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THE EFFECT OF BOARD SIZE, CAPITAL STRUCTURE, POLITICAL CONNECTION AND FIRM SIZE ON FIRM PERFORMANCE

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Abstract

The study aims to analyze the factors that impact the company's performance in non-financial companies listed on the Indonesia Stock Exchange. This study analyzes a sample of 190 non-financial companies listed on the IDX from 2015 to 2019, total 950 samples. This data analysis method is carried out with the aid of the EViews (Econometric Views) version 11 software. The findings indicate that while the size of the company has a significant negative effect on performance, board size, financial structure, and political connections have no effect. This study contains limitations in terms of measuring company performance, one of which is the study's reliance on variables relating to political connections. This research is beneficial to investors considering investing in non-financial companies that generate high returns based on their performance.

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INTRODUCTION

Many corporations are currently conducting initial public offerings (IPO) in order to sell their shares to a wider investor, typically the general public. The Indonesia Stock Exchange (IDX) saw a 2.4 times growth in investors from 2012 to 2019. (IDX, 2020). This surge in investors in Indonesia serves as a reminder to companies to manage their businesses well to maintain investor interest.

The stock price is a reflection of the company's output, which is determined by investors (Arnold, 2013:723). This stock price is one of the indicators of a firm's market performance, specifically when the Tobin's Q ratio is used. This Tobin's Q ratio is used to evaluate a company's potential investment prospects in the future (Fu, Parkash and Singhal, 2017). This market-based metric expresses a company's capacity to create wealth for its shareholders (Rose, 2007).

Performance is a critical feature that a company must attain, as it entails the ability to manage and allocate resources (Davinda, Mukhzarudfa and Maulana Zulma, 2021). The performance of a business can be determined by studying its financial and non-financial metrics (Balagobei, 2018). Financial indicators can be reflected in the numbers in financial statements that provide information about financial condition, allowing users, particularly investors, to make informed decisions (Scott, 2015:72). Another advantage of a public offering is that it can help a company improve its image.

The availability of information that is freely accessible to stakeholders can offer value to the company (IDX, 2020). However, the availability of such information can be used to characterize not only a good image, but also a negative image. For instance, consider PT Tiga Pilar Sejahtera Food Tbk (AISA). This resulted in a decline in AISA's performance, as seen by the share price reported on the IDX on April 2, 2018 for the 2017 financial report, which was Rp. 635, down from Rp. 2,190 the previous year.

This issue began after AISA shareholders rejected the 2017 financial statements due to claims of financial mismanagement by the previous management. Following that, AISA's board of commissioners appointed new management in an Extraordinary General Meeting of Shareholders (EGMS) on 22 October

2018 and delegated an investigative audit to a delegation. According to the conclusions of the Fact-Based Investigation Report number 000129/EYI-AS/2019 dated March 12, 2019, PT Ernst & Young Indonesia (EY) revealed in its 2017 Financial Statements that AISA's previous management overstated many accounts.

Other findings included the existence of several schemes for the flow of funds totaling Rp. 1.78 trillion from one group to parties affiliated with the former management that were not sufficiently disclosed in the report, posing a risk of violating the Chairman of the Capital Market and Financial Institution Supervisory Agency's Decree No. KEP-412/BL/2009 concerning Affiliated Transactions with Conflicts of Interest in Certain Transactions. As a result, on February 17, 2020, the Prosecutor's Office arrested two former directors pursuant to a letter from the Police's Criminal Investigation Agency, the Directorate of General Crimes, with the reference number B/173/II/2020/Dit Tipidum, for violating an article of the Anti-Money Laundering Law (Law on Criminal Money Laundering Acts). Then, by letter number Peng-SPT-00004/BEI.PP1/02-2020 to AISA, IDX announced the temporary suspension of securities trading due to the receipt of a disclaimer opinion for the period December 31, 2017 to December 31, 2018.

Corporate governance, as defined by the Organization for Economic Co-operation and Development (OECD), is a set of processes and procedures used to direct and control a business. According to the 2015 Asean Corporate Governance Scorecard Country Report and Assessments report, Indonesian public firms have increased in size year over year, but they still need to enhance their adoption of best corporate governance practices to meet international standards. Numerous studies, such as by Roy (2016), Arora and Sharma (2016), and Wahyuni and Utami (2018), all emphasize the same thing: the existence of corporate governance is utilized to reassure shareholders that management has acted in their best interests.

The board size is used to examine corporate governance processes inside the company, as the board size is responsible for the overall management of the business, including establishing policies and plans for resource utilization (Muslih and Hartanti, 2022). According to Arora and Sharma (2016) and Mekhum (2020), the larger the board size, the more intellectual knowledge and competence the company possesses, and the more effective the decisions made to improve the performance of a company. According to another study by Bukhori and Raharja (2012), the more directors in a company, the more communication and coordination challenges there will be.

Another factor affecting the performance of the company is its capital structure. Capital structure is defined as a combination of equity and debt capital used to support a business's operations, the amount of which is determined by management in order to achieve the optimal capital structure component that maximizes the company's performance (Bringham and Ehrhardt, 2008:565). The optimal capital structure component is critical to a company success because capital structure decisions are sustainable and can be made at any time the company requires funds (Chadha and Sharma, 2015).

Leverage will be used to explain this capital structure variable. Leverage is a critical factor in determining a company's performance (Saeed, Belghitar and Clark, 2016). A company's ideal leverage composition enables it to maximize market value while minimizing agency costs (Tripathy and Shaik, 2019). This is in contrast to Ebaid Research (2009), which states that capital structure has no effect on a company's performance because the choice of capital structure has a negligible effect on the performance of Egyptian listed companies.

Another variable that will be examined is political connection. Indonesia, as a democratic multi-party presidential republic, elects its President, Vice President, and Legislative Members through general elections or popular elections (Law of the Republic of Indonesia Number 22 of 2007). Due to the large number of political parties in Indonesia, the country has a relatively high rate of political turnover. Thus, when a presidential election occurs, political parties tend to form coalitions; if the coalition is elected, members of the coalition can hold positions in government such as Minister, Director of state-owned enterprises, or other high-level political positions (Nasih et al., 2020).

Political connections benefit company performance because companies with connections to China's communist party will find it easier to obtain loans from banks and other institutions and will receive support under the Li et al. (2008). However, the presence of political connections within the company will impair the control and supervision functions (Azizah and Amin, 2020).

Another critical factor in evaluating a firm's performance is its size. This variable can be used to mitigate the impact of scale economies within a country. Large companies typically have superior capabilities and procedures, which makes it easier to obtain higher returns, thereby maintaining the company's performance (Saeed, Belghitar and Clark, 2016). Expanding a company's size creates opportunities for it to gain a competitive edge over competitors (Olawale, Ilo and Lawal, 2017). According to Bukhori and Raharja (2012), the more assets a company owns, the more complex agency problems it will face.

Agency Theory

Jensen and Meckling (1976) describe agency as a contract between the owner of the

business/principal and the manager/agent. This condition demonstrates that the agent is empowered to make business choices on behalf of the corporation. This authority is granted by the principal to the agent because the agent is the party who manages the company and has access to all of the company's information, whereas the principal is the party that owns the company and does not have access to all of the company's information. This needs the agent to be able to act in the principal's best interests, specifically to maximize his welfare. On the other hand, the agent has an interest in the business as well, notably increasing his personal wealth. This conflict of interest is referred to as agency conflict.

Pecking Order Theory

Stewart C. Myers (1984) established this capital structure theory, which describes the order in which the corporation chooses its capital structure. To begin, the company prioritizes the utilization of internal funds. Internal funding is the preferred method since it avoids contracts with third parties that result in corporate expenses (Arnold, 2013: 800). Second, if the company has a profitable investment opportunity, it will finance the venture with retained earnings. Finally, if the company requires additional capital, it will seek external financing by initially issuing the safest securities. According to Myers' (1984) research, the first external funding source chosen is debt, followed by mixed securities such as convertible bonds, and finally by the sale of shares (equity).

Firm Performance

Performance is defined as a company success (Civelek et al., 2015). According to Taouab and Issor's research (2019), company performance is defined as an organization's capacity to analyze and establish management strategies, as well as forecast future situations both within and outside the organization, so that management may make the best judgments possible. Additionally, performance refers to a company's ability to manage and allocate its resources (Davinda, Mukhzarudfa and Maulana Zulma, 2021).

Board Size

The board size is defined as the number of individuals who exercise control over the company. The term "directors" relates to Law No. 40 of 2007 on Limited Liability Companies, which defines directors as those who are authorized and accountable for the company's overall management for its benefit, including establishing policies and plans for the company's resource usage (Muslih and Hartanti, 2022).

Capital Structure

The capital structure of a company is known as the mix of capital utilized to fund its operations. This funding is provided by equity and debt; the quantity of funding required is defined by management, whose components are anticipated to establish the ideal capital structure in order to maximize the company's performance (Bringham and Ehrhardt, 2008:565).

Political Connection

Bank Indonesia Regulation Number 12/3/PBI/2010 defines political connections as Politically Exposed Persons or PEP. PEPs are people who are trusted to have public authority such as state administrators or people who are registered as members of political parties.

Firm Size

The term "company size" refers to a number that indicates the size of a company. The main purpose of the company will be to grow and compete with its competitors. Additionally, firm size can be employed to mitigate the impact of internal economies of scale (Saeed, Belghitar and Clark, 2016).

Framework

The effect of the board size on the firm's performance

The large number of directors indicates that the company's knowledge and competence will be greater, which will aid in improving the efficiency of the company's performance (Mekhum, 2020). However, increasing the number of directors in a company complicates communication and cooperation, making internal supervision more difficult (Bukhori dan Raharja, 2012).

H1: The board size affects the firm's performance

The effect of capital structure on the firm's performance

Companies that select the optimal leverage composition can optimize market value and create operating profits (Tripathy and Shaik, 2019). According to Ebaid (2009), the capital structure chosen has a negligible effect on the company's performance.

H2: Capital structure affects the firm's performance

The effect of political connections on the firm's performance

Companies with connections to China's communist party will have an easier time obtaining financing from banks and other companies, as well as legal help (Li et al., 2008). This is also supported by Mobarak and Purbasari's (2006) research in Boubakri et al., (2012), which describes how companies controlled by one of the children of Indonesia's second former President benefit from reduced tariffs on credit and are granted carte blanche for various forms of import licenses. However, the risk of firm assets being expropriated for political purposes cannot be avoided, and the control and supervisory

functions cannot operate properly politically (Bertrand et al., 2007 in Ullah and Kamal, 2019; Azizah and Amin, 2020).

H3: Political connections affects the firm's performance

The effect of firm size on the firm's performance

Large companies typically have good procedures and capabilities, which makes it easier for them to earn higher profits. Increasing a company's size creates opportunities for it to obtain a competitive advantage over competitors (Olawale, Ilo and Lawal, 2017). In contrast to the findings of Bukhori and Raharja (2012), who assert that the more assets a corporation owns, the more complicated agency challenges it will encounter.

H4: Company size has an effect the firm's performance.

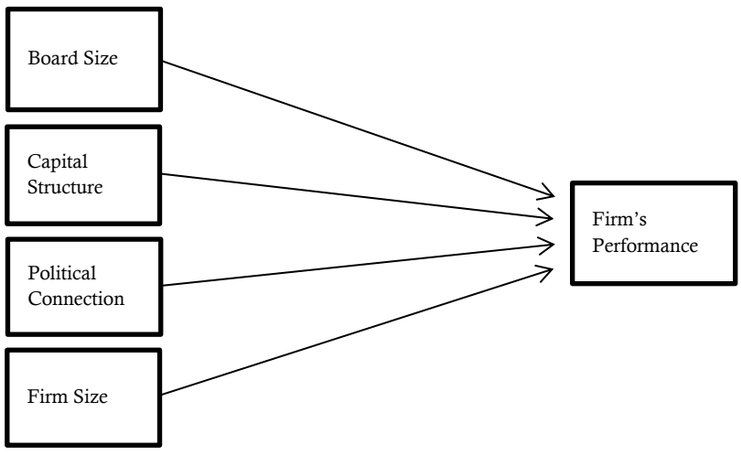

Figure 1 Framework

METHOD

This study analyzed 950 non-financial companies that were listed on the IDX from 2015 to 2019. Purposive sampling was used to collect data. The sample was chosen based on the following criteria:

a. Non-financial companies that are consistently listed on the Indonesia Stock Exchange in 2015-2019.
b. Non-financial companies that use rupiah currency in 2015-2019.
c. Non-financial companies that consistently present financial statements ending on December 31.

The analytical method used in this study is panel data supported by Eviews version 11.0 through the following steps: a) Descriptive Statistical Analysis, b) Model Selection, c) Model estimation, d) Classical Assumption Test and e) Test The hypothesis consists of: Coefficient of Determination Test (R2), F-Statistical Test, t-test and Multiple Linear Regression Analysis.

The following is the regression model used in this study:

$$\boldsymbol{Y_{it} = \alpha_0 + \beta_1 X_{it} + \beta_2 X_{it} + \beta_3 X_{it} + \beta_4 X_{it} + \varepsilon_{it}}$$

Information:

Y : Firm's Performance
β_(1) : Board Size
β_(2) : Capital Structure
β_3 : Political Connection
β_4 : Firm Size
εit : Residual
α0 : Konstanta

The following operational variables used in this study:

Variable	**Indicator**	**Source**
Board Size	*BS = number of directors on board*	Arora dan Sharma (2016)
Captal Structure	$Lev = \frac{Total\ Debt}{Total\ Equity}$	Saeed, Belghitar and Clark (2016)
Political Connections	Value 1 If the board of directors or commissioners meets the standards set forth in Bank Indonesia Regulation No. 12/3/PBI/2010, section 11 explanation. The criteria are as follows: Head of State or Head of Government, Deputy Head of State or Head of Government, Minister-level Official, Executive Senior State Companies, State-Owned Enterprises Directors, Executives, and Heads of Political Parties, Senior Officials at the Supreme Court and Attorney General's Office, Officials appointed by Presidential Decree, and Family Members (Spouse,	Harymawan *et al.*, (2019)

	Parents, Siblings, Children, In-Laws, and GrandChildren) from the same category and 0 otherwise	
Firm Size	$Size = \text{Ln}\, total\ assets$	Saeed, Belghitar and Clark (2016)
Kinerja Perusahaan	$Tobin's\ Q = \frac{Market\ value\ of\ equity + Book\ value\ of\ total\ debts}{Book\ value\ of\ total\ assets}$	Saeed, Belghitar and Clark (2016)

Source: Data processed by author

RESULT AND DISCUSSION

Descriptive statistics

Table 1 presents descriptive statistics in this study. Based on table 4.1 states that the average performance of the companies studied is 9.85, this shows that the companies that are the sample do not reflect good company performance. The minimum score for the company's performance was 0.15 at PT Bakrie Telecom Tbk in 2018, then the highest score of 1090.69 was found at PT Bakrie Telecom Tbk in 2019.

The average value of the size of the board size shows a figure of 4.97. The maximum score for the board size was 13 directors at PT Gajah Tunggal Tbk in 2015, then the lowest score was 2 directors in 53 samples including PT Mahaka Media Tbk in 2016 – 2019 and PT Akasha Wira International Tbk in 2018 – 2019.

The average capital structure of the examined companies is 2.14, indicating that the statistics are healthy. The maximum value obtained is 786.93 at PT Alumindo Light Metal Industry Tbk in 2019, which has a lower equity value than its debt, indicating that the company is unhealthy, while the lowest value obtained is -46.96 at PT Bakrie Sumatra Plantations Tbk in 2017.

According to Table 4.8, the average company sampled in this study has an 83 % political connection. The average valuation of the companies in this study is considerable, indicating that they can grow and compete well, at 28.95. PT Astra International Tbk has the highest score of 33.49 in 2019 and PT Zebra Nusantara Tbk has the lowest score of 33.49 in 2018.

Tabel 1 Descriptive Analysis

	Y	X1	X2	X3	X4
Mean	9.854435	4.971579	2.147589	0.825263	28.95293
Median	3.262342	5.000000	0.777237	1.000000	29.07272
Maximum	1090.693	13.00000	786.9311	1.000000	33.49453
Minimum	0.158200	2.000000	-45.95938	0.000000	22.37663
Std. Dev.	44.01045	1.974610	25.83176	0.379942	1.734862
Skewness	17.93066	0.822509	29.59553	-1.713075	-0.346424
Kurtosis	402.0814	3.501022	898.7389	3.934626	3.475709
Jarque-Bera	6355183.	117.0523	31898300	499.2262	27.95922
Probability	0.000000	0.000000	0.000000	0.000000	0.000001
Sum	9361.713	4723.000	2040.209	784.0000	27505.29
Sum Sq. Dev.	1838136.	3700.233	633248.5	136.9937	2856.248
Observations	950	950	950	950	950

Source : Output E-Views version 11.0

Model Selection

Table 2 shows the common effect model, following the common effect model:

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	120.0189	27.27431	4.400437	0.0000
X1	0.422032	0.887189	0.475696	0.6344
X2	-0.016550	0.054978	-0.301022	0.7635
X3	8.769371	3.957483	2.215896	0.0269
X4	-4.126148	1.042875	-3.956511	0.0001

Root MSE	43.50770	R-squared	0.021687
Mean dependent var	9.854435	Adjusted R-squared	0.017546
S.D. dependent var	44.01045	S.E. of regression	43.62264
Akaike info criterion	10.39428	Sum squared resid	1798274.
Schwarz criterion	10.41984	Log likelihood	-4932.283
Hannan-Quinn criter.	10.40402	F-statistic	5.237016
Durbin-Watson stat	1.115191	Prob(F-statistic)	0.000356

Source : Output E-Views version 11.0

Common Effect Model

Table 3 shows the fixed effect model, along with the fixed effect model:

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	734.5583	84.37450	8.705928	0.0000
X1	-1.333523	1.926525	-0.692191	0.4890
X2	-0.000397	0.055324	-0.007184	0.9943
X3	2.327030	43.80948	0.053117	0.9577
X4	-24.86773	2.650252	-9.383158	0.0000

Effects Specification
Cross-section fixed (dummy variables)

Root MSE	34.90879	R-squared	0.370181
Mean dependent var	9.854435	Adjusted R-squared	0.209394
S.D. dependent var	44.01045	S.E. of regression	39.13233
Akaike info criterion	10.35178	Sum squared resid	1157692.
Schwarz criterion	11.34352	Log likelihood	-4723.093
Hannan-Quinn criter.	10.72964	F-statistic	2.302310
Durbin-Watson stat	1.602640	Prob(F-statistic)	0.000000

Source : Output E-Views version 11.0

Random Effect Model

Table 4 shows the random effect model, following the random effect model:

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	166.7687	31.58199	5.280500	0.0000
X1	0.875470	1.007372	0.869064	0.3850
X2	-0.009620	0.051844	-0.185565	0.8528
X3	10.85020	4.820732	2.250737	0.0246
X4	-5.878518	1.198970	-4.902973	0.0000

Effects Specification		
	S.D.	Rho
Cross-section random	16.33865	0.1484
Idiosyncratic random	39.13233	0.8516

Weighted Statistics			
Root MSE	40.29398	R-squared	0.027551
Mean dependent var	7.203143	Adjusted R-squared	0.023435
S.D. dependent var	40.88231	S.E. of regression	40.40044
Sum squared resid	1542425.	F-statistic	6.693268
Durbin-Watson stat	1.283828	Prob(F-statistic)	0.000026
Unweighted Statistics			
R-squared	0.018475	Mean dependent var	9.854435
Sum squared resid	1804176.	Durbin-Watson stat	1.097569

Source : Output E-Views version 11.0

To determine which of the three models above is the best used in this study, a model selection test will be conducted.

Model Selection Test

Chow Test

Tabel 5 Uji Chow

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.213304	(189,756)	0.0000
Cross-section Chi-square	418.378480	189	0.0000

Source : Output E-Views version 11.0

Hausman Test

Prob value. The chi-square for the estimated results of the Hausman test in table 4.6 is 0.0000 <0.05, so the Fixed Effect is better than the Random Effect. However, because both tests get the same results. Therefore, the lagrange multiplier test was not carried out.

Tabel 6 Uji Hausman

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	66.239168	4	0.0000

Source : Output E-Views version 11.0

Classic assumption test

Multicollinearity Test

Based on table 7 the value of the correlation coefficient between the independent variables < 0.8, it can be concluded that there is no multicollinearity between independent variables.

Tabel 7 Multicollinearity Test

	Y	X1	X2	X3	X4
Y	1	0.060	0.014	0.027	0.128
X1	0.006	1	0.002	0.218	0.588
X2	0.015	0.002	1	0.073	0.003
X3	0.027	0.218	0.072	1	0.327
X4	0.127	0.588	0.003	0.327	1

Source : Output E-Views version 11.0

Autocorrelation Test

Based on table 8 it is known that prob. The chi-square in Obs*R-squared is 0.00000 which is smaller than 0.05. So it can be concluded that there is an autocorrelation in the regression model, but it can be ignored.

Tabel 8 Autocorrelation Test

Breusch-Godfrey Serial Correlation LM Test:
Null hypothesis: No serial correlation at up to 2 lags

F-statistic	13.28077	Prob. F(2,943)	0.0000
Obs*R-squared	26.02565	Prob. Chi-Square(2)	0.0000

Source : Output E-Views version 11.0

Heteroscedasticity Test

Based on table 9, it is known that the acquisition of prob. Chi-square on Obs*R_Squared is 0.0243 which is lower than 0.05, the model has a heteroscedasticity violation.

Tabel 9 Heteroscedasticity Test

Heteroskedasticity Test: Glejser
Null hypothesis: Homoskedasticity

F-statistic	11.14133	Prob. F(4,945)	0.0000
Obs*R-squared	42.78348	Prob. Chi-Square(4)	0.0000
Scaled explained SS	108.9319	Prob. Chi-Square(4)	0.0000

Source : Output E-Views version 11.0

In the fixed effect model, it is possible that heteroscedasticity violations will occur because these two models use the OLS (Ordinary Least Square) assumption, so to treat heteroscedasticity violations in the fixed effect model, the model must be weighted and compared with the weightless model (Wati, 2018).

Tabel 10 Fixed Effect Model Comparison

Parameter	*Unweighted*	*Weighted*
Statistics t probability	1 variable < 0.05	1 variable< 0.05
R-Squared	0.20	0.61
F-Statistic Probability	0.00	0.00

Source : Output E-Views version 11.0

According to Table 10, the weightless model exhibits heteroscedasticity symptoms; however, by adding a weight, the model becomes more visible across all parameters; thus, the following analysis is based on Fixed Effect with weights (Table 11).

Tabel 11 Weight Fixed Effect model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	275.8226	17.20957	16.02728	0.0000
X1	-0.201162	0.103092	-1.951281	0.0514
X2	-0.003985	0.003514	-1.134083	0.2571
X3	0.940532	3.948328	0.238210	0.8118
X4	-9.178195	0.581894	-15.77297	0.0000

Effects Specification

Cross-section fixed (dummy variables)

Weighted Statistics

Root MSE	24.43632	R-squared	0.690670
Mean dependent var	46.57374	Adjusted R-squared	0.611700
S.D. dependent var	45.60341	S.E. of regression	27.39282
Sum squared resid	567277.1	F-statistic	8.746059

Durbin-Watson stat	1.780360	Prob(F-statistic)	0.000000
	Unweighted Statistics		
R-squared	0.339720	Mean dependent var	9.854435
Sum squared resid	1213684.	Durbin-Watson stat	1.590185

Sumber : Output E-Views versi 11.0

Hypothesis Testing

Coefficient of Determination Test

As can be seen from the result, the Adjusted R-squared value is 0.611. This demonstrates that 61.1% of the variance in the firm's performance can be explained by the board size, capital structure, political connections, and firm size.

F Statistic Test

Based on the output results, the acquisition of the Prob value (F-statistic) is 0.000 which is lower than 0.05 so it can be concluded that the model in this study is declared fit.

Statistical t tTst

As can be seen from the partial significance test, the board size has a probability value of 0.051, which is greater than 0.05, and thus H1 is rejected, indicating that board size has no effect on company performance. Because the probability of the capital structure is greater than 0.05, H2 is rejected. Because the probability of a political connection is larger than 0.05, H3 is rejected. Meanwhile, the firm's size generates a probability value of 0.000, which is smaller than 0.05, and so H4 is accepted. This firm size variable affects the firm's performance.

Multiple Regression Analysis

Based on the results of the data output, the form of the regression equation is obtained as follows:

Y = 275.823 - 0.201 X1 – 0.004 X2 + 0.940 X3 – 9.178 X4

Discussion

The effect of the board size on the firm's performance

Because the probability value for the board size is greater than 0.05, H1 is rejected, indicating that the board size has no effect on the firm's performance. The presence of a large number of directors with varying experiences and expertise in a business is believed to be detrimental to the company's performance. The makeup of the huge number of directors will increase communication and coordination problems, so complicating supervision. The findings of this study are consistent with those of (Bukhori and Raharja, 2012), although they are inconsistent with those of (Bukhori and Raharja, 2012). (Balagobei, 2018; Nawaz Khan et al., 2019; Mekhum, 2020; Muslih and Hartanti, 2022).

The findings of this study contradict the agency theory, which holds that the more directors a company has, the easier it is to govern it. This is most likely due to the inconsistency in the makeup of the number of directors in non-financial companies listed on the IDX each year.

The effect of capital structure on the firm's performance

Because the capital structure has a probability value larger than 0.05, H2 is rejected, indicating that it has no effect on the firm's performance. The high debt-to-equity ratio will place the company in an unfavorable position, which will further worsen the firm's performance. The capital structure chosen by management has a negligible effect on the overall performance of the company. Although the findings of this study are supported by research (El-Sayed Ebaid, 2009; Chadha and Sharma, 2015), they contradict research (Rizqia et al., 2013; Olawale, Ilo and Lawal, 2017; Tripathy and Shaik, 2019).

This is inconsistent with agency theory, which argues that the optimal composition of leverage will impact the agent-principal agency conflict by altering the agent's behavior. Numerous instance companies finance their activities through external debt financing.

The effect of political connection on the firm's performance

Because the likelihood of the political connection is greater than 0.05, H3 is rejected, indicating that this political connection has no effect on the firm's performance. Political connections will only serve to lower profitability, increase the risk of firm assets being expropriated for political purposes, and impair the performance of control and supervision functions. Additionally, research supports the findings of this study (Jackowicz et al. 2014; Bertrand et al., 2017 in Ullah and Kamal). Azizah and Amin, 2020), yet these findings contradict studies (Li et al. 2008; Boubakri, Cosset and Saffar, 2012).

The existence of this political connection causes agency conflict within the company, as directors or commissioners with a political connection will often utilize the connection to advance their own interests rather than that of shareholders (You and Du, 2012). This is likely because this research relies on information on the board of directors' work experiences that is available in the annual report. As a result, there may be directors who are politically connected but are not included in the annual report, and vice versa.

The effect of firm size on the firm's performance

Because the probability value for firm size is 0.000, which is less than 0.05, H4 is acceptable. The variable size of a company influences its performance. The size of the company will have a significant impact on its performance. Large organizations typically have sound procedures and capabilities, which makes it easier to earn high returns and seize opportunities to obtain a competitive edge over competitors. While research supports the findings of this study (Chadha and Sharma, 2015; Saeed, Belghitar, and Clark, 2016; Olawale, Ilo, and Lawal, 2017), these findings are different from research (Bukhori and Raharja, 2012; Tifow and Sayilir, 2015).

CONCLUSSION

The purpose of this study is to examine the factors that influence the performance of non-financial companies listed on the Indonesia Stock Exchange between 2015 and 2019. On the basis of the data analysis and discussion, it can be determined that the size of the board size, capital structure, and political connections of the company have no effect on its performance. However, firm size has a negative effect on performance because a larger company is more effective at improving performance. Large companies typically have good procedures and capabilities, which makes it easier to earn high returns and seize opportunities to obtain a competitive edge over competitors. While research supports the findings of this study (Chadha and Sharma, 2015; Saeed, Belghitar, and Clark, 2016; Olawale, Ilo, and Lawal, 2017), these findings are distinct from research (Bukhori and Raharja, 2012; Tifow and Sayilir, 2015).

The study's limitation is that other independent variables were hypothesized but not accepted, thus future researchers are advised to analyze additional independent variables not examined in this study and different sorts of companies. Further research should include a sample of foreign currency financial statements, as many companies are now international in nature. It is advised that future researchers employ alternative measures of political connection.

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