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Analysis of Internal Company Factors and Managerial Ownership in Influencing the Financial Performance of Manufacturing Firms in Indonesia

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ABSTRACT

This study aims to analyze the effect of company size, capital structure, and accounting conservatism on financial performance in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2021–2023, as well as to examine the role of managerial ownership as a moderating variable. The background of this study is based on fluctuations in financial performance, particularly Return on Assets (ROA), as well as inconsistencies in previous research findings regarding the determinants of financial performance. The independent variables in this study include company size, measured by log total assets, capital structure, proxied by Debt to Equity Ratio (DER), and accounting conservatism, measured by the market to book value ratio. The dependent variable is financial performance, proxied by ROA, while the moderating variable is managerial ownership, measured based on the percentage of shares owned by management. This study uses secondary data from the financial reports of BEI manufacturing companies for the period 2021–2023 with panel data regression analysis and Moderated Regression Analysis (MRA) techniques. This study is expected to provide empirical evidence on the influence of internal company factors on financial performance and the role of managerial ownership in strengthening or weakening this relationship. The results of this study are also expected to contribute to academics, companies, investors, and further research in understanding the dynamics of financial decision-making and corporate governance.

Keywords: Company Size, Capital Structure, Accounting Conservatism, Managerial Ownership, Financial Performance, Manufacturing Companies.

BACKGROUND

Financial performance is a key indicator that reflects a company's ability to achieve its operational and financial objectives in a given period. This performance describes the financial health of the company and forms the basis for assessing the effectiveness of resource management. For companies listed on the Indonesia Stock Exchange (IDX), improving financial performance is a vital aspect because it affects competitiveness, survivability, and stakeholder confidence. Through the analysis of various indicators such as profitability, liquidity, solvency, and operational efficiency, it is possible to evaluate the extent to which a company is able to generate profits, meet its financial obligations, and maintain operational stability. Good performance is a positive signal for business continuity, while declining performance can be an early indication of financial pressure, the need for restructuring, and even potential bankruptcy.

In addition, financial performance has a strategic function in the decision-making process. Investors use financial performance information to assess investment returns and risks, creditors use it to assess a company's ability to meet its obligations, while internal management uses it as a basis for evaluating the effectiveness of the business strategies implemented. Accurate and transparent financial performance information not only serves as a historical report but also as a basis for formulating policies that determine the direction of the company's growth.

Previous research, as revealed by Mayang Sharfina et al. (2023), shows that financial performance is related to a company's ability to generate profits, which is influenced by intellectual capital, company size, and the quality of productive assets. Navillia & Rahayu (2024) add that financial performance plays a central role in providing relevant information to all parties interested in the company. This emphasizes that financial performance does not stand alone but is influenced by various internal and external factors.

In the context of this study, the three main factors that are thought to have a significant influence on financial performance are company size, capital structure, and accounting conservatism. Company size reflects operational capacity and the strength of available resources. Capital structure relates to the composition of company funding, which affects the level of risk and profitability. Meanwhile, accounting conservatism reflects the principle of prudence in financial reporting, which serves to reduce the potential for overstatement of profits and assets. These three factors interact in shaping a company's financial performance, both directly and through market perceptions of the company's risk and stability.

Through financial performance analysis, companies can comprehensively assess their operational effectiveness, profitability, and financial stability. Investors and creditors also rely on this information in making investment and credit decisions. Strong financial performance demonstrates a company's ability to generate profits and meet its financial obligations in a timely manner. Conversely, poor performance may indicate increased financial risk and a decline in the company's value in the eyes of stakeholders.

In this study, financial performance is measured through indicators such as Return on Assets (ROA), Return on Equity (ROE), Current Ratio, and Debt to Equity Ratio (DER). These indicators help assess whether a company is able to manage its resources efficiently and maintain a balanced funding structure.

Data on the development of ROA and ROE of several manufacturing companies listed on the IDX in the 2022–2024 period shows fluctuations in financial performance, indicating the need to evaluate the factors that influence it. This condition is the basis for the urgency of research on the determinants of financial performance, particularly company size, capital structure, and accounting conservatism.

No.	Code	2022 (%)	2023 (%)	2024 (%)
1	UNVR	15.2	14.8	15.5
2	INDF	7.8	8.1	8.4
3	KAEF	1.1	1.4	1.3
4	CPIN	5.5	4.9	5.0

Source: IDX.co.id (2024)

Financial performance analysis is a fundamental aspect in assessing a company's ability to maintain its business continuity and cope with economic dynamics. Financial performance reflects the effectiveness of a company in utilizing resources to generate profits, meet obligations, and maintain operational stability. For manufacturing companies listed on the Indonesia Stock Exchange (IDX), improving financial performance is a strategic priority because it has implications for competitiveness, business sustainability, and stakeholder perceptions. Indicators such as profitability, liquidity, solvency, and operational efficiency are

key benchmarks in assessing the effectiveness of a company's asset and liability management.

Financial performance information not only serves as a historical report, but also as a basis for strategic decision-making by investors, creditors, and management. Investors use it to assess potential returns on investment and risk levels, while creditors use this information to evaluate a company's ability to meet its financial obligations. On the other hand, internal management utilizes financial performance as a tool to evaluate the effectiveness of operational and corporate strategies. Thus, financial performance has a multidimensional role in improving the accuracy of decision-making and strengthening market confidence.

Previous studies, such as Mayang Sharfina et al. (2023), state that financial performance is influenced by intellectual capital, company size, and the quality of productive assets. Navillia and Rahayu (2024) emphasize that financial performance provides relevant information for various stakeholders and reflects a company's ability to generate profits sustainably. However, financial performance is influenced by complex interactions between internal and external factors, where company size, capital structure, and accounting conservatism are three important variables that show consistent influence in various studies.

Analysis of the Return on Assets (ROA) and Return on Equity (ROE) data of BEI manufacturing companies for the 2022–2024 period shows fluctuations in financial performance. UNVR managed to maintain a high ROA (>15%), reflecting optimal asset efficiency. INDF showed a gradual upward trend, while CPIN experienced a decline in ROA in 2023 due to an increase in cost of goods sold before rebounding in 2024. In contrast, KAEF recorded a very low ROA (~1%), consistent with the characteristics of the chemical sub-sector. These fluctuations indicate that asset management, production costs, and business scale are the main determinants of manufacturing company profitability.

Empirical findings regarding the impact of company size on financial performance show inconsistent results. Wulandari & Rahmawati (2023) and Saragih et al. (2020) found that company size did not have a significant effect on financial performance. Similar results were also reported by Lopa & Nuraeni (2023). However, several studies in other sectors found varying results, making it important to re-examine the role of company size as a determinant of financial performance.

Capital structure also shows varying research results. Ngantung & Handoyo (2023) found a negative and significant relationship between capital structure and financial performance, while other studies such as Tambunan & Prabawani (2022) and Farida & Yulazri (2024) showed that

capital structure did not have a significant effect on financial performance. The heterogeneity of these research results indicates that there may be other variables that moderate this relationship.

Accounting conservatism, as a principle of prudence in financial reporting, also shows diverse findings. Fitria et al. (2024) identified a significant effect on the financial performance of pharmaceutical companies, while Sulistyawati & Susilo (2023) and Rahmawati & Aufa (2023) showed no significant relationship between conservatism and financial performance or earnings management. The inconsistency of these research results indicates the need for retesting in the manufacturing sector in a more recent period.

The novelty of this study lies in the selection of the 2021–2023 research period, considering that most previous studies used data prior to 2020. The shift in economic conditions after the pandemic is expected to bring significant changes to corporate financial behavior, so this study is expected to provide more relevant and up-to-date findings.

Agency Theory

Agency theory explains the contractual relationship between principals (shareholders) and agents (management), which has the potential to cause conflicts of interest due to differences in the objectives of the two parties (Jensen & Meckling, 1976). This conflict leads to agency problems and risk sharing issues as described by Eisenhardt (1989), especially when the actions of agents are difficult to verify and when agents and principals have different risk preferences. To overcome these conflicts, agency theory emphasizes the importance of control mechanisms, effective contracts, and transparent reporting.

In the context of research on company size, capital structure, and accounting conservatism, agency theory is relevant for explaining how managerial behavior can affect financial performance. Large companies have more complex oversight structures, which increases the potential for agency conflicts. A high debt-based capital structure can be a disciplinary tool for managers, but it also adds financial risk. Meanwhile, accounting conservatism helps reduce information asymmetry through more cautious reporting. Considering the fluctuating conditions in the 2021–2023 period, agency theory becomes an important foundation for understanding how the dynamics of principal–agent relationships affect the financial performance of manufacturing companies on the IDX.

Financial Performance

Financial performance is a representation of a company's financial condition and reflects management's ability to manage resources effectively and efficiently (Ritonga et al., 2021; Welly & Ikhsan, 2022). Financial performance is also an important indicator of a company's operational sustainability (Nasirwan et al., 2024). Performance assessment is carried out through various analytical tools, particularly financial ratios, to measure operational effectiveness and strategic achievement.

Profitability is a key indicator that reflects a company's success in generating profits. According to Sudana (2015), one of the commonly used ratios is **Return on Assets (ROA)**, which describes a company's ability to utilize assets to generate profits. A high ROA indicates effective asset management and good managerial performance.

$$\frac{Earnings\ After\ Taxes\ Total}{Assets}$$

Return on Equity (ROE)

Return on Equity (ROE) is a ratio used to measure a company's ability to generate net profit by utilizing its own capital. This ratio reflects the level of management effectiveness in managing shareholder equity to create profits. ROE is an important indicator for investors because it shows the extent to which a company's capital is able to provide an optimal rate of return. The higher the ROE, the more effective the company is in converting capital into profits. The ROE ratio is calculated using the following formula:

$$\frac{Earnings\ After\ Taxes}{Total\ Equity}$$

Profit Margin Ratio

The profit margin ratio is used to assess a company's ability to generate profits from its sales activities. This ratio illustrates the company's operational efficiency and serves as an indicator of overall performance, from production to cost management. There are several types of profit margins commonly used in financial performance analysis, namely:

$$\frac{Earnings\ After\ Taxes}{Sales}$$

a. Net Profit Margin

Net Profit Margin measures a company's ability to generate net profit from total sales. This ratio reflects the effectiveness of a company in managing all operational and non-operational activities. The higher the value of this ratio, the better the efficiency of the company's cost management. The measurement formula is:

$$\frac{\textit{Earnings After Taxes}}{\textit{Sales}}$$

b. Operating Profit Margin

Operating Profit Margin shows the extent to which a company is able to generate profits from its core operations before taking into account interest and tax expenses. This ratio assesses operational efficiency in production, marketing, and human resource management activities. The formula is:

$$\frac{\textit{Earnings Before Interest \& Taxes}}{\textit{Sales}}$$

Company Size

Company size is an indicator that describes the size of a company, which is generally measured by total assets, total sales, number of employees, or market capitalization. In a financial context, company size reflects operational capacity, stability, and the ability to obtain funding. Large companies tend to have stronger bargaining positions, better access to resources, and a reputation that supports improved financial performance. Previous studies, such as Mayang Sharfina et al. (2023) and Sihombing & Purba (2021), found a positive relationship between company size and financial performance. Total assets are often used as the main indicator because they reflect a company's capacity to manage resources. In this study, company size is measured using the natural logarithm of total assets to reflect the scale of the company more objectively.

Capital Structure

Capital structure refers to the combination of company funding that comes from debt and equity. This composition is important because it affects risk, cost of capital, and the company's ability to finance operations and investments. Equity financing can come from retained

earnings or the issuance of shares, while debt financing can be in the form of short-term or long-term debt. The use of debt is often considered more advantageous because interest rates are fixed and can reduce tax burdens, but it must be balanced with the company's ability to generate profits so as not to trigger financial risks. Capital structure is usually measured using leverage ratios such as the Debt to Equity Ratio (DER) and Debt to Asset Ratio (DAR), which reflect the ability of a company's equity or assets to bear debt burdens. The higher the leverage, the greater the financial risk that the company must bear.

RESEARCH METHOD

This research was conducted on manufacturing companies listed on the Indonesia Stock Exchange (IDX) with an observation period of 2021–2023. All secondary data was obtained through the IDX official website (www.idx.co.id). The research is planned to start in July 2025 until completion.

The population in this study includes all manufacturing companies listed on the IDX during the observation period. The manufacturing sector was chosen because it contributes significantly to the national economy and has financial dynamics that are relevant for analysis. From this population, the sample was determined using *purposive sampling*, which is the selection of samples based on specific criteria. The criteria used are: manufacturing companies listed on the IDX in the 2021–2023 period, companies that published complete financial reports for the entire period, and companies that have data suitable for measuring the variables of company size, capital structure, accounting conservatism, financial performance, and managerial ownership.

This study involved five variables, namely one dependent variable in the form of financial performance, three independent variables consisting of company size, capital structure, and accounting conservatism, and one moderating variable, namely managerial ownership. These variables were analyzed to see the direct relationship and moderating role in influencing company financial performance.

Financial performance as a dependent variable describes the company's financial condition and the effectiveness of resource management. In this study, financial performance is measured using Return on Assets (ROA), which is the ratio between net income and total company assets.

Company size as an independent variable represents the scale of the company and its capacity to manage resources. Company size is measured by the natural logarithm of total assets to

describe the scale of the company objectively and consistently. Capital structure, the next independent variable, shows the proportion of company funding that comes from debt and equity. Capital structure is measured using leverage ratios such as DER or DAR, which reflect the level of debt used in company operations. Accounting conservatism is also an independent variable that describes the principle of prudence in financial reporting, measured using conservatism indicators relevant to financial statement data.

The moderating variable in this study is managerial ownership, which is the proportion of shares owned by company management. This variable is used to test whether internal ownership can strengthen or weaken the influence of company size, capital structure, and accounting conservatism on the financial performance of manufacturing companies.

The independent variables in this study consist of company size, capital structure, and accounting conservatism. These three variables are assumed to have an influence on the dependent variable, namely the financial performance of the company. In general, independent variables are variables that influence changes in dependent variables, either directly or indirectly.

Company size is represented as the scale of the company, which can be measured through indicators such as total assets, total sales, number of employees, or company market value. Company size reflects the capacity to manage resources and the company's ability to achieve business objectives. Large-scale companies generally have broader access to funding, greater expansion opportunities, and higher levels of trust from stakeholders. In this study, company size is measured using the natural logarithm of total assets (*Firm Size = Log Total Assets)*.

Capital structure describes the composition of funding used by a company, particularly the balance between debt and equity in supporting operational activities and investments. Capital structure reflects a company's strategy in using financial resources to maximize profits while considering financial risks. This composition is important because it affects the company's financial stability, cost of capital, and competitiveness. Capital structure is measured by the ratio of total liabilities to total equity (*Debt to Equity Ratio)*.

Accounting conservatism is a principle of prudence in financial reporting that aims to reduce the risk of overstatement of profits and assets. This principle encourages accountants not to overstate income or asset values, and not to understate costs or liabilities, especially in conditions of uncertainty. A conservative approach results in more realistic and reliable financial statements. The measurement of accounting conservatism in this study uses the market value per share to book value per share ratio (*Market to Book Ratio)*.

The moderating variable in this study is managerial ownership, which is the percentage of shares owned by management directly involved in corporate decision-making. Managerial ownership is considered to influence the relationship between independent variables and financial performance because the greater the proportion of shares owned by management, the stronger their incentive to make decisions that are in line with the interests of shareholders and minimize agency conflicts. This variable is measured by comparing the number of shares owned by management with the total number of shares in the company.

TABLE1

OPERATIONAL DEFENTION

Variable	Definition	Indicator	Scale
Financial Performance (Y)	Financial performance is the result of performance that focuses on the returns obtained by shareholders.	$\frac{Earning\ After\ Taxes}{Total\ Asset}$	Ratio
Company Size (X1)	Company size refers to the scale or size of a company which can be measured based on various indicators.	LogTotalasset	Ratio
Capital Structure (X2)	Capital structure is the composition or balance between debt and equity used by a company to fund its operational and investment activities.	$\frac{\text{total liabilities total}}{\text{equity}}$	Ratio
Accounting Conservatism (X3)	Accounting conservatism is a principle in accounting that emphasizes caution in recognizing revenue and assets, and the acceleration of recognizing expenses and liabilities.	$\frac{\text{Market Price per Share}}{\text{Book Value per Share}}$	Ratio
Managerial Ownership (Z)	Managerial ownership is the percentage of shares owned by managers who are directly involved in company decision-making.	$\frac{\text{Number of Shares Owned by Manager}}{\text{number of outstanding company shares}}$	Ratio

Data Collection Techniques

This study uses a documentary data collection method by obtaining the financial reports of manufacturing companies through the official website of the Indonesia Stock Exchange. The data collected includes information relevant to the research variables for the period 2021–2023. This technique was chosen because it provides verified and scientifically accountable secondary data.

Data Analysis Techniques

Data analysis was conducted using a quantitative approach with panel data regression and *Moderated Regression Analysis* (MRA), processed using EViews 12 software. The analysis began with descriptive statistics to provide an initial overview of the data characteristics. Next,

panel regression models were selected through a series of tests, such as the Chow test, Hausman test, and Lagrange Multiplier test, to determine the most appropriate model between common effect, fixed effect, or random effect.

Before testing the hypothesis, the model was tested through classical assumption tests, including normality, multicollinearity, autocorrelation, and heteroscedasticity tests to ensure the feasibility of the regression model. Once the model meets the basic assumptions, panel data regression analysis is used to assess the effect of independent variables on dependent variables. Meanwhile, MRA is used to test the ability of moderating variables to strengthen or weaken the relationship between variables.

Hypothesis testing was conducted using the t-test to assess the significance of each independent variable's partial effect, as well as the coefficient of determination (R^2) to measure the model's ability to explain the variation in the dependent variable.

RESULTS AND DISCUSSION

This study focuses on the influence of company size, capital structure, and accounting conservatism on financial performance, as well as the role of managerial ownership as a moderating variable. Although the file does not yet contain empirical data processing results, the theoretical review and previous studies listed in the document provide an overview of how each variable is expected to relate to the financial performance of manufacturing companies.

Company size in the file is described as an indication of capacity and scale of operations that can affect a company's ability to manage resources and generate profits. Companies with large assets generally have broader and more stable access to funding, which theoretically can support improved financial performance. However, previous research in the document shows that the effect of company size is not always consistent; some studies find a positive effect, while others show that company size does not always determine the level of profitability. This indicates the need for further empirical testing for the period studied.

Capital structure in the document is described as the composition of debt and equity used to finance company operations. Previous research cited shows that capital structure often has a negative impact on financial performance, especially if the company has a high proportion of debt, thereby increasing financial risk. Even so, some studies mention that optimal use of debt can increase profits through the leverage effect. This contradiction necessitates further research to ascertain how capital structure plays a role in the period and sample used.

Accounting conservatism is defined as the application of the principle of prudence in preparing financial statements. In the file, conservatism is identified as increasing the reliability of financial statements and reducing the risk of overstated assets and profits. Previous research in the file shows varying results, where conservatism can improve the quality of financial information, but excessive conservatism can reduce reported profits, thereby affecting the assessment of company performance. This variation makes the variable of accounting conservatism important to test empirically in the context of manufacturing companies.

Managerial ownership is described as a mechanism that can reduce agency conflicts by aligning the interests of managers and shareholders. Through share ownership, managers have an incentive to improve company performance. Based on previous theories and research in the literature, managerial ownership is expected to strengthen the influence of company size, capital structure, and accounting conservatism on financial performance. However, the literature also acknowledges that under certain conditions, excessive managerial ownership can give rise to new conflicts and reduce the effectiveness of oversight. This suggests that the moderating function of managerial ownership is not always linear.

Overall, the file shows that each variable has a theoretical basis and previous research findings that are not always consistent, so empirical research is needed to provide the latest evidence on the relationship between these variables in the 2021–2023 period. The theoretical review in the document emphasizes the importance of retesting, especially given the dynamic economic conditions and the characteristics of the manufacturing sector, which is highly influenced by production costs, fluctuations in demand, and financial risks.

CONCLUSION

Based on the theoretical framework, research variables, and analysis methods outlined in the document, this study focuses on the influence of company size, capital structure, and accounting conservatism on the financial performance of manufacturing companies, with managerial ownership as a moderating variable. The file shows that company size has the potential to improve financial performance because large companies have stronger resource capacity and broader access to funding. Capital structure is described as an important factor that can affect financial risk, where high debt usage can reduce performance if it is not balanced with productivity. Accounting conservatism is explained as a form of prudence that can improve the quality of financial statements and reduce the risk of excessive reporting. Meanwhile, managerial ownership is identified as a mechanism that can align the interests of

management and shareholders, thereby potentially strengthening the relationship between the independent variables and financial performance.

Overall, the paper concludes that the three main variables have a strong theoretical basis for influencing financial performance and that managerial ownership has the potential to act as a factor that strengthens or weakens these relationships. Empirical research is needed to ascertain how these relationships play out in manufacturing companies during the 2021–2023 period.

RECOMMENDATIONS

1. **For Companies**
   Manufacturing companies need to pay attention to managing company size and assets to add value to financial performance. In addition, decisions regarding capital structure must consider the financial risks associated with debt. The application of accounting conservatism principles should also be maintained to produce reliable and non-misleading reports.

2. **For Management**
   Managerial ownership can be utilized as a tool to reduce agency conflicts. Therefore, companies may consider stock-based incentive mechanisms to enhance management commitment to improving company performance.

3. **For Further Research**
   Future research is recommended to use a longer data period or add other variables not included in the file, such as macroeconomic factors or industry characteristics, to enrich the research results. In addition, the use of other analytical methods can be considered to compare the consistency of the relationship between variables.

4. **For Investors**
   Investors may consider company size, capital structure, accounting conservatism, and managerial ownership as part of their considerations before making investment decisions, as these variables have a theoretical role in influencing company performance.

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