Analysis of The Effect of Corporate Governance on Company Performance with Working Capital as A Mediating Variable (Study on Manufacturing Companies in Indonesia)

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Abstract

This study aims to examine the effect of Corporate Governance (CG) consisting of Board Independence (BI), Board Diversity (BD), Return on Assets (ROA), and Return on Equity (ROE) mediated by the Working Capital (WC) at Indonesia Manufacture Company during the current year 2017–2019. In this study, the research objects used are manufacturing companies listed on the Indonesia Stock Exchange (IDX), the Financial Services Authority (OJK), and Bloomberg for the period of 2017–2019. The data used are obtained from the Indonesia Stock Exchange website (www.idx.co.id), the Financial Services Authority website (www.ojk.go.id), Bloomberg Laboratory, and websites of companies related to the research. Purposive sampling method was used to determine the number of research samples. With a total sample of 63 samples from 2017–2019. The analytical technique used is multiple linear regression for each research model with the SPSS25 program which previously passed the classical assumption test. The results in this study, BI (Board Independence) has a positive and not significant effect on WC (Working Capital) and BD (Board Diversity) has a positive and significant effect on WC (Working Capital). Variable BI (Board Independence) has a positive and not significant effect. ROA (Return on Asset) and BD (Board Diversity) have a positive and not significant effect on ROA (Return On Asset) and WC (Working Capital) has no effect on ROA (Return On Asset), then finally in the third model the BD (Board Diversity) has a positive and significant effect on ROE (Return On Equity). Variable BD (Board Diversity) has a positive and significant effect on ROE (Return on Equity) and then the last variable WC (Working Capital) has no effect on ROE (Return on Equity).


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INTRODUCTION

Corporate Governance is a principle that directs and controls a company in order to achieve a balance between the power and authority of the company in providing accountability to shareholders (Indarti & Extaliyus, 2013). The emergence of the concept of Corporate Governance is motivated by problems that arise in agency relations between shareholders and management. This problem can be overcome by increasing ownership and management control, so that good governance can be achieved. According to (Keasy & Wright, 1993) Corporate governance is the structure, processes, culture, and systems to create successful operational conditions for an enterprise. In developing countries, good corporate governance plays an important role in efforts to increase corporate value.

On the other hand, profitability is an important indicator for investors in assessing the performance of a company because it shows the company’s ability to earn profits and the rate of return that will be received by investors. Profitability describes whether a business entity has good opportunities or prospects in the future.

Working capital management aims to measure the liquidity and condition of the company in the short term. If working capital management is inefficient, then the company’s strength will be disrupted. Excessive working capital can affect fixed asset investment and lead to overcapitalization, overtrade, or accumulated inventory. On the other hand, lack of working capital also hampers the company’s production process. Therefore, companies must maintain a balance of working capital to improve the company’s rating in the capital market and accelerate shareholder value growth.

This research was conducted on manufacturing companies in various sectors listed on the Indonesia Stock Exchange. A manufacturing company is an industrial company that in its activities operates machinery, power, and work equipment in a process-to-process raw materials into finished materials, spare parts, and other components then produced into finished goods so that they have selling value. Manufacturing companies are divided into three sectors, namely the industrial sector, the consumer goods sector, and the industrial or chemical sector. The following is a graph that will show the value of working capital that fluctuates up and down in each different year and shows the same symptoms in several sectors taken as an example in 2017-2019 on the IDX (Indonesia Stock Exchange).

**Table 1.1 BI Level, BD Indonesian Manufacturing Companies**

**Period January 2017- December 2019**

![Board Independence](chart.png)

![Board Diversity](chart.png)

Source: Some manufacturing companies sampled, 2017-2019
The function of working capital as a mediating variable here is to play a crucial role in maintaining the operational continuity of the company and supporting sustainable growth by linking the factors that influence operational continuity and company growth. In other words, working capital acts as an intermediary or connector between other factors that affect the company's operations and their long-term growth impacts. Working capital data listed in Table 1.1 shows that the results of corporate governance variables, namely independent boards and also boards of directors with female gender during 2017–2019 which did not experience excessive and significant fluctuations. This can also be considered good because if fluctuations that occur too often and significantly can cause problems within the company and can affect decision making for further company goals. From the data described above, it can be seen that a striking difference is shown by the data in 2018 where at that time there was a change in the position of directors / commissioners in the company which usually occurs within a period of 5 years.

**Table 1.2 Graph of Working Capital Fluctuations in the Manufacturing Sector in 2017-2019**

![Graph of Working Capital Fluctuations](image)

**Source:** Some manufacturing companies sampled, 2017-2019

Based on Table 1.2, it illustrates that PT Kirana Megatara Tbk (KMTR) experiences significant fluctuations every year, especially in 2019 where the working capital generated is much higher than in previous years. On the other hand, PT. Adhi Karya Persero Tbk (ADHI) also experienced significant fluctuations in working capital results, with the highest yield achieved in 2019 and the lowest in 2017. However, other companies have less significant fluctuations in working capital yields.

**Table 1.3 Graphs of Profitability Fluctuations (ROA and ROE) of the Manufacturing Sector in 2017-2019**

![Graph of Profitability Fluctuations](image)
Based on the 2 chart tables, namely table 1.3, illustrates that the company’s profitability measured using ROA and ROE in the 2017-2019 period experienced considerable fluctuations. For example, in the ROA table, PT Kirana MegataraTbk (KMTR) experiences significant fluctuations every year, especially in 2017 where the ROA produced is much higher than in previous years. On the other hand, PT. Mark Dynamics Indonesia Tbk (MARK) also experienced significant fluctuations in working capital results, with the highest yield achieved in 2019 and the lowest in 2019. However, other companies have less significant fluctuations in working capital yields.

Then for the ROE graph table shown above in the 2017-2019 period PT Kirana MegataraTbk (KMTR) experienced significant fluctuations every year, especially in 2017 where the ROE produced was much higher than in previous years. On the other hand, PT. Mark Dynamics Indonesia Tbk (MARK) also experienced significant fluctuations in working capital results, with the highest yield achieved in 2018 and the lowest in 2019. However, other companies have less significant fluctuations in working capital yields.

This study aims to examine the effect of good corporate governance on firm performance with working capital as a mediator. Several previous studies have been conducted on this matter, however, differences in research findings among researchers have been found, which will be noted in Table 1.4 below.

<table>
<thead>
<tr>
<th>Variabel</th>
<th>Peneliti</th>
<th>Hasil Penelitian</th>
</tr>
</thead>
<tbody>
<tr>
<td>BI</td>
<td>ROA dan ROE</td>
<td>Naz, M.A., Ali, R., Rehman, R.U., Ntim, C.G. (2022) &quot;The presence of a positive and significant influence of BI on company performance (ROA and ROE).&quot;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Jamaludin et all (2019) &quot;The presence of a negative and non-significant influence of BI on company performance (ROA and ROE).&quot;</td>
</tr>
<tr>
<td>BD</td>
<td>ROA dan ROE</td>
<td>Ahmad Ali et all (2017) &quot;The presence of a positive and significant influence of BD on company performance (ROA and ROE).&quot;</td>
</tr>
<tr>
<td>Intervening</td>
<td>Dependent</td>
<td>Source</td>
</tr>
<tr>
<td>------------</td>
<td>--------------------</td>
<td>------------------------------------------------------------------------</td>
</tr>
<tr>
<td>WC</td>
<td>ROA dan ROE</td>
<td>Jamaludin et all (2019) &quot;The presence of a negative and non-significant influence of BD on company performance (ROA and ROE).&quot;</td>
</tr>
<tr>
<td></td>
<td>Khan, Areeba</td>
<td>Yaqub, Rana Muhammad Shahid Javeed, Awais (2021) &quot;The presence of a negative and significant influence of WC on company performance (ROA).&quot;</td>
</tr>
<tr>
<td></td>
<td>Heni dan Mudyia (2017) &quot;The presence of a positive and significant influence of WC on company performance (ROA).&quot;</td>
<td></td>
</tr>
</tbody>
</table>

Source: Previous Research

This research is conducted to refine the study by Prashar A & Gupta P (2020) with a sample selection based on manufacturing companies in Indonesia. The variables selected are based on previous research. The study focuses on analyzing the influence of corporate governance on company performance during the period from 2017 to 2019 with Working Capital (WC) as the intervening variable. Additionally, there have been few studies examining how Board Independence (BI) and Board Diversity (BD) influence the performance of Manufacturing Companies in Indonesia with Working Capital (WC) as the intervening variable during the period from 2017 to 2019.

Agency theory details the relationship between managers (agents) and shareholders (principals) (Donaldson & Davis, 1991). In this case it seeks to resolve the divergent interests between the management of the organization and the owners, determining ways to resolve such conflicts, such as delegating decision-making authority to the agency managing the project. Throughout agency theory, companies have the opportunity to improve financial performance if costs are minimized. Agency costs can be seen as value losses by shareholders due to the divergent interests of managers and owners (Jensen & Meckling, 1976). Furthermore, agency costs are depicted in the stock market as influencing the company’s stock price. Therefore, if agency costs are managed effectively, it can help enhance shareholder value and also improve the overall financial performance of the company. According to Jensen and Meckling (1976), agency costs are measured as the sum of monitoring costs, bonding costs, and residual costs. Thus, to reduce agency costs, corporate governance mechanisms must uncover the causes of these conflicts, hence the need to understand "agency theory." Effective corporate governance mechanisms, where control should encourage managers to act in the best interest of principals (Allen & Gale, 2001).

There is an assumption in agency theory that, where there is a well-functioning market, corporate control is absent. Consequently, this leads to market failures, absence of markets, moral hazard, asymmetric information, incomplete contracts, and moral hazard. Various studies, however, have suggested that proper monitoring, healthy market competition, executive compensation controls, careful debt sourcing, efficient boards of directors, markets for corporate control, and concentrated ownership can. Unlike agency theory which postulates that the roles of CEO and chairman should be separated, stewardship theory argues that the two roles should be combined. Stewardship theory suggests that directors are able to achieve organizational goals as well as goals for shareholders by maximizing their utility rather than serving themselves. Few available empirical evidence supports this side of the stewardship theory (Donaldson &; Davis, 1991).

Additionally, management theory predicts that allowing managers to work with discretion can incentivize them to perform better. Experts on this side of the debate agree that managerial behavior is not only driven by financial health but also requires autonomy to enable them to maximize shareholder value. Furthermore, stewardship theory emphasizes that managers’ attention to their reputation and career advancement, intended for the company’s progress, compels them to act in the shareholders’ interests; thus, agency costs will be minimized (Donaldson & Davis, 1991). There is a psychological aspect to the argument that managers can perform their best when they have job satisfaction. Clarke (2004) suggests that allowing managers to make decisions independently without having to go through bureaucratic processes enhances job satisfaction, contributing to the overall financial performance of the company.
Moreover, Fama and Jensen (1983) argue that managers have greater access to specific insider information about furthermore, management theory suggests that the number of independent directors should be low, and managers are expected to have in-depth knowledge of the company's operations to help them make informed decisions. Following this line of thought, stewardship theory indicates that a low number of independent directors is ideal for the company (Christensen et al., 2010; Donaldson & Davis, 1991). Additionally, stewardship theory asserts that a board of directors dominated by insiders is more effective in achieving organizational goals due to better accessibility to information and technology. Finally, stewardship theory states that CEOs fundamentally want to perform better than exploit the system opportunistically, as also suggested by agency theory (Donaldson, 1990).

**Figure 2.1 Path Analysis Diagram Model**


H1: Board Independence has a positive effect on Return on Assets in the period of 2017 to 2019
H2: Board Diversity has a positive effect on Return on Assets between 2017 to 2019
H3: Working Capital has a positive effect on Return on Assets in the period of 2017 to 2019
H4: Board Independence has a positive effect on Return on Equity between 2017 and 2019
H5: Board Diversity positively affects Return on Equity between 2017 and 2019
H6: Working Capital has a positive effect on Return on Equity between 2017 and 2019
H7: Board Independence negatively affected Working Capital between 2017 and 2019
H8: Board Diversity has a positive and negative effect on Working Capital between 2017 and 2019
H9: Working Capital mediates the influence of Board Independence on Return on Assets between 2017 and 2019
H10: Working Capital mediates the influence of Board Diversity on Return on Assets between 2017 and 2019
H11: Working Capital mediates the influence of Board Independence on Return on Equity between 2017 and 2019
H12: Working Capital mediates the influence of the Diversity Board on Return on Equity between 2017 and 2019

**METHOD**

**Population and Sample**

Population is a collection of variables, subjects, concepts, or phenomena used by researchers as a goal to determine the nature of related populations (Morissan, 2012) then a collection of variables, subjects, concepts, or phenomena are studied and conclusions are drawn. In this study, the research object used was a manufacturing company listed on the Indonesia Stock Exchange (IDX), the Financial Services Authority (OJK), and Bloomberg in the period 2017 to 2019.
The population referred to in this study is 63 manufacturing companies in Indonesia that have been listed and listed on the Indonesia Stock Exchange (IDX), the Financial Services Authority (OJK), and Bloomberg. The period chosen to be the population in this study is the annual period starting in 2017 to 2019. Sampling in this study is based on Purposive Sampling theory. Purposive Sampling is a sampling technique with certain considerations in order to obtain representative conclusions. Some of the criteria for taking samples are as follows:

1. All manufacturing companies listed on the Indonesia Stock Exchange (IDX), Financial Services Authority (OJK), and Bloomberg from 2017 to 2019.
2. Manufacturing companies that have complete financial report data that includes Board Independence, Board Diversity, Working Capital, ROA, and ROE from 2017 to 2019.
3. Manufacturing companies that have complete annual financial report data for calculating Cash Conversion Cycle (CCC) include Days Inventory Outstanding (DIO), Days Sales Outstanding (DSO), and Days Payable Outstanding (DPO) for 2017 to 2019.

<table>
<thead>
<tr>
<th>Information</th>
<th>Manufacturing Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing companies listed on the Indonesia Stock Exchange (IDX), Financial Services Authority (OJK), and Bloomberg for the period 2017 to 2019</td>
<td>24</td>
</tr>
<tr>
<td>Manufacturing companies that have complete annual financial statements</td>
<td>(24)</td>
</tr>
<tr>
<td>Manufacturing companies that have financial statement data that includes complete DIO, DSO, and DPO</td>
<td>(21)</td>
</tr>
<tr>
<td>Total sample</td>
<td>21</td>
</tr>
<tr>
<td>Total observation data</td>
<td>63</td>
</tr>
</tbody>
</table>

Source: from various sources, processed

Based on table 3.1 of the purposive sampling criteria, it shows that there are 63 manufacturing companies that meet the criteria with the observation period being 2017 to 2019. So that the total observation data in this study is 63 data (21 companies x 3 years period) in the period 2017 to 2019.

Research Variables and Operational Definitions

<table>
<thead>
<tr>
<th>No.</th>
<th>Variable</th>
<th>Definition</th>
<th>Formula</th>
<th>Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Return on Assets</td>
<td>One form of profitability ratio which is used in measuring the company’s ability to generate profits using total assets and after the cost of capital is removed from the analysis.</td>
<td>ROA = Net Profit Before Tax x 100% / Total Assets</td>
<td>Ratio</td>
</tr>
<tr>
<td>2.</td>
<td>Return on Equity</td>
<td>ROE is the return on cost equity which in this case is the net return to cost equity which can measure the rate of return on the investment of common shareholders.</td>
<td>ROE = Net Profit After Tax x 100% / Total Equity</td>
<td>Ratio</td>
</tr>
</tbody>
</table>
Independent Variables

1. **Board Independence**
The proportion of members of the board of commissioners who are appointed but have never been affiliated or deal directly with the organization. The proxy used in this study to calculate board independence is a comparison between the number of independent commissioners and the total board of commissioners.

2. **Board Diversity**
One part of demographic diversity is the gender of board members which is represented by the representation of women on the board of directors. The presence of a woman on the company’s board of directors will bring differences in sociological perception and understanding in decision-making carried out at the board table.

Mediation Variables

1. **Working Capital**
Capital that must be owned by the company as a driver of operating company activities economically and not experiencing financial difficulties, for example can cover losses and overcome crises or emergencies without endangering company finances.

Data Analysis Methods

Data analysis is the process of collecting, modeling, and transforming data and processing data with the aim of highlighting and obtaining information using statistical tools. This research is quantitative research so the need to use statistical tools for the data processing process. In analyzing data, there are several methods that can be used. The study used quantitative analysis; analysis of data presented with numbers. Statistical methods used in calculations, assisted by the Statistical Package for Social Science (SPSS) data processing program version 25.

The analysis technique used in this study is *multiple linear regression*. Multiple regression is a linear regression model involving more than one independent variable to see the effect of the independent variable on the dependent. This analysis technique serves to get a comprehensive picture of the influence between variables with one another if it has met several assumptions in regression. Thus, classical assumption tests must be carried out first before conducting regression analysis so that the regression model does not have symptoms of autocorrelation, heteroskedasticity, multicollinearity and normality problems.

RESULT AND DISCUSSION

Partial Statistical Test (Test T)

The t-test is used to see the extent to which each independent variable has an individual influence in explaining the dependent variable. In this study, the t-test was used to see the influence of % of BI variables (X1), BD (X2), then WC variables (M) as mediating variables and dependent variables, namely ROA (Y1) and ROE (Y2). The statistical test t basically shows how far the influence of the explanatory (independent) variables individually in explaining the variation of
the independent variable Ghozali (2018). The basis of decision making for the t test can be seen based on the significance values of 1%, 5%, and 10%. The following is a summary of the t test using the SPSS 25 program:

<table>
<thead>
<tr>
<th>H</th>
<th>Independent Variables</th>
<th>Mediation Variable</th>
<th>Dependent Variable</th>
<th>Direction Coefficient</th>
<th>T Count</th>
<th>Beta</th>
<th>Significant Value</th>
<th>Significant Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>BI</td>
<td>-</td>
<td>ROA</td>
<td>(+)</td>
<td>0.372</td>
<td>0.047</td>
<td>0.711</td>
<td>Insignificant</td>
</tr>
<tr>
<td>H2</td>
<td>BD</td>
<td>-</td>
<td>ROA</td>
<td>(+)</td>
<td>2.105</td>
<td>0.264</td>
<td>0.039</td>
<td>Significant (5%)</td>
</tr>
<tr>
<td>H3</td>
<td>-</td>
<td>WC</td>
<td>ROA</td>
<td>(+)</td>
<td>0.945</td>
<td>0.119</td>
<td>0.348</td>
<td>Insignificant</td>
</tr>
<tr>
<td>H4</td>
<td>BI</td>
<td>-</td>
<td>ROE</td>
<td>(-)</td>
<td>-0.238</td>
<td>-0.030</td>
<td>0.813</td>
<td>Insignificant</td>
</tr>
<tr>
<td>H5</td>
<td>BD</td>
<td>-</td>
<td>ROE</td>
<td>(+)</td>
<td>2.178</td>
<td>0.273</td>
<td>0.033</td>
<td>Significant (5%)</td>
</tr>
<tr>
<td>H6</td>
<td>-</td>
<td>WC</td>
<td>ROE</td>
<td>(+)</td>
<td>1.629</td>
<td>0.202</td>
<td>0.109</td>
<td>Significant (10%)</td>
</tr>
<tr>
<td>H7</td>
<td>BI</td>
<td>WC</td>
<td>-</td>
<td>(+)</td>
<td>1.046</td>
<td>0.135</td>
<td>0.300</td>
<td>Insignificant</td>
</tr>
<tr>
<td>H8</td>
<td>BD</td>
<td>WC</td>
<td>-</td>
<td>(+)</td>
<td>0.074</td>
<td>0.010</td>
<td>0.941</td>
<td>Insignificant</td>
</tr>
<tr>
<td>H9</td>
<td>BI</td>
<td>WC</td>
<td>ROA</td>
<td>(+)</td>
<td>0.242</td>
<td>0.031</td>
<td>0.809</td>
<td>Insignificant</td>
</tr>
<tr>
<td>H10</td>
<td>BD</td>
<td>WC</td>
<td>ROA</td>
<td>(+)</td>
<td>2.094</td>
<td>0.263</td>
<td>0.041</td>
<td>Significant (5%)</td>
</tr>
<tr>
<td>H11</td>
<td>BI</td>
<td>WC</td>
<td>ROE</td>
<td>(-)</td>
<td>-0.457</td>
<td>-0.057</td>
<td>0.649</td>
<td>Insignificant</td>
</tr>
<tr>
<td>H12</td>
<td>BD</td>
<td>WC</td>
<td>ROE</td>
<td>(+)</td>
<td>2.192</td>
<td>0.271</td>
<td>0.032</td>
<td>Significant (5%)</td>
</tr>
</tbody>
</table>

Source: secondary data processed using SPSS 25

Discussion Of Research Results:

The results of the tests that have been conducted show that BI has a positive and insignificant influence at 5% on ROA. So, the H1 statement is rejected. The existence of this positive and insignificant influence shows that the higher the BI value owned by the company, it will not cause an increase in the ROA value owned by the company. Therefore, managers are expected to have in-depth knowledge of the company's operations that will help them make informed decisions. Because of this line of thinking, stewardship theory suggests that a low number of independent directors is ideal for firms (Christensen et al., 2010; Donaldson & Davis, 1991).

This result is also in line with Jamaludin et al's 2019 research on companies in Malaysia during the period 2012-2015, where the number of independent directors/commissioners could not increase the value of ROA or the company's ability to generate pre-tax profits on asset ownership. And this study does not align with research conducted by Prashar A & Gupta P in 2020 conducted on 330 effects size samples reported in 148 studies published between 2000 and 2020 in 85 peer-reviewed journals located in 31 countries. Where the companies studied consist of 2 sub-groups, namely financial companies consisting of banks and non-financial companies consisting of various companies in various industrial sectors.
The results of the tests that have been carried out show that BD has a positive and significant influence at 5% on ROA so that the H2 statement is accepted. The results of this study stated that BD had a positive effect where it was mentioned that greater demographic diversity among the company’s board members would lead to improvements in the company’s financial performance. The presence of a woman on the company’s board of directors will bring differences in sociological perception and understanding in decision-making carried out at the board table. Women are thought to have a sense of cognitive styles that focus on harmony and the ability to facilitate the dissemination of information. From the description above, it can be interpreted that if the value of BD is higher, the level of profitability based on assets will be higher as well. Thus, it can show that BD has a positive influence on ROA. Based on the stewardship theory that has been put forward earlier, then based on the results of this test the board of directors who have different genders can provide cooperation and results that are in line with the same vision and emission in order to realize the same corporate goals and if agency costs are managed properly, can help to increase share value and also improve the overall financial performance of the company. The results of this study are in line with research conducted by Ahmad Ali et al (2017) which explains the positive influence of BD variables on ROA with multiple linear regression methods and this study is not in line with research conducted by Jamaludin et al (2019) which states that BD variables have a negative and insignificant on ROA.

The results of the tests that have been carried out show that CAR has a positive and insignificant influence on ROA. So, the H3 statement is rejected. The results of this insignificant study prove that if the value of the WC increases, it will not have too much impact on the company’s profitability where the variable here used is ROA. The management of working capital owned by the company has not been maximized and investments invested in current assets or short-term assets, such as cash, securities, receivables, inventories, and other current assets do not run according to existing hypotheses. In addition, based on agency theory, agency fees depicted in the stock market affect a company’s stock price. Therefore, if agency fees are managed well, it can help to increase the share’s value and also improve the overall financial performance of the company. The results of this study are in line with research conducted by Heni and Mudya (2017) which states that CAR has a positive and significant effect on ROA.

The results of the tests that have been conducted show that BI has a positive and significant influence at 5% on ROE. So, the H4 statement is rejected. With the rejection of this hypothesis, it can be concluded that BI is unable to cause an increase in profitability by being proxied by ROE which shows that the company’s condition is good. Therefore, managers are expected to have in-depth knowledge of the company’s operations that will help them make informed decisions. Because of this line of thinking, stewardship theory suggests that a low number of independent directors is ideal for firms (Christensen et al., 2010; Donaldson & Davis, 1991). This research is in line with research conducted by Jamaludin et al (2019) and Prashar, A., Gupta, P. (2020) which explains the negative and insignificant influence of BI on ROE and this research is not in line with research conducted by Naz, M.A, Ali, R., Rehman, R.U., Ntim, C.G. (2022) which explains that Bivariable have a significant influence on ROE variables.

The results of the tests that have been carried out show that BD has a positive and significant influence at 5% on ROE. So, the H5 statement is accepted. The results of this study state that BD has a positive and significant influence on ROE, meaning that the higher the BD value, it will result in an increase in the value of ROE. Based on the stewardship theory that has been put forward earlier, then based on the results of this test the board of directors who have different genders can provide cooperation and results that are in line with the same vision and emission in order to realize the same corporate goals and if agency costs are managed properly, can help to increase share value and also improve the overall financial performance of the company. The results of this study are also in line with research conducted by Ahmad Ali et al (2017) which explains that the influence of BD has a significant positive effect on ROE. Therefore, companies must capture this signal as a good news signal.

The results of the tests that have been carried out show that WC has a positive and significant influence at 10% on ROE. So the H6 statement is accepted. With the acceptance of this hypothesis, it can be concluded that if the WC is higher, the profitability of manufacturing companies that are proxied with ROE will be higher. Throughout agency theory, companies have a chance to improve financial performance if costs are minimized. Agency costs can be seen as a loss of value by shareholders due to differences in the interests of managers and owners (Jensen & Meckling, 1976). Thus this research is in line with the theory put forward by According to Surtrisno (2009) which states that WC or working capital is one of the most important asset elements in the company because without working capital the company cannot meet the
needs to carry out its activities. The bigger the toilet, the greater the financial performance of a company. This study is also in line with research conducted by Heni and Mudya (2017) which explains that there is a positive and significant influence of WC variables on ROE variables.

The results of the tests that have been conducted show that BI has a positive and insignificant influence at 5% on CAR. So, the H7 statement is rejected. This explains that the board of directors/independent broadcaster does not exert a significant influence on the working capital owned by manufacturing companies. Based on agency theory, effective corporate governance mechanisms under control should encourage managers to act in the best interests of the principal (Allen & Gale, 2001). This research is not in line with research conducted by Naz, M.A., Ali, R., Rehman, R.U., Ntim, C.G. (2022) which explains the negative influence of BI on ROE.

The results of the tests that have been carried out show that BD has a positive and insignificant influence at 5% on WC. So, the H8 statement is rejected. With the rejection of this hypothesis, it can be concluded that if the BD value increases, the WC value will decrease. Based on agency theory, agency fees described in the stock market affect a company's stock price. Therefore, if agency fees are managed well, it can help to increase the share's value and also improve the overall financial performance of the company. The results of this study are also in line with research conducted by Ahmadi, A., Nakaa, N., Bouri, A. (2018) which explains the positive and insignificant influence of the BD variable on the WC variable.

Based on table 4.16, it is known that WC is unable to mediate the effect of BI on ROA because based on the Predicted Value in table 4.16, the significance value of the effect of WC mediation is 0.809 > 0.05 so that H9 is rejected. This result proves that companies with a high WC ratio value do not have a high influence on the board of directors / independent commissioners and thus the company reduces profits for the manufacturing company. Therefore, if agency fees are managed well, it can help to increase the value of the shares and also improve the overall financial performance of the company. The results of this study are in line with research from Naz, M.A., Ali, R., Rehman, R.U., Ntim, C.G. (2022) which states that WC variables are able to mediate the influence of BI variables on ROA significantly.

Based on table 4.16, it is known that WC is able to mediate the effect of BD on ROA because based on the Predicted Value in table 4.16, the significance value of the effect of WC mediation is 0.041 < 0.05 so that H10 is accepted. This result proves that the value of working capital owned by the company during the existing time period can mediate the influence of the existence of an independent board of directors / commissioners which if the value increases it will increase the percentage of company profits. Based on agency theory, effective corporate governance mechanisms under control should encourage managers to act in the best interests of the principal (Allen & Gale, 2001). This research is in line with research conducted by Ahmadi, A., Nakaa, N., Bouri, A. (2018) which explains the positive influence of BD variables on ROA with the OLS (Ordinary Least Squares) regression method and this study is not in line with research conducted by Jamaludin et al (2019) which states that BD variables have a negative and insignificant effect on ROA.

Based on table 4.18, it is known that WC is unable to mediate the effect of BI on ROE because based on the Predicted Value in table 4.18, the endogenous significance value of the WC mediation effect is 0.649 > 0.05 so that H11 is rejected. This result is in accordance with the agency theory discussed earlier, because the number of independent boards of directors / commissioners owned by manufacturing companies does not have a significant impact on ROE or the company's ability to generate after-tax profits on capital management owned. So, if the BI value rises, it will affect the decrease in the ROE value. The results of this study are also in line with research conducted by Heni and Mudya (2017) and contradict research from Naz, M.A., Ali, R., Rehman, R.U., Ntim, C.G. (2022) which respectively explain the positive and significant influence and negative and significant influence of WC on ROE, this explains that WC variables are unable to mediate the influence of BI on ROE.

Based on table 4.18, it is known that WC is unable to mediate the effect of BD on ROE because based on the Predicted Value in table 4.18, the endogenous significance value of the WC mediation effect is 0.032 < 0.05 so that H12 is accepted. This result is in line with stewardship theorists because the number of female genders in companies can bring differences in sociological perception and understanding in decision-making carried out at the board table. Women are thought to have a sense of cognitive styles that focus on harmony and the ability to facilitate the dissemination of information. So that this is good for the company's development process.
The results of this study are also supported by the results of research from Ahmad Ali et al. (2017) and Ahmadi, A., Nakaa, N., & Bouri, A. (2018) which explain that WC variables are able to mediate the influence of BD variables on profitability owned by the manufacturing company.

CONCLUSION AND RECOMMENDATION

1. The test results stated that BI had a positive and insignificant effect directly on ROA at 5% significance.
2. The test results stated that BD had a positive and significant effect directly on ROA at 5% significance.
3. The test results stated that WC had a positive and insignificant effect directly on ROA at 5% significance.
4. The test results stated that BI had a negative and insignificant effect directly on ROE at 5% significance.
5. The test results stated that BD had a positive and significant effect directly on ROE at 5% significance.
6. The test results stated that WC had a positive and significant effect directly on ROE at a significance of 10%.
7. The test results stated that BI had a positive and insignificant effect directly on WC at a significance figure of 5%.
8. The test results stated that BD had a positive and insignificant effect directly on WC at a significance of 5%.
9. The test results stated that BI had no effect on ROA by being mediated by WC endogenously.
10. The test results stated that BD had an effect on ROA by being mediated by WC endogenously.
11. The test results stated that BI had no effect on ROE by being mediated by WC endogenously.
12. The test results stated that BD had an effect on ROE by being mediated by WC endogenously.

During the research process, there were several suggestions generated based on the results of the study. Research suggestions can be used as consideration and reference for related parties. Manufacturing companies, especially management, can obtain information from this study about variables that affect Return on Assets and Return on Equity during the period 2017 to 2019. Based on the results of the analysis, manufacturing companies are expected to pay attention to the management of the company’s business capital management managed by the company, especially the direct influence of BI on ROA and BD on ROE. So that the company is able to manage its business capital by handling both financial risks so that the amount can decrease which directly improves the performance of the manufacturing company itself.

Investors can find out which companies are right to be the target of investment by using variables that have a significant influence on performance, especially those proxied by ROA and ROE as indicators, including Board Independence (BI), Board Diversity (BD), and Working Capital Management (WC). Based on the results of the research hypothesis described above, it is recommended for investors to pay attention to variables that are considered to have a role/influence such as the influence of BD on ROE, BD on ROE, WC on ROE, BD on ROA mediated by WC, and BI on ROE mediated by WC. In addition, investors can also consider the direct and indirect influences of this research to determine the strategies used in analyzing stocks to be bought or sold, especially in the manufacturing company sector while still referring to the five variables. If a company has a low ROA and ROE value, it will have an impact on investor decisions in terms of buying shares that will increase and selling shares that are reduced assuming the performance value of the company is low, the results obtained by investors will be low as well. Thus, investors will make a decision not to take the company in carrying out investment activities.

For further research, it is expected to find factors that can weaken or strengthen the relationship between corporate governance and company performance. In addition, future research can also add variables that are not mentioned in this study. Such as adding CEO Duality variables such as research conducted by (Assenga, et al., 2018), Firm Type (Pong et al., 2016), and Industry Type (Mehran et al., 2011) where these variables are described as being able to become dependent variables and mediation variables in research related to company performance analysis.

REFERENCES


