An Empirical Study of the Impact of Accounting Conservatism and Ownership Structure on Firm Performance in Indonesia

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Abstract

This study aims to investigate the impact of accounting conservatism and ownership structure on the firm performance of Indonesian active manufacturing companies. To achieve this goal, 44 qualified manufacturing companies were used as a sample of the 153 manufacturing companies in Indonesia. The data collection method was preceded by conducting surveys and observations to determine the purposive sampling method as the method used for data collection and data analysis using multiple regression. The company's ability to use asset resources and equity to generate net income is used as a measure of firm performance. The results of the analysis using the multiple regression method in regression Equation 1 show that accounting conservatism and foreign ownership have a positive effect on return on assets, while managerial ownership and institutional ownership have no effect on return on assets. Similarly, the analysis result of Equation 2 shows that accounting conservativeness and foreign ownership have a positive effect on the return on equity, while managerial ownership and institutional ownership have no effect on the return on equity.

Keywords

Accounting conservatism, foreign ownership, institutional ownership, managerial ownership, ownership structure, firm performance

Introduction

The development of the manufacturing industry in Indonesia from year to year continues to show indications of an improving trend, so that conditions-based government policies in the manufacturing

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industry have become important in the era of economic globalization. This condition continues to show a positive trend, as indicated by the purchasing managers index (PMI) indicator, which was recorded at the level of 51.3 in December 2020, an increase compared to the November 2020 period, which was recorded at 50.6. As reported by Kompas on January 4, 2021, with a contribution to the national scale economy of 20.27%, Indonesia has become the largest manufacturing industry base in Southeast Asia (ASEAN). Even now, the Indonesian manufacturing industry has been able to transition from a commodity-based to a manufacturing-based economy. Even though faced with the COVID-19 pandemic conditions, the development of the manufacturing industry in Indonesia still exists and several sectors have a percentage of work above the gross domestic product (GDP) nationally. According to the Ministry of Industry of the Republic of Indonesia in 2020, the base metal industry has a national percentage of work above GDP of 9.94%, the garment and apparel industry has a national percentage of work of 7.53%, and the transportation equipment industry has a national percentage of work of 6.33%. It should be noted that the manufacturing value added (MVA) value for the Indonesian manufacturing industry is in the highest position among countries in Southeast Asia (ASEAN) with an achievement value of 4.5% (Ministry of Investment/BKPM, 2021).

The representation of management policies, which include financial policies, investment policies, and operational policies is reflected in the firm's performance. Through these three policies, management manages the resources it has to generate income, and from that income, the firm's performance will be measured. The success of companies in improving their performance in a country is the life of economic activity in that country as growth and development. The performance of a company can be influenced by both internal and external variables. Internal issues such as accounting conservatism and ownership structure can have an impact on a company's profitability. According to Watts (2003), conservatism is a principle of prudence in financial reporting in which companies should not rush to accept and calculate assets and profits or to identify losses and debts that might occur. Consequently, conservatism creates asymmetry in the verification criteria for advantages and disadvantages. The advantages require greater verification than the disadvantages to minimize the opportunistic behavior of managers (Alkurdi et al., 2017). Ownership structure, which is part of the execution of effective corporate governance systems, can have an impact on firm performance, just as accounting conservatism can. Regardless of the form of the company, especially companies that have gone public, a lot of capital is needed that can be met from various sources, and the fulfillment of these sources of capital creates an ownership structure (Demsetz & Villalonga, 2001). The introduction of accounting conservatism and effective corporate governance will have an impact on enhancing firm performance by reducing opportunistic management behavior.

Research on accounting conservatism and ownership structure related to firm performance is still carried out separately, among others, such as those conducted by Sana'a (2016), El-Habashy (2019), Ugwunta and Ugwuanyi (2019) and research conducted by Mohammed (2018), Kapil and Mishra (2019), and Laporšek et al. (2021), with different results. Sana'a (2016) and El-Habashy (2019) found that accounting conservatism had a positive effect on firm performance, while Ugwunta and Ugwuanyi (2019) did not find this effect. The research of Mohammed (2018) and Kapil and Mishra (2019) shows that the ownership structure had a positive impact on the firm's performance (ROA), but Laporšek et al. (2021) did not find this.

The findings that are different from the results of previous studies indicate that there are still problems related to accounting conservatism, ownership structure, and firm performance. What is the influence of accounting conservatism and ownership structure on the firm's performance? To solve these problems, this study aims to investigate the impact of accounting conservatism and ownership structure on firm performance in Indonesian manufacturing companies.

Literature Review

Basic Concept of Theory

The principle of agency theory, first stated by Berle and Means (1932), is the foundation of this research. Berle and Means (1932) highlight that in larger organizations, termination of ownership and power owing to loss of equity holdings gives possibilities for skilled managers to behave in their best interests, which is also conveyed by Ugwunta and Ugwuanyi (2019). By being pioneered by Jensen and Meckling (1976) through their research results, agency theory continues to develop today. In agency theory, the relationship between the owner as principal and the manager as agent is highlighted, and it is a contractual relationship.

In a majority owner and minority owner partnership, also known as a principal–principal relationship, the controlling shareholder acts on behalf of the minority shareholder, who is unable to track management's performance. Majority shareholders have partial remedies for minority shareholders' concerns in relation to these issues due to their oversight and governance roles over management (Faccio & Lang, 2002). The most important feature of agency theory is that managers optimize business value through opportunistic behavior, prioritizing personal goals for their own interests over the interests of owners. As a result, management has the lure of implementing conservative policies in the company's financial statements to support and reduce the company's profits (Ugwunta & Ugwuanyi, 2019).

In an era of globalization and internationalization of the stock market, when business operations and competitiveness are getting increasingly complicated and corporate risks are rising, transparency and timeliness of accounting information are key components of financial reporting. Businesses can utilize accounting conservatism to mitigate accounting reporting risks caused by things like district contracts and poor decision-making (Asiriuwa et al., 2019; Kwon, 2005). When directors' knowledge of expected benefits, project delivery time, and profitability, as well as their exposure to detail, spurs risky investment decisions, the expected relationship between accounting conservatism, ownership structure, and firm performance emerges (Aminu & Hassan, 2018; Asiriuwa et al., 2019; Uwuigbe et al., 2018).

The impact of agency values on conservatism, according to Asiriuwa et al. (2019), stems from the belief that managers, as shareholder agents, have no personal motivation to be cautious in reporting companies reporting higher income, meaning that managers have done a good job. Thus, practicing conservatism by delaying the recognition of benefits will be detrimental to them. Conservatism can limit the actions of managers to exaggerate earnings management and take advantage of information asymmetry, so as to reduce conflicts that occur between management and shareholders.

The involvement of the manager as part of the shareholders will make the manager more careful in making every policy for the benefit of shareholders. Therefore, the ownership structure becomes an important part of the supervision and control of management in running the business to suit the interests of shareholders. The existence of tighter supervision and control from shareholders over management will make management more careful in every strategic decision it makes, which will improve management performance.

Although several studies on the effect of accounting conservatism and ownership structure have been conducted, these studies are still incomplete, in that accounting conservatism and ownership structure are treated separately in influencing firm performance, both ROA and ROE, and do not specify which firm performance measures are more dominantly affected. El-Habashy's (2019) research only looks at the impact of conservatism in accounting on return on assets and return on equity, but it does not go into detail about the direction of the effect. Ugwunta and Ugwuanyi (2019) solely looked at the impact of accounting conservatism on firm performance. Only the impact of ownership structure on firm performance (ROA and ROE) is studied by Mohammed (2018). Similarly, Sakawa and Watanabel (2020) only focus on the effect of institutional and foreign ownership on asset returns, while Hamza and Suman (2018) only focus on the effect of managerial, institutional, and foreign ownership.

Research Issues

Accounting Conservatism

The effect of accounting information quality on business performance has been the subject of theoretical and empirical discussion, according to Affes and Sardouk (2016), and numerous empirical approaches have been explored to examine this issue. The notion of prudence in financial reporting is to disclose the firm's profitability as it is rather than rushing to consider and define profit and immediately recognize losses. This is consistent with accounting conservatism's goals. The application of accounting conservatism, in contrast, caters to the specific interests of external auditors, namely the recording of predicted losses without expected benefits, which entails recognizing expenses and deferring profits (Sana'a, 2016).

According to Beaver and Ryan (2005), accounting conservatism is a declaration of an asset's typical net book value versus its market value. Thus, accounting conservatism prevents excessive income statements in financial reporting, where according to the conservatism principle when conditions are uncertain in financial transactions, accountants choose to assess assets and income that are smaller but project higher debt and costs to anticipate these conditions (Asiriuwa et al., 2019). Sana'a (2016) and El-Habashy (2019) studied accounting conservatism and firm performance, and the results show that accounting conservatism influences firm performance. Meanwhile, Affes and Sardouk (2016) and Ugwunta and Ugwuanyi (2019) found that accounting conservatism did not affect firm performance.

H_{1a}: Accounting conservatism can maximize the return on assets in Indonesian manufacturing companies.

H_{1b}: Accounting conservatism can maximize the return on equity in Indonesian manufacturing companies.

Managerial Ownership

The manager is involved in the ownership of the company's shares, which is reflected by the equity ratio owned by the manager, and the ownership structure is a type of separation between the manager and the company's owner. The new structure adapted by today's modern company shows the relinquishment of ownership from its control, giving rise to different conflicts of interest in management (Suman et al., 2016).

Studies by Srivastava (2011), Mohammed (2018), and Kapil and Mishra (2019) found that management ownership has a favorable influence on ROA. Rasyid and Linda (2019), in contrast, did not find this effect in their study. Meanwhile, Srivastava (2011) found a favorable effect on ROE, while Mohammed's (2018) research showed a negative impact, but Kapil and Mishra (2019) did not find this effect.

H_{2a}: There is a positive relationship between managerial ownership and return on assets in Indonesian manufacturing companies.

H_{2b}: There is a positive relationship between managerial ownership and return on equity in Indonesian manufacturing companies.

Institutional Ownership

Institutions are the most powerful investors, according to Gillan and Starks (2003), with the potential to impact management practices either directly through share ownership or indirectly through trading the shares they own. Institutions that make investments like this are banks, insurance companies, and investment companies, which are the main companies investing by buying company shares. The ratio of institutional shareholding to the total number of company shares is used to calculate institutional ownership (Fazlzadeh et al., 2011).

Institutional ownership provides important information that contributes to the company's critical details and potential future cash flows, and it is a strategic choice for the company in terms of management control. As Gillan and Starks (2003) said, the monitoring of companies by institutional investors can limit the behavior of managers because large institutional investors have the opportunity, resources, and capabilities to monitor, restrain, and influence corporate managers. Therefore, institutional ownership plays an important role in management and supervision, and these practices are expected to have a positive impact on firm performance. A study by Alipour and Amjadi (2011) shows that institutional ownership has a positive effect on ROA and ROE, while according to research by Hamza and Suman (2018) and Kapil and Mishra (2019) on ROA. However, Mohammed (2018) and Rasyid and Linda (2019) did not find this effect on ROA. Ahmed and Hadi (2017) and Mohammed (2018) conducted another study and found a negative effect on ROE. While Suhardjanto et al. (2017), Kapil and Mishra (2019), and Laporšek et al. (2021) did not find this effect on ROE, the results of research from Srivastava (2011) found that ownership structure does not affect firm performance.

H_{3a}: Institutional ownership can increase the return on assets in Indonesian manufacturing companies.

H_{3b}: Institutional ownership can increase the return on equity in Indonesian manufacturing companies.

Foreign Ownership

Foreign investors are attracted to investment companies for various reasons, which can increase investor confidence in these companies and, of course, can have a positive effect on the company and investment conditions in general. It is related to foreign investment in Indonesia, which is stipulated in Law No. 1. 25/2007. Regarding investment, he explained that foreign investment is an investment activity that conducts business in Indonesia and is carried out by foreign investors, either an investor that uses entirely foreign capital or an investor related to domestic investment (Rely & Arsjah, 2018). The existence of foreign investment in the company will result in a change in the company's capital structure, namely the ownership structure.

The international investment would provide a breath of fresh air to the company, as foreign investors, on average, have greater incentives and experience to observe businesses independently. An (2015) believes that the higher the proportion of foreign ownership, the more companies are encouraged to increase transparency and reduce opportunistic management accounting decisions and choices. According to the research of Fan and Wong (2002) and LaFond and Watts (2008), foreign investors are attracted to companies with high investment and rich knowledge, and they can associate this with low-level information asymmetry. Furthermore, international investors have greater incentives and experience to independently observe firms. Therefore, companies with a high proportion of foreign ownership are more likely to increase transparency and minimize opportunistic management accounting decisions and choices (An, 2015).

Another advantage of foreign ownership is that foreign investors have good corporate governance and control over the company (Kho et al., 2009). Research by Alipour and Amjadi (2011) found that foreign ownership has a positive effect on ROE and ROA. Consistent with the results of Alipour and Amjadi (2011), Mohammed (2018) finds that it has a positive effect on ROA but a negative effect on ROE. Meanwhile, Suhardjanto et al. (2017) found a positive effect on profitability (ROE).

H_{4a}: Foreign ownership can bring a better return on assets for Indonesian manufacturing companies.

H_{4b}: Foreign ownership can bring a better return on equity for Indonesian manufacturing companies.

Research Methodology

Data

The data used in this study is panel data, but it is not balanced from 44 manufacturing companies listed on the Indonesia Stock Exchange (IDX), because some outlier data must be removed, and this makes not all of them complete sequentially. Data is collected from a financial database, namely the Indonesia capital market directory (ICMD) for the period 2017–2019. For completeness of data, this study also uses annual reports from companies that are sampled for different years.

Construction of the Variables Used

This study places the company's performance as the dependent variable; a proxy for the dependent variable is a return on assets (ROA) and return on equity (ROE). The independent variable construction consists of accounting conservatism and ownership structure, where ownership structure is proxied by indicators of managerial organization, institutional ownership, and foreign ownership. Accounting conservatism shows the attitude of management policies in dealing with uncertainty based on the worst outcome of the uncertainty, while ownership structure shows the mechanism of corporate governance.

Table 1 below is a brief description of the construction, description, and measurement of the variables used in this study. The variables used were adopted from research conducted by Givoly and Hayn (2000), Sana'a (2016), Selvam et al. (2016), Singh and Bansar (2016), Aggarwal and Padhan (2017), Rely and Arsjah (2018), Dang et al. (2019), Asiriuwa et al. (2019), Nguyen and Nguyen (2020), Sudiyatno et al. (2020a, b), Nguyen et al. (2020). and Pazarskis et al. (2021).

Sampling was preceded by observing manufacturing companies with certain criteria according to the research objectives. Therefore, data collection with an objective sample is based on an assessment of the characteristics of the sample members that meet the research objectives.

Table 1. Construction of the Variables.

Variable Names	Variable Code	Description	Measurement
Dependent variable:			
Firm performance	ROA	ROA is used to measure the ability of all assets to generate net profit after tax, while ROE is the ability of one's capital to generate net profit after tax.	ROA = EAT/Total Assets
	ROE		ROE = EAT/Equity
Independent variables:			
Accounting conservatism	AC	This is a cautious reaction from management in the face of the inherent uncertainty of the company, trying to ensure that the uncertainties and risks in the business environment are adequately considered.	AC = (Net Income – NOCF + Depreciation Exp)/Total Assets
Ownership structure	MO	The proportion of share ownership by management.	MO = Total Share Held by Management/Outstanding Shares
	IO	The proportion of share ownership by institutions.	IO = Total Share Held by Institutions/Outstanding Shares
	FO	Foreign ownership of shares.	FO = Total Share Held by Foreign/Outstanding Shares

Model Specifications

This study uses unbalanced panel data, meaning that several periods do not meet the requirements for panel data due to outliers that must be removed from the sample. Therefore, to establish the relationship between accounting conservatism and ownership structure and firm performance in Indonesian manufacturing companies, the most suitable data analysis uses multiple linear regression mathematical models.

Mathematically, it can be formulated in the following way:

$$\textit{Firm Performance} = f\left(\textit{Accounting Conservatism, Ownership Structure}\right)$$

Based on this model, data were analyzed using two multiple regression equations. As in the previous multiple regression models, these two models can be formulated as follows:

Regression Equation 1.

$$\mathrm{ROA} = a + \beta_1\mathrm{AC} + \beta_2\mathrm{MO} + \beta_3\mathrm{IO} + \beta_4\mathrm{FO} + e$$

Regression Equation 2.

$$\text{ROE} = a + \beta_1\text{AC} + \beta_2\text{MO} + \beta_3\text{IO} + \beta_4\text{FO} + e$$

Data Analysis and Results

Descriptive Analysis

Table 2 below shows the profile of the research data.

As presented in Table 2, the average ROA value of the sample companies is 0.0468 or 4.68%. This is for manufacturing companies classified as moderate because it is equivalent to the deposit interest rate. This condition indicates that the company's ability to generate profits from the overall assets used is quite good. The standard deviation value of ROA is 0.08332 or 8.33%, which indicates that ROA varies considerably between manufacturing companies, with ROA ranging from −18.00% to 46.00%. The results of the calculation of the average ROE value of 0.0934 or 9.34% indicate that the company's ability to generate net profit from its capital is high because it is above the deposit interest rate. The standard deviation of ROE is 0.22363 or 22.36%, indicating that ROE varies widely across manufacturing companies, with a minimum ROE of −0.30 or 30.00% and a maximum of 145.00%. Overall, the data shows that the performance of manufacturing companies in Indonesia is highly variable.

The average value of accounting conservatism is 0.0026 or 0.26% with a standard deviation of 11.12% and values ranging from −88.00% to 30.00%. These results indicate that most manufacturing companies in Indonesia have a high level of accounting conservatism because the average value is greater than zero. The average value of managerial ownership structure is 8.66%, institutional ownership is 42.77%, and foreign ownership is 26.25%. These results show that most of the share ownership of manufacturing companies in Indonesia is owned by institutions, namely 42.77%, while 26.25% is owned by foreigners and only 8.66% is owned by managers.

Based on Table 3 above, accounting conservatism and foreign ownership have a positive effect on ROA and ROE, while managerial ownership and institutional ownership have no effect. These results indicate that the policy of implementing accounting conservatism and foreign ownership in manufacturing companies in Indonesia plays a major role in improving firm performance.

Table 2. Descriptive Statistics.

Variables	N	Minimum	Maximum	Mean	Std. Deviation
ROA	127	−0.18	0.46	0.0468	0.08332
ROE	127	−0.30	1.45	0.0934	0.22363
AC	127	−0.88	0.30	0.0026	0.11118
MO	127	0.00	0.73	0.0866	0.16575
IO	127	0.00	0.97	0.4277	0.29546
FO	127	0.00	0.94	0.2625	0.28391

Source: SPSS results using statistics.

Table 3. Regression Analysis.

Variables	Regression Equations 1	Regression Equations 2
Dependent Variables:	ROA	ROE
Variable independents:		
Accounting conservatism (AC)	0.185***	0.390**
	0.004	0.021
MO	0.031	0.078
	0.513	0.542
IO	0.046	0.074
	0.159	0.390
FO	0.128***	0.357**
	0.000	0.000
Value of *F*	6.320***	6.658***
Sig-*F*	0.000	0.000
Coefficient of determination	0.145	0.152

Source: SPSS results using statistics.

Note: *** significant < 1%; ** significant < 5%; * significant < 10%.

Still from Table 3, the value of $F = 6.320$ has a significance of F (sig F) = 0.000 for regression Equation 1, and the value of $F = 6.658$ has a significance of F (sig F) = 0.000 for regression Equation 2. Thus, the regression equation satisfies the goodness-of-fit requirements and is suitable for prediction. The results of the regression equation model tests 1 and 2 show adjusted R-squared values of 14.5% and 15.2%, respectively. This means that accounting conservatives and the ownership structure of Indonesian manufacturing companies only contribute 14.5% to ROA and 15.2% to ROE.

Discussions and Implications

Table 3 explains that accounting conservativeness has a positive impact on a firm's performance. This study supports previous research from Sana'a (2016), Affes and Sardouk (2016), and El-Habashy (2019). However, this finding is not in line with the results of the research by Ugwunta and Ugwuanyi (2019), which did not find this effect. The results of this study add to a long list of differences from the results of similar studies previously conducted.

Firm performance is not influenced by managerial ownership. This indicates that the manager, as part of the owner, does not have a significant role in improving the firm's performance. The manager's supervisory system is ineffective in influencing management to improve its performance. Results of this research are consistent with the results of Srivastava (2011) and Rasyid and Linda (2019) but are inconsistent with Alipour and Amjadi (2011), Mohammed (2018), Hamza and Suman (2018), and Kapil and Mishra (2019). They found that ownership by management had a positive impact on ROA. In addition, the results of this study are consistent with those of Srivastava (2011), Rasyid and Linda (2019), and Kapil and Mishra (2019), who found that management ownership does not affect the return on assets. Findings from this study contradict the findings of Ahmed and Hadi (2017) and Mohammed (2018), who found negative effects, and Alipour and Amjadi (2011), who found positive effects of manager ownership on the return on equity.

Firm performance is not affected by institutional ownership. The findings support the research of Rasyid and Linda (2019), which also did not find this effect, but Mohammed (2018) found a negative effect with a significance of less than 10%. Meanwhile, the results of research by Alipour and Amjadi (2011), Hamza and Suman (2018), Kapil and Mishra (2019), and Sakawa and Watanabel (2020) found a positive effect. This study's findings are consistent with those of Suhardjanto et al. (2017), Kapil and Mishra (2019), and Laporšek et al. (2021), who found no impact of institutional ownership on return on equity. However, the findings of this study contradict those of Ahmed and Hadi (2017), who discovered a positive effect, and Mohammed (2018), who discovered a negative effect. Furthermore, the results of this study are consistent with the results of Srivastava (2011), which found no effect on firm performance. As a result, the findings of this study refute the principle of agency theory, which claims that including managers and institutions in share, ownership does not increase firm performance.

Firm performance is affected by foreign ownership; the higher the proportion of foreign ownership, the better the performance of the company. Foreign investors generally have better financial and supervisory capabilities, so they can provide more objective influence and supervision throughout company operations. The findings of this study are in line with those of Alipour and Amjadi (2011), Moez et al. (2015), Ting et al. (2016), Hamza and Suman (2018), Mohammed (2018), Zraiq and Fadzil (2018), Kapil and Mishra (2019), and Sakawa and Watanabel (2020), all of which shows that foreign ownership has a positive effect.

The results of this study support previous research by Moez et al. (2015) and Ahmed and Hadi (2017), which found that foreign ownership has a positive impact on return on equity. The results of this study differ from those of Hamza and Suman (2018) and Mohammed (2018), who found that foreign ownership harms asset returns, but Nofal (2019), Rasyid and Linda (2019), Laporšek et al. (2021) did not find this effect. Similarly, the results of this study are inconsistent with the findings of Mohammed (2018). This study had a negative impact on return on equity, but the study by Kapil and Mishra (2019) does not find this.

Implication of Theory and Management

Although research results have made certain contributions to financial science, especially in support of agency theory, this research also has certain limitations. This research analyzes the impact of conservative accounting and ownership structures on the performance of 44 manufacturing companies selected from 2017 to 2019 from 153 manufacturing companies in Indonesia. The result is that accounting conservatives and foreign ownership have a positive impact on return on assets and return on equity, while ownership of management and institutions has no effect on return on total assets and return on equity. Therefore, the results of this study are in line with and support agency theory: conservative accounting practices in financial reporting can reduce the opportunistic behavior of management and reduce its impact on improving the company's performance.

From the perspective of structural equity variables, only foreign capital affects the return on assets and return on equity. This shows that the higher the structure of a foreign-affiliated company, the higher the firm performance. Therefore, companies with more foreign capital tend to perform better. Foreign ownership can control the opportunistic behavior of managers and have an impact on improving firm performance.

Other findings are that the impact of accounting conservatism, managerial ownership, institutional ownership, and foreign ownership on return on equity with an adjusted R-square value of 15.2%, which is greater than that of return on assets with an adjusted R-square of 14.5%, although the difference value is not significant. Therefore, when implementing conservative accounting policies, management should also pay attention to the firm's shareholding structure and further focus on improving the firm's performance, especially return on equity, which represents the well-being of its owners.

Future Research Directions and Limitations

Although the research results contribute to financial science, especially in supporting agency theory, this research also has some limitations. The limitation of this research is related to the sample size, which is too small (only 44 companies out of 155 manufacturing companies). This is due to the large number of outlier data that must be removed from the sample because they do not meet the sample criteria determined according to the research objectives. This small sample size limits the generalizability of the study. Another limitation is the relatively short research period—only three periods, namely 2017–2019. Due to the short study period and the large number of outliers in the data, the data panel is out of balance, and data analysis cannot select the most appropriate regression model from the usual least squares (OLS) models. The fixed effects model (FEM) and random effects model (REM) are used because the panel data analysis model strongly influences the conclusions about each coefficient.

Another limitation of this study is the low adjusted value of R-square, which is only 15.2% in regression Equation 1 and 14.5% in regression Equation 2 so more independent variables are outside the model that affects the performance of manufacturing companies. Therefore, further research needs to improve the sampling data by perfecting a balanced data panel, increasing the research period to longer (six periods), and adding the capitalization value variable as a control variable because the capitalization value of manufacturing companies is also an important factor in influencing firm performance.

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