

The Effect of Company Growth and Corporate Governance Mechanisms on Profitability

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Abstract- *This researcher discusses the profitability company. Profitability has the ability of a company to generate profits with all the capital working in it and one of the company's goals is to attract investors. The purpose of this study was to examine the effect of company growth, and corporate governance mechanisms on profitability. The results show that company growth affects profitability, while two proxies of corporate governance mechanisms, namely the audit committee and independent board of commissioners, do not affect profitability.*

Indexed Terms— *Company Growth, Corporate Governance Mechanism, Profitability*

I. INTRODUCTION

In The manufacturing sector in Indonesia plays a vital role in the country's social and economic development. Over the last decades, the government has prioritized this sector to maximize its potential contribution to accelerated industrialization. Based on data from the Ministry of Industry, the manufacturing sector plays a significant role in national GDP in the second period of 2021, namely 17.34%. The top five GDP contributors in that period were the food and beverage industry at 6.66%, the chemical, pharmaceutical and traditional medicine industry at 1.96%, the metal goods, computer, electronic goods, optics and electrical equipment industry at 1.57 % . , the transportation equipment industry 1.46%, to the textile and apparel industry 1.05%. So manufacturing companies have an important role in national economic growth

Viewed from a financial perspective, the financial performance of a banking company also influences the trust of both the public and market players on a wider scale. This is in accordance with the main goal of every company, namely to maximize the profitability obtained for the survival of the company.

According to the Central Statistics Agency (BPS), the phenomenon noted that the growth of large and medium manufacturing companies (IBS) slowed to just 4.01% in 2019. Meanwhile, in 2018 company growth reached 4.07%. If the world economy weakens, the exports of large and medium manufacturing industries will also be depressed.

In this research there are several variables that are thought to be able to predict profitability companies namely: company growth and corporate governance mechanism.

Based on the description above, the authors are interested in conducting research with the title “The Effect of Company Growth and Corporate Governance Mechanism on Profitability.

II. REVIEW OF LITERATURE

A. Agency Theory

Agency theory states that if there is a separation between the owner as the principal and the manager as the agent who runs the company, agency problems will arise because each party will always try to maximize its utility function (Astria, 2018).

B. Company Growth

Company growth is often associated with share prices, which can be measured by developments in share prices on the stock exchange (Sudiarta, 2017).

C. Corporate Governance

Corporate governance is a systematic way of working to meet certain requirements and produce good corporate governance so that it can provide benefits for the company (Indriati, 2018).

D. Profitability

Profitability is a ratio that describes a company's ability to generate profits through all its capabilities

and resources, namely those originating from sales activities, use of assets, and use of capital (Hery, 2020).

III. RESEARCH METHOD

Design this research uses a causal research design. The sample in this research is Manufacturing Sector companies listed on IDX-IC shares on the IDX for 2017-2021 with a total of 36 companies or 171 data. The data collection technique used is a documentation technique, namely by collecting data from company financial reports that have been recorded or published officially and in the form of an Annual Report which is available at www.idx.co.id. Data analysis using SPSS version 25.

IV. RESULT AND DISCUSSION

A. Descriptive Analysis Test

Table 1. Descriptive Analysis Test

Variabel	N	Mini mum	Maxi mum	Mean	Std. Deviation
GROWTH	171	,13	6,86	18,415	154,408
AC	171	3,00	4,00	30,936	,29208
IBC	171	25,00	66,67	405,313	891,146
PROF	171	0,6	31,78	112,451	74,481
Valid N (listwise)	171				

Based on table 1 of descriptive statistics, it is known that the minimum value of PROF (Y/profitability) is 0.6 and the maximum value is 31.78. The average (mean) of PROF is 11.2451 and the standard deviation is 7.4481. minimum value of company growth (GROWTH) minimum value is 0.13; and the maximum value is 6.86. the average (mean) company growth (GROWTH) is 1.8415 and the standard deviation is 1.54408. audit committee (AC) minimum score is 3.00 and maximum score is 4.00. the average (mean) of the audit committee (AC) is 3.0936 and the standard deviation is 0.29208. independent board of commissioners (IBC) is 25.00 and the maximum value is 66.67. the average (mean) is 40.5313 and the standard deviation is 8.91146.

B. Normality Test

Table 2. Kolmogrov-Smirnov Normality

		Unstandardized Residual
N		171
Normal Parameters ^{a,b}	Mean	-,5313983
	Std. Deviation	5,88657719
	Most Extreme Differences	
	Absolute	,065
	Positive	,065
	Negative	-,053
Test Statistic		,065
Asymp. Sig. (2-tailed)		,073 ^c

- a. Test distribution is Normal.
- b. Calculated from data.
- c. Lilliefors Significance Correction.

Based on the output results, it shows the Kolmogorov Smirnov Asymp value. Sig 0.073 > 0.05. Thus, the data is normally distributed and the regression model meets the assumptions of normality.

C. Multicollinearity Test

Table 3. Multicollinearity Test

Variabel	Collinearity Statistics	
	Tolerance	VIF
GROWTH	,999	1,001
AC	,964	1,037
IBC	,965	1,036

Source: SPSS v25, 2023

Based on the data in table 4.3 above, it can be seen that the VIF of the company growth variable (GROWT) is $1.001 < 10.00$ and tolerance is $0.999 > 0.10$. The audit committee (AC) variable has a VIF of $1.037 < 10.00$ and a tolerance of $0.964 > 0.10$. and the independent board of commissioners (IBC) has a VIF of $1.036 < 10.00$ and a tolerance of $0.965 > 0.10$. So it can be concluded that this research is free from multicollinearity.

D. Autocorelation Test

Table 4. Autocorelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,630 ^a	,397	,386	583,802	1,110

a. Predictors: (Constant), GROWTH, IBC, AC

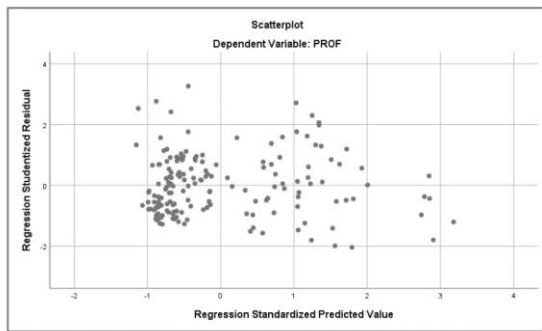
b. Dependent Variable: PROF

Sumber: Output SPSS 25, data diolah peneliti, 2023

Based on the results of the output data in table 4.4, the autocorrelation test can be concluded that the Durbin-Watson value is 1.110. with the understanding that this model does not experience autocorrelation symptoms, because the Durbin-Watson value is between -2 to 2.

E. Heteroscedasticity Test

Graphic 1. Heteroscedasticity Test



Sumber : SPSS Versi 25, Diolah tahun 2023

From the scatter plot graph, it can be seen that the points spread randomly and do not form a particular pattern and are scattered above and below zero on the Y axis, so it can be concluded that there is no heteroscedasticity in the regression model.

F. Multiple Linear Regression

Table 5. Multiple Linear Regression

Model	Coefficients ^a					
	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	
	B	Std. Error	Beta			
1	(Constant)	6,870	5,623		1,222	,224
	GROWTH	3,020	,290	,626	10,405	,000
	AC	-,986	1,561	-,039	-,632	,529
	IBC	,046	,051	,055	,900	,370

a. Dependent Variable: PROF

Source: Output SPSS v25

$$PROF = 6,87 + 3,020 GROWTH - 0,986AC + 0,046IBC + e$$

G. t Test

Table 6. t Test

Variabel	T Hitung	Sign
(Constant)	1,222	,224
GROWTH	10,405	,000
AC	-,632	,529
IBC	,900	,370

Dependent : Profitability

Source: Output SPSS v25

Based on the table above, the results of the t test for the profitability variable show that the independent variable company growth, represented by PBV, has a partial effect on profitability with tcount of 10.405 and ttable of 1.973, so tcount>ttable and profitability is significant 0.000 <0.05, which means company growth has a significant effect on profitability, so H1 is accepted. The audit committee has no partial effect on profitability, where tcount is 0.632 and ttable is 1.973, so tcount<ttable is significantly 0.529>0.05, which means the audit committee has no significant effect on profitability. The independent board of commissioners has no partial effect on profitability. profitability has a t value of 0.900 < t table of 1.973 and is not significant because it has a value of 0.370 > 0.05, which means that the independent board of commissioners does not have a significant effect on the company's profitability.

H. Coefficient of Determination Test

Table 8. Coefficient of Determination Test

Modal	R	R Square	Adusted R Squer	Std. Error the Estimate
1	,630 ^a	,397	,386	583,802

a. Predictors: (Constant) , PROF, AC,IBC, GROWTH

b. Dependent variable: profitabilitas

Source: Output SPSS v25

Based on the data in Table 4.8 above, it can be seen that the R Square value is 0.630 and Adjusted R Square is 0.386. This shows that all independent variables, namely company growth and corporate

governance mechanisms, influence the dependent variable (profitability) by 38.6% and the remaining 61.4% is explained by other variables not included in the research.

V. DISCUSSION

Based on the results of the tests that have been carried out, the following data can be obtained:

a. Effect of Company Growth on Profitability

This study proves that the first hypothesis is accepted, As company growth increases, profitability will increase. The higher the profit the company obtains, the higher the company's ability to pay dividends, so that high company growth can provide additional profitability to the company, and is reflected in increased profitability.

b. Effect of Corporate Governance Mechanism on Profitability

This study proves that the both of hypothesis is rejected, The results of this research are not in line with research conducted by Yusmaniarti (2019) where the audit committee has a positive and significant effect on profitability and the board of commissioners.

CONCLUSION

Based on the results of the research data analysis that has been carried out, the following conclusions are obtained:

1. Company growth presented by PBV has a significant effect on profitability, where company growth shows the level of net profit that the company is able to obtain when carrying out its operations. The higher the profits obtained, the higher the company's ability to pay dividends. This is in accordance with previous research by Putri (2022) and Rianto (2019) that company growth affects profitability.
2. Corporate governance mechanisms represented by an audit committee and an independent board of commissioners do not have a significant effect on profitability

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