahwa meskipun ukuran dewan direksi tidak memberikan pengaruh yang signifikan, dewan komisaris dan komisaris independen berkontribusi dalam membentuk kinerja keuangan perusahaan.

INTRODUCTION

In this era of globalization, the economic order, including in Indonesia, has undergone significant transformations. The advancement of technology and information is seen as something capable of changing the global economic conditions and corporate financial structures. Company performance seems to be the most crucial aspect for a company to navigate and survive in this fiercely competitive global market. This also impacts the pattern of corporate financial management. Companies that are able to manage their financial performance well are considered capable of competing in this global era (Winarno, 2019).

With intense competition in the global market, various types of corporations are starting to implement corporate governance systematically, openly, and responsibly. This demands that public companies must manage their systems well and transparently. Good governance strengthens the relationship between investors and the company. According to the concept of Good Corporate Governance (GCG), companies will achieve maximum value if the roles and functions of business actors are separated into the Board of Directors (BOD) and the Board of Commissioners (BOC) (Putra, 2015).

The implementation and management of good GCG is a concept emphasizing the importance of shareholders obtaining accurate and timely information. Furthermore, GCG indicates the company's obligation to disclose all information regarding its financial performance transparently. Therefore, regardless of the type of company, they must pay attention to their GCG to strive for improvement and company value (Sukandar & Rahardja, 2014).

For companies, efforts to improve and maintain the stability of financial performance are essential to attract potential investors to invest in the company. Investors who invest in a company need to know its financial performance because they expect profits from their investment. Meanwhile, measuring financial performance is also important for internal company stakeholders to determine the best strategies for the company's future (Febrina & Sri, 2021).

To achieve optimal financial performance, it is imperative to implement various effective corporate governance mechanisms. Companies adhering to good corporate governance practices necessitate oversight of the directors' performance. The BODs embodies several key principles including transparency, accountability, fairness, and responsibility. A well-functioning BODs is expected to positively impact the company's financial performance (Febrina & Sri, 2021)..

Oversight of the BODs' performance is crucial to ensure alignment with the company's objectives. According to POJK No. 33.POJK.04/2014, the BOCs is responsible for general and/or specific oversight as outlined in the articles of association, as well as providing guidance to the BOD. The BOC ensures that each director fulfills their duties and obligations in a systematic manner (Financial Services Authority Regulation, 2014).

Therefore, independent commissioners are an essential part of the GCG mechanism. Independent commissioners guide strategies and ensure that managers truly perform their duties to improve the company's performance intended by achieving the company's goals. Independent commissioners are a core part of GCG tasked with ensuring the implementation of corporate strategies and overseeing management in running the company (Fadillah, 2017).

A good GCG mechanism will protect shareholders and management to obtain reasonable and as efficient as possible returns on investment. Furthermore, a good mechanism can also assist companies in ensuring that management acts as effectively as possible for the company's interests (Sukandar & Rahardja, 2014).

The findings of the study conducted by Sukandar and Rahardja (2014) suggest that the size of the BOC and the company's size do not exert a notable influence on the company's financial performance. Their analysis, which focused on a sample of publicly listed companies in Indonesia, revealed that although larger boards of commissioners might be expected to bring diverse perspectives and enhanced oversight, this did not translate into measurable improvements in financial outcomes. Conversely, the size of the BODs appears to have a discernible impact. This suggests that the BODs, who are directly involved in the strategic and operational decision-making processes, play a critical role in shaping the company's financial performance. Similarly, Rahmawati et al. (2021) conclude that variables related to the BODs, the BOCs, the audit committee, and corporate social responsibility (CSR) collectively influence financial performance, as measured by return on assets (ROA). Their comprehensive study included a broad range of corporate governance and CSR metrics, highlighting the multifaceted nature of corporate governance and its intricate relationship with financial performance. The inclusion of CSR underscores the growing recognition of sustainable and socially responsible practices as integral components of corporate success. Furthermore, Febrina and Sri (2021) provide additional insights into the dynamics of corporate governance by concluding that the BOCs and the audit committee have a positive effect on financial performance, whereas the BODs and managerial ownership do not. These findings, based on an extensive analysis of ROA, suggest that while oversight and advisory functions (as performed by the BOCs and the audit committee) are beneficial, the direct involvement of directors and the presence of managerial ownership do not necessarily enhance financial outcomes. This challenges the traditional view that managerial ownership aligns the interests of managers and shareholders, thereby improving performance. Fadillah (2017) discovers that independent commissioners, managerial ownership, and institutional ownership do not impact company performance. This study's findings raise questions about the effectiveness of independent oversight and the role of ownership structures in enhancing company performance. The lack of significant impact from these variables suggests that other factors, possibly related to internal management practices or external market conditions, might play more crucial roles in determining financial outcomes.

Meanwhile, Hartati (2020) finds that the BOCs and the audit committee have no effect on financial performance, whereas institutional ownership positively influences it. This study emphasizes the role of institutional investors, who often have substantial resources and expertise, in influencing corporate governance and performance. The positive impact of institutional ownership may reflect these investors' ability to exert pressure on management to improve performance and adopt best practices.

Despite the variations in these findings, further investigation is required to reconcile these differences and develop a more comprehensive understanding of the factors that influence corporate financial performance. The discrepancies highlight the complexity of corporate governance and the need for nuanced analyses that consider various contextual and industry-specific factors. Future research should aim to integrate these diverse perspectives and explore

the interplay between different governance mechanisms, ownership structures, and external conditions to provide clearer insights into how companies can enhance their financial performance.

This research aims to empirically assess the influence of the BODs, the BOCs, and independent commissioners on company financial performance. The study focuses on pharmaceutical sector companies listed on the Indonesia Stock Exchange between 2018 and 2022. Pharmaceutical companies were selected due to the significant impact of the Covid-19 pandemic during this period, affecting the entire nation. As stated by the director of Phapros, a pharmaceutical company, the industry was adversely affected by the pandemic. Disruptions in the supply chain, particularly raw materials imported from countries like China and India, led to financial challenges and operational disruptions for pharmaceutical firms.

Literature Review and Hypothesis Development

Jensen and Mackling (1976) introduced agency theory, which conceptualizes the contractual relationship between the principal, or business owner, and the agent, or the management of a business. In this setup, the principal hires the agent, who is then authorized to make decisions within the business. This delegation creates a separation of ownership and control, inherently leading to potential conflicts of interest where the agent's actions may not always align with the best interests of the principal. Monitoring managers is accomplished through corporate governance, a framework that encompasses various mechanisms to ensure that agents act in the principal's best interests. The principles of corporate governance include transparency, responsibility, independence, and fairness, each playing a crucial role in mitigating agency problems and enhancing organizational accountability.

1. Relationship between the Board of Directors and Company

The BODs plays a pivotal role in overseeing all resources within the company, wielding significant power in their management. Their responsibilities include formulating policies and strategies to effectively manage company resources, both in the short and long term (Sudirman, 2022). It acts as the governing body of the company, responsible for setting the strategic direction and ensuring the company's overall well-being (Jiang, 2022). As a crucial mechanism of corporate governance, the BODs holds considerable influence over the company's strategic direction and operational efficiency. The board serves as a crucial link between the company's owners and its management, playing a pivotal role in maintaining effective organizational functioning (Hernik & Vera, 2017).

However, the impact of the BODs on company performance is a subject of ongoing debate due to conflicting findings in previous research. Some studies suggest that an effective BODs can lead to enhanced financial performance by providing strategic oversight and ensuring managerial accountability. Conversely, other studies have found no significant relationship or even negative impacts due to issues such as overreach or lack of expertise. This study seeks to contribute to this discourse by offering more comprehensive evidence of the BODs' role in company financial performance, thereby addressing the gaps and inconsistencies in the existing literature.

H1: The board of directors has a significant positive influence on company performance.

2. Relationship between the Board of Commissioners and Company Performance

The BOCs holds the responsibility of supervising the company's directors but lacks direct authority over company operations. Despite this lack of direct authority, the role of the BOCs is crucial in facilitating communication between shareholders and management within a company. Their primary duty involves overseeing the accuracy and completeness of information provided by the BODs, thereby ensuring that shareholders receive reliable and timely reports on the company's performance. A higher number of commissioners typically results in more effective oversight of the directors, as a diverse board can bring varied perspectives and expertise to the supervisory process. Research has shown that the composition and characteristics of the BOCs play a vital role in influencing a company's financial performance (Maryati & Anggraini, 2023). Studies have indicated that factors such as the size of the BOCs, the proportion of independent commissioners, and institutional ownership can positively affect financial performance.

However, inadequate supervision by the BOCs can give rise to agency issues, such as directors pursuing their own interests at the expense of shareholders. Moreover, a larger BOCs may complicate communication, task coordination, and decision-making within the company, potentially leading to inefficiencies. Therefore, further research is warranted to ascertain the impact of the BOCs on company financial performance, particularly in terms of how board size, composition, and dynamics influence their supervisory effectiveness.

H2: The board of commissioners has a significant positive influence on company financial performance.

3. Relationship between Independent Commissioners and Company Performance

Independent commissioners act as representatives of stakeholders to oversee the company's operations effectively. Their independence from company management positions them uniquely to perform monitoring functions that are crucial for the implementation of Good Corporate Governance (GCG). Independent directors oversee management decisions, ensure transparency, and represent shareholders' interests (Rao, Tilt, & Lester, 2012). To ensure the creation of good GCG, independent commissioners must possess high credibility, professional integrity, and a commitment to ethical standards. They are expected to provide unbiased oversight, challenge management decisions when necessary, and protect the interests of minority shareholders. Given the discrepancies in previous research findings regarding the impact of independent commissioners on company performance, further research is needed to obtain more comprehensive results. Some studies highlight the positive role of independent commissioners in enhancing transparency, reducing conflicts of interest, and improving financial performance. Boards with more independent directors tend to align decisions with environmental activities, leading to improved environmental performance and better financial outcomes (Rao et al., 2012). Independent directors play a crucial role in enhancing firm performance through their fiduciary duties and stakeholder coordination. They help coordinate stakeholders' interests, fulfill fiduciary duties, and reduce management

opportunism, ultimately improving financial and social responsibility outcomes (Wang, Su, Huang, Gong, & Wang, 2022). Their supervisory role is essential in maintaining a balance of power within the company and safeguarding shareholders' interests (Chang, 2023). Others, however, question their effectiveness, citing issues such as lack of industry expertise or insufficient authority to influence corporate decisions. This study aims to explore these dimensions further, providing a nuanced understanding of how independent commissioners contribute to corporate governance and financial outcomes.

H3: Independent commissioners have a significant positive influence on company financial performance.

METHOD

This study focuses on the population of pharmaceutical companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022. Within this timeframe, there are 14 companies that constitute the total population. However, to ensure the robustness and relevance of the analysis, sample data will be obtained using a purposive sampling technique. This method involves selecting samples based on specific criteria and relevance to the research objectives, resulting in 10 samples from the total population of 14 companies. The remaining 4 companies are excluded from the sample because they do not meet the established requirements, which may include factors such as consistent data availability, completeness of financial records, and adherence to reporting standards.

In this study, the researcher examines both dependent and independent variables to investigate the relationships and potential influences between them. The dependent variables in this study are the BODs, BOCs, and Independent Commissioners. These variables represent key components of corporate governance and are crucial for understanding their role in the oversight and strategic direction of the company. The independent variable is the Financial Performance of the Company, which is measured by Return on Assets (ROA). ROA is a widely used financial metric that indicates the efficiency of a company's management in generating profit from its assets and is considered a reliable indicator of overall financial performance.

To analyze the data collected from the sampled companies, a series of statistical techniques will be employed, starting with classical assumption tests. These tests are essential for validating the assumptions underlying the regression analysis and ensuring that the estimations derived from the model are unbiased and reliable.

RESULT AND DISCUSSION

A. Classic Assumption Tests

1. Normality Test

The normality test is a critical component in the arsenal of statistical analyses, serving to assess whether a given dataset adheres to a normal distribution. This examination is crucial because the normality of residuals is a fundamental assumption in regression modeling, alongside other key assumptions such as linearity, homoscedasticity, and independence of errors. In the present study, the One-Sample Kolmogorov-Smirnov test is employed to assess normality. This non-parametric test evaluates the goodness of fit between the cumulative distribution function of the observed data and that of a theoretical

normal distribution with identical mean and standard deviation. The null hypothesis (H_0) posits that the sample data is drawn from a normally distributed population, while the alternative hypothesis (H_1) suggests that the data deviates from normality. In this study, the normality test uses the One-Sample Kolmogorov test, with the results shown in the following Table 1:

**Table 1. Results of Normality Test
One-Sample Kolmogorov-Smirnov Test**

		Unstandardized Residual	
N		48	
Normal Parameters ^{a,b}	Mean	.0000000	
	Std. Deviation	1.22572523	
Most Extreme Differences	Absolute	.067	
	Positive	.063	
	Negative	-.067	
Test Statistic		.067	
Asymp. Sig. (2-tailed) ^c		.200 ^d	
Monte Carlo Sig. (2-tailed) ^e	Sig.	.856	
	99% Confidence Interval	Lower Bound	.847
		Upper Bound	.865

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

e. Lilliefors' method based on 10000 Monte Carlo samples with starting seed 2000000.

Based on the results from Table 1, it can be observed that the One-Sample Kolmogorov-Smirnov test yields a significance value of 0.200. This result is interpreted in relation to the predetermined alpha level, which is conventionally set at 0.05 in many fields of research. The obtained significance value ($p = 0.200$) exceeds this threshold ($p > 0.05$), leading to a failure to reject the null hypothesis. This outcome suggests that there is insufficient evidence to conclude that the residuals deviate significantly from a normal distribution.

2. Multicollinearity Test

Multicollinearity refers to the phenomenon where two or more independent variables in a regression model exhibit a high degree of linear correlation. This condition can significantly impact the stability and interpretability of the regression coefficients, potentially leading to erroneous conclusions regarding the individual effects of predictor variables on the dependent variable. Given these potential issues, it is imperative to conduct a thorough assessment of multicollinearity as part of the regression diagnostics. While various methods exist for detecting multicollinearity, including examination of correlation matrices and condition indices, this study employs two widely used metrics: Tolerance and Variance Inflation Factor (VIF). The results of the multicollinearity test can be seen in Table 2:

Table 2. Results of Multicollinearity Test

		Coefficients^a					Collinearity Statistics	
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Tolerance	VIF
		B	Std. Error	Beta				
1	(Constant)	1.987	1.089		1.824	.075		
	LAG_XDD	-.620	.610	-.162	-1.016	.315	.815	1.228
	LAG_XDK	1.869	.888	.359	2.105	.041	.710	1.408
	LAG_XKI	-.526	.329	-.256	-1.600	.117	.804	1.243

a. Dependent Variable: LAG_YROA

An examination of Table 2 reveals that all independent variables in the regression model exhibit Tolerance values exceeding 0.10 and VIF values below 10. These results are consistent with the conventional thresholds for acceptable levels of collinearity among predictors.

3. Autocorrelation Test

The autocorrelation test checks for the presence of autocorrelation, where the residuals are correlated with each other. Autocorrelation can indicate that the model has omitted important variables or that there are underlying patterns in the data that have not been accounted for. This aims to determine whether there is a relationship or disturbance error in the linear regression model between period t and the disturbance error in the previous period t-1. The results of the autocorrelation test can be seen in Table 3 below:

Table 3. Results of Autocorrelation Test

Model Summary^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.337 ^a	.113	.052	1.08945	1.972

a. Predictors: (Constant), LAG_XKI, LAG_XDD, LAG_XDK

b. Dependent Variable: LAG_YROA

Based on the results of the autocorrelation test presented in Table 3, it can be observed that the Durbin-Watson (DW) statistic is 1.972. The significance level for this test is set at 5%, with three independent variables and a sample size of 48 observations. To interpret the DW statistic, we refer to the Durbin-Watson table, which provides critical values for different sample sizes and numbers of predictors. In the Durbin-Watson table, the lower critical value (d_u) for our specific configuration (5% significance level, 3 independent variables, and 48 samples) is 1.6708. Conversely, the upper bound for this test is calculated using the formula $4 - d_u$, which yields a value of 2.3292. These bounds help determine whether the DW statistic falls within the acceptable range that indicates no autocorrelation.

To interpret these results, we assess whether the DW value lies between the lower and upper critical values. Specifically, we check if: $d_u < DW < 4 - d_u$ are Substituting the values of $1.6708 < 1.972 < 2.3292$

Since the DW value of 1.972 indeed falls within this range, we can conclude that the model does not exhibit autocorrelation. This finding is significant because

autocorrelation, which occurs when residuals (errors) from the regression model are correlated with each other, can lead to biased and inefficient parameter estimates, thereby compromising the validity of the model's inferences.

The absence of autocorrelation suggests that the residuals from our regression model are independent, which is a critical assumption for the reliability of the multiple regression analysis. This means that the error terms are not systematically related to each other, and any patterns observed in the residuals are purely random rather than indicative of a misspecified model or omitted variables. Ensuring the model is free from autocorrelation enhances the credibility of the regression results and supports the robustness of the conclusions drawn from the analysis. In this context, it indicates that the relationship between the independent variables (BODs, BOCs, and Independent Commissioners) and the dependent variable (Financial Performance measured by ROA) is not influenced by underlying autocorrelation issues.

Thus, this analysis reinforces the reliability of the multiple regression model employed in the study, providing a solid foundation for subsequent interpretations and recommendations based on the empirical findings. It underscores the importance of conducting thorough diagnostic tests in regression analysis to validate the assumptions and ensure the accuracy of the estimated relationships.

4. Heteroskedasticity Test (alternative using Glejser test)

The heteroskedasticity test is a crucial diagnostic procedure in regression analysis, designed to evaluate the constancy of residual variance across the spectrum of predictor variables. The presence of heteroskedasticity—a condition where the variability of residuals differs systematically across levels of the independent variables—can have significant implications for the efficiency of parameter estimates and the validity of inferential statistics. Conversely, homoskedasticity, characterized by uniform residual variance, is a fundamental assumption of the classical linear regression model and a desirable property for robust statistical inference. A good regression model is one that is homoskedastic, meaning there is no heteroskedasticity. To test for heteroskedasticity, a scatterplot pattern is used, as shown in Figure 1 below:

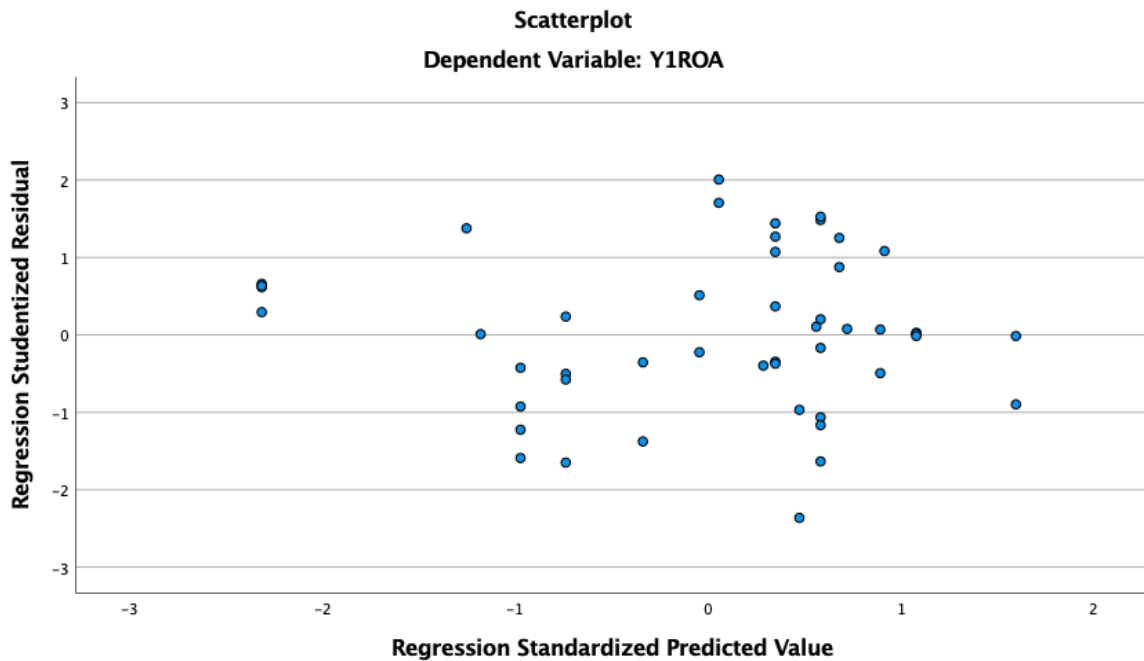


Figure 1. Results of Heteroskedasticity Test

Based on Figure 1, it can be observed that in the scatterplot graph, the points are randomly scattered and do not form a pattern. The points are spread across the X and Y axes and are above and below the value of 0. Therefore, there is no heteroskedasticity in this regression model.

B. Hypothesis Testing

1. Multiple Linear Regression Analysis

a. Simultaneous F Test

The F-test, a fundamental component of regression analysis, is employed to evaluate the collective explanatory power of the independent variables on the dependent variable. This omnibus test assesses the overall statistical significance of the regression model by comparing the explained variance to the unexplained variance. The null hypothesis posits that all regression coefficients are simultaneously equal to zero, while the alternative hypothesis suggests that at least one coefficient differs significantly from zero.

The empirical results of the F-test, including the F-statistic, degrees of freedom, and associated p-value, are meticulously documented in Table 4. This tabular presentation facilitates a comprehensive assessment of the model's global fit and provides crucial evidence regarding the joint explanatory capacity of the independent variables (Hair et al., 2010). The interpretation of these results will elucidate the overall validity of the regression model and inform subsequent analyses of individual predictor effects.

Table 4. Results of F Test

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.039	3	2.346	5.848	.002 ^b
	Residual	17.653	44	.401		
	Total	24.692	47			

a. Dependent Variable: Y1ROA

b. Predictors: (Constant), KOMISARIS INDEPENDEN, DEWAN DIREKSI, DEWAN KOMISARIS

As shown in Table 4, the F test yields a significant value of 0.02, which is less than the threshold of 0.05. This indicates that the independent variables, which include the BODs, BOCs, and independent commissioners, collectively influence the company performance measured by Return on Assets (ROA). The significant F-value suggests that the overall regression model is fit and that these governance variables have a combined effect on financial performance.

b. Coefficient of Determination Test

The coefficient of determination (R^2) serves as a crucial metric in regression analysis, quantifying the proportion of variance in the dependent variable that is explicable by the independent variables. An elevated R^2 value suggests that the predictor variables offer a robust explanation for the variability observed in the outcome variable. In the context of this investigation, the adjusted R^2 statistic is employed, as it provides a more nuanced and unbiased estimate by accounting for the number of predictors incorporated in the model. This adjustment is particularly salient in multiple regression analyses, where the inclusion of additional predictors can artificially inflate the unadjusted R^2 value. The adjusted R^2 thus offers a more conservative and accurate assessment of the model's explanatory power, penalizing the inclusion of superfluous predictors and mitigating the risk of overfitting. The empirical findings pertaining to the model's goodness-of-fit are succinctly presented in Table 5, which elucidates the proportion of variance in the dependent variable that can be attributed to the collective influence of the independent variables, after adjusting for model complexity.

Table 5. Results of Coefficient of Determination Test

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.337 ^a	.113	.052	1.08945	1.972

a. Predictors: (Constant), LAG_XKI, LAG_XDD, LAG_XDK

b. Dependent Variable: LAG_YROA

Table 5 shows an adjusted R^2 value of 0.052, meaning that 5.2% of the variation in company performance, as measured by ROA, is explained by the BODs, BOCs, and independent commissioners. This implies that a significant portion (94.8%) of the variation in company performance is due to factors outside the scope of this study. The relatively low adjusted R^2 suggests that while the governance variables do have some explanatory power, there are other important factors influencing company performance that were not included in this analysis.

c. Partial T Test

The t-test is used to determine the individual significance of each independent variable on the dependent variable. This test helps to identify which specific variables within the model have a statistically significant impact on financial performance. The partial t-test results are presented in Table 6 and further detailed in Table 7.

Table 6. Results of T Test

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	5.718	.953		5.998	.000		
	DEWAN DIREKSI	-.339	.268	-.192	-1.263	.213	.702	1.425
	DEWAN KOMISARIS	.885	.347	.399	2.551	.014	.663	1.508
	KOMISARIS INDEPENDEN	-.577	.158	-.521	-3.660	.001	.801	1.248

a. Dependent Variable: Y1ROA

Each variable's influence is explained in the test table 7 as follows:

1. The t-test for the BODs shows a t-value of -1.263 with a significance level of 0.213, which is greater than the threshold of 0.05. Therefore, it is concluded that the BODs does not have a significant influence on company performance, measured using ROA. Consequently, Hypothesis 1 (H1) is rejected. This finding is consistent with the study by Febrina & Sri (2022), which also could not establish a significant impact of the BODs on financial performance. It suggests that merely increasing the number of directors does not necessarily lead to more effective company operations or improved financial outcomes.
2. The t-test for the BOCs yields a t-value of 2.551 with a significance level of 0.014, which is less than the threshold of 0.05. Therefore, it is concluded that the BOCs has a significant positive influence on company performance, supporting Hypothesis 2 (H2). This result contrasts with the findings of Liyanto & Anam (2019), who reported no significant influence of the BOCs on financial performance. The positive impact observed in this study may be attributed to effective supervision and oversight provided by the commissioners, although it is noted that an excessively large board can lead to communication difficulties.
3. The t-test for independent commissioners shows a t-value of -3.660 with a significance level of 0.001, which is significantly less than the threshold of 0.05. Therefore, it is concluded that independent commissioners have a significant influence on company performance, though the negative t-value suggests an inverse relationship. Hypothesis 3 (H3) is accepted. This finding aligns with Putra (2015), which demonstrated that independent commissioners positively and significantly influence financial performance measured by ROA. It implies that increasing the number of independent commissioners, who provide unbiased oversight and promote good governance practices, can enhance company performance.

CONCLUSION

In conclusion, this empirical investigation sought to elucidate the complex interrelationships between key corporate governance mechanisms and organizational performance within the context of the Indonesian pharmaceutical sector. Specifically, the study examined the influence of three critical governance structures—the board of directors, board of commissioners, and independent commissioners—on financial performance, operationalized through the Return on Assets (ROA) metric. The research focused on pharmaceutical entities listed on the Indonesian Stock Exchange (IDX) over a five-year period from 2018 to 2022, a timeframe selected to capture the dynamic evolution of governance practices and their concomitant impact on financial outcomes. This longitudinal approach facilitated a nuanced analysis of temporal trends and potential shifts in the corporate governance landscape. The study's analytical framework encompassed a comprehensive examination of the multifaceted roles and impacts of distinct governance components. The board of directors, acknowledged as the locus of strategic decision-making and operational oversight, was posited to exert a significant influence on financial performance (H1). This hypothesis was grounded in upper echelons theory and extant literature on board effectiveness. Concurrently, the board of commissioners, operating within Indonesia's two-tier board system and charged with supervisory responsibilities, was hypothesized to positively affect financial outcomes (H2), a proposition underpinned by agency theory perspectives on monitoring and accountability. Lastly, independent commissioners, conceptualized as arbiters of stakeholder interests and custodians of good governance practices, were also postulated to have a positive impact on financial performance (H3), drawing upon both agency and resource dependence theoretical frameworks.

The study's conclusions have important implications for corporate governance practices. They suggest that enhancing the supervisory and independent oversight functions within a company can lead to better financial outcomes. These results can inform policy recommendations for regulatory bodies and corporate governance frameworks, emphasizing the need for strong supervisory boards and the inclusion of independent commissioners to foster transparency, accountability, and overall financial performance. Furthermore, these findings pave the way for future research to explore the underlying reasons why the board of directors did not show a significant impact on financial performance in this study. Researchers could investigate additional variables or contextual factors that might mediate or moderate this relationship. Understanding these nuances can contribute to a more comprehensive view of how different elements of corporate governance interact and influence company performance.

REFERENCE

- Chang, J. (2023). The Role of Independent Directors in Ensuring Good Corporate Governance. *Frontiers in Business Economics and Management*.
<https://doi.org/10.54097/fbem.v12i1.13618>
- Fadillah, A. R. (2017). Terhadap Kinerja Perusahaan Yang Terdaftar Di Lq45. *Jurnal Akuntansi*, 12(1), 37–52.
- Febrina, V., & Sri, D. (2021). Pengaruh Dewan Komisaris, Dewan Direksi, Komite Audit, Dan Kepemilikan Manajerial Terhadap Kinerja Keuangan. *Jurnal Informasi Akuntansi (JIA)*, 1(1), 77–89.

- Hartati, N. (2020). Pengaruh dewan komisaris, komite audit dan kepemilikan institusional terhadap kinerja keuangan perusahaan. *EKOMABIS: Jurnal Ekonomi Manajemen Bisnis*, 1(02), 175–184.
- Hernik, J., & Vera, A. (2017). Searching for a Perfect Composition for a Board of Directors. *Journal of Corporate Responsibility and Leadership*. <https://doi.org/10.12775/jcrl.2017.002>
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. In *Corporate governance* (pp. 77–132). Gower.
- Jiang, X. (2022). A Study of the Role of the Board of Directors in Corporate Governance Based on UK Listed Companies. *Proceedings of Business and Economic Studies*. <https://doi.org/10.26689/pbes.v5i6.4424>
- Maryati, S., & Anggraini, T. (2023). The Impact of Corporate Governance and Investment Opportunity Set on Financial Performance. *Jurnal Ekonomi Dan Bisnis Digital*. <https://doi.org/10.55927/ministal.v2i2.3720>
- Putra, B. P. D. (2015). Pengaruh dewan komisaris, proporsi komisaris independen, terhadap kinerja perusahaan. *Jurnal Manajemen Teori Dan Terapan*, 8(2), 70–85.
- Rahmawati, T., Nurhayati, E., Martika, L., Wiharno, H., & Puspasari, O. (2021). An Empirical Investigation of Internal and External Factors Associated with Audit Report Lag in Indonesia. *Proceedings of the 1st Universitas Kuningan International Conference on Social Science, Environment and Technology, UNiSET 2020, 12 December 2020, Kuningan, West Java, Indonesia*.
- Rao, K. K., Tilt, C., & Lester, L. (2012). Corporate Governance and Environmental Reporting: An Australian Study. *Corporate Governance*. <https://doi.org/10.1108/14720701211214052>
- Sudirman, L. (2022). Application of Acquit Et De Charge in Removal of Liability of the Board of Directors of a Limited Company. *Widya Yuridika*, 6(1), 135. <https://doi.org/10.31328/wy.v6i1.4000>
- Sukandar, P. P., & Rahardja, R. (2014). Pengaruh ukuran dewan direksi dan dewan komisaris serta ukuran perusahaan terhadap kinerja keuangan perusahaan (studi empiris pada perusahaan manufaktur sektor consumer good yang terdaftar di BEI tahun 2010-2012). *Diponegoro Journal of Accounting*, 689–695.
- Wang, L., Su, Y. H., Huang, H., Gong, Y., & Wang, W. (2022). Director's Network Location and Corporate Environmental Investment in the Carbon Neutrality Age. *Business Strategy and the Environment*. <https://doi.org/10.1002/bse.3294>
- Winarno, S. H. (2019). Analisis NPM, ROA, dan ROE dalam mengukur kinerja keuangan. *Jurnal STEI Ekonomi*, 28(02), 254–266.