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Corporate Governance, Firm Size, and Organizational Performance: Evidence From Indonesia's Energy Sector

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ABSTRACT

Purpose of the study: The main purpose of this study is to examine the relationship between corporate governance, firm size, and financial performance.

Methodology: This study employs a quantitative research approach using secondary data obtained from annual reports and audited financial statements of energy companies listed on the Indonesia Stock Exchange. The sample was selected through purposive sampling, and the data were analyzed using multiple linear regression with SPSS.

Main Findings: The results indicate that the audit committee has a significant relationship with financial performance, while managerial ownership, institutional ownership, and firm size do not show a significant relationship. Simultaneously, corporate governance and firm size are not significantly associated with financial performance.

Research Novelty/Originality: This study contributes to the governance literature by examining corporate governance mechanisms as institutional and organizational structures within the Indonesian energy sector during the 2021–2024 period, providing recent empirical evidence amid economic uncertainty and energy transition dynamics.

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1. INTRODUCTION

The energy sector plays a strategic and multidimensional role in supporting national economic growth, energy security, and public welfare. Reliable and sustainable energy availability underpins industrial production, transportation systems, and household activities, making the sector a critical driver of long-term economic development. In Indonesia, the energy sector functions not only as a source of economic value but also as a foundation of macroeconomic stability and national competitiveness. However, the industry is characterized by high capital intensity, substantial operational and environmental risks, exposure to global commodity price volatility, and strong government intervention. These characteristics necessitate the implementation of effective, accountable, and sustainability-oriented corporate governance to ensure business continuity and financial resilience [1], [2].

Beyond its economic importance, the energy sector operates within a complex socio-institutional environment shaped by state ownership structures, public accountability demands, and evolving global sustainability commitments. In Indonesia, energy governance is closely linked to national development agendas, public service obligations, and social equity considerations related to affordable and equitable energy access. Furthermore, Indonesia's commitment to international agreements, such as the Paris Agreement, and the

acceleration of national energy transition policies have intensified institutional pressure on energy companies to align financial objectives with ethical conduct, environmental responsibility, and social legitimacy. As a result, corporate governance in the energy sector extends beyond internal control mechanisms and becomes an essential institutional instrument for managing stakeholder expectations and regulatory compliance [3]-[5].

From the perspective of institutional theory, corporate performance in highly regulated and socially sensitive sectors cannot be separated from issues of legitimacy, trust, and conformity to prevailing norms and rules. Energy companies are expected not only to generate economic returns but also to demonstrate accountability to the government, society, and the environment. Failure to comply with governance standards and ethical norms may lead to reputational damage, regulatory sanctions, and declining investor confidence, which ultimately undermine financial performance. Accordingly, governance quality plays a central role in shaping both organizational legitimacy and economic outcomes [6]-[8].

Financial performance remains a primary indicator for evaluating a firm's ability to sustain operations, manage risks, and maintain competitiveness under uncertain market conditions. In the energy sector, financial performance reflects the effectiveness of management in utilizing capital-intensive assets, responding to market volatility, and implementing sound governance practices. Effective corporate governance serves as an institutional bridge that translates regulatory requirements, ethical standards, and stakeholder interests into managerial decisions and corporate control systems. In parallel, firm size is frequently associated with access to financing, economies of scale, and risk absorption capacity. However, larger organizational size may also introduce structural complexity and bureaucratic inefficiencies that weaken financial performance when governance mechanisms are inadequately designed or implemented [2], [9].

The 2021–2024 period represents a particularly critical phase for Indonesia's energy sector. This period encompasses the prolonged effects of the COVID-19 pandemic, disruptions in global supply chains, sharp increases in energy prices driven by geopolitical tensions, and intensifying policy pressure related to energy transition and Environmental, Social, and Governance implementation. These conditions have significantly heightened scrutiny over transparency, accountability, and ethical conduct in energy companies, while simultaneously testing their ability to maintain financial performance, investor confidence, and public legitimacy [10].

Despite the growing body of literature examining the relationship between corporate governance and financial performance, several research gaps remain evident. First, empirical studies have largely concentrated on manufacturing, banking, and consumer sectors, resulting in limited sector-specific evidence for the energy industry, particularly in emerging economies such as Indonesia. Second, most prior research continues to rely on traditional compliance-oriented corporate governance frameworks, while empirical investigations adopting the updated ethical, Transparency, Accountability, and Responsibility based Good Corporate Governance framework introduced in 2021 remain scarce. Third, governance mechanisms are often treated as isolated internal control variables, with insufficient integration of the broader socio-institutional context that strongly characterizes the energy sector [11]-[13].

Accordingly, the novelty of this study lies in the application of the ethical, Transparency, Accountability, and Responsibility based Good Corporate Governance framework as a governance measurement tool within Indonesia's energy sector, while simultaneously incorporating firm size as a structural characteristic under institutional pressure. By focusing on the 2021–2024 observation period, this study provides timely empirical evidence on how contemporary governance principles influence financial performance during a phase of heightened uncertainty, regulatory transformation, and sustainability demands. The findings are expected to contribute to the development of corporate governance literature from a socio-institutional perspective and to offer practical insights for corporate managers and policymakers in strengthening governance quality, improving financial performance, and enhancing long-term business sustainability in the energy sector [9], [14].

Building upon the theoretical framework of Good Corporate Governance and Financial Performance Theory, as well as empirical conditions in Indonesia's energy sector during the 2021–2024 period, this study formulates hypotheses to empirically test the relationships between governance mechanisms, firm size, and financial performance. The adoption of the ethical, Transparency, Accountability, and Responsibility framework emphasizes accountability, independence, and responsibility as core governance dimensions that are expected to influence managerial effectiveness and corporate outcomes.

H1**:** Accountability, reflected in the clarity of roles and responsibilities of directors and commissioners as well as the implementation of internal audit functions, has a positive effect on the financial performance of energy sector companies listed on the Indonesia Stock Exchange during the 2021–2024 period. In addition, the independence of corporate governing bodies is emphasized as a fundamental pillar of effective corporate governance. Independent boards are expected to provide unbiased oversight, reduce conflicts of interest, and enhance decision-making quality.

H2**:** Board independence has a positive effect on the financial performance of energy sector companies listed on the Indonesia Stock Exchange during the 2021–2024 period. Furthermore, corporate responsibility toward

stakeholders, including compliance with ethical standards, social responsibility, and effective internal control systems, is increasingly recognized as a determinant of sustainable financial performance.

H3**:** Corporate responsibility has a positive effect on the financial performance of energy sector companies listed on the Indonesia Stock Exchange during the 2021–2024 period. Beyond governance mechanisms, firm size is considered an important structural factor influencing financial performance. Larger firms are generally better positioned to manage large-scale and high-risk projects, particularly in capital-intensive sectors such as energy.

H4**:** Firm size has a positive effect on the financial performance of energy sector companies listed on the Indonesia Stock Exchange during the 2021–2024 period. Finally, the simultaneous interaction between governance quality and firm size is expected to strengthen corporate performance by combining effective oversight mechanisms with economies of scale.

H5**:** Good corporate governance and firm size simultaneously have a positive effect on the financial performance of energy sector companies listed on the Indonesia Stock Exchange during the 2021–2024 period. Despite the growing body of empirical studies examining the relationship between corporate governance and financial performance, existing research has produced inconsistent findings, particularly regarding the role of firm size and individual governance mechanisms. Most prior studies focus on manufacturing or banking sectors and rely on aggregated governance indices, thereby overlooking the distinct characteristics of the energy sector, which is highly capital-intensive, regulated, and exposed to global economic volatility. Moreover, limited attention has been given to recent periods marked by economic uncertainty and energy transition pressures. Therefore, this study positions itself as a socio-institutional inquiry by empirically examining the relationship between corporate governance, firm size, and financial performance of Indonesian energy companies during the 2021–2024 period.

2. RESEARCH METHOD

2.1. Type and Research Design

This study employs a quantitative research method with a causal–associative research design to examine the effects of good corporate governance and firm size on the financial performance of energy sector companies listed on the Indonesia Stock Exchange during the 2021–2024 period [2], [15].

A quantitative approach is selected because the research variables are measurable in numerical form and can be statistically tested to identify causal relationships between independent and dependent variables. The causal associative design aims to determine whether variations in governance mechanisms and firm size lead to changes in corporate financial performance. This design enables objective analysis and generalization of findings based on empirical data derived from corporate disclosures and financial statements [16], [17].

2.2. Research Subjects and Population

The research subjects of this study are energy sector companies listed on the Indonesia Stock Exchange . The population consists of all companies classified under the energy sector that were listed on the Indonesia Stock Exchange during the 2021–2024 observation period [18], [19].

2.3. Sample Selection Technique

The sample in this study was selected using a purposive sampling technique. This approach was applied to ensure data completeness and analytical validity. The sample consisted of energy sector companies that were consistently listed on the Indonesia Stock Exchange during the 2021–2024 period, published complete annual reports and audited financial statements, and provided complete and accessible data related to good corporate governance variables, firm size, and financial performance [18], [20], [21].

2.4. Data Sources and Data Collection Instrumen

This study utilizes secondary data obtained from annual reports, audited financial statements, and corporate governance disclosures. These data were accessed through the official website of the Indonesia Stock Exchange as well as the respective corporate websites of the sampled companies.

Tabel 1. Data Sources and Data Collection Instrumen

No	Instrunent Type	Data Source	Variables / Indicators	Purpose
1	Documentation Checklist	Annual Reports	Corporate governance structure (board of directors, audit committee, governance policies)	To identify and assess corporate governance practices
2	Documentation Checklist	Audited Financial Statements	Financial performance indicators (Return on Assets, profitability measures)	To identify and assess corporate governance practices

3	Documentation Checklist	Annual Reports	Firm size (total assets)	To determine the scale of the company
4	Documentation Checklist	Corporate Governance Disclosures	Compliance with governance principles and disclosure transparency	To evaluate governance transparency and accountability

2.5. Data Collection Technique and Research Procedure

Data collection in this study was conducted using a documentation method through a systematic review of corporate reports. The research process began with the identification of energy sector companies listed on the Indonesia Stock Exchange, followed by the selection of sample companies based on predetermined criteria. Subsequently, annual reports and audited financial statements were collected to obtain relevant information. Governance, firm size, and financial performance data were then extracted and coded in accordance with the operational definitions of each variable. The research variables were calculated using standardized measurement formulas, after which the data were processed and analyzed using SPSS software. Finally, the empirical results were interpreted to test the proposed hypotheses and to draw research conclusions.

2.6. Variable Measurement

2.6.1. Good Corporate Governance

Good Corporate Governance in this study is measured using governance mechanisms aligned with the ethical, Transparency, Accountability, and Responsibility principles as stipulated in the Indonesian General Guidelines for Good Corporate Governance issued by the National Committee on Governance Policy . The use of internal governance mechanisms as proxies for good corporate governance is widely adopted in empirical research because they reflect actual governance practices and allow for objective measurement [22], [23].

2.6.2. Accountability

Accountability is measured by the frequency of meetings of the board of commissioners and supporting committees within a fiscal year. Meeting frequency reflects the intensity of oversight, clarity of managerial responsibilities, and the effectiveness of monitoring functions within the firm [24]. According to agency theory, stronger accountability mechanisms reduce information asymmetry and agency costs by ensuring that management actions are aligned with shareholders' interests [25]. Prior empirical studies also indicate that more frequent board meetings are associated with improved financial performance through enhanced supervisory effectiveness [26], [22].

2.6.3. Independence

Independence is measured by the proportion of independent commissioners to the total number of commissioners. Board independence is a fundamental principle of good corporate governance, intended to ensure objective supervision and to mitigate conflicts of interest between management and owners [23], [27], [28]. Independent commissioners play a critical role in strengthening governance quality by providing unbiased judgment and safeguarding stakeholder interests, which may influence corpo 6rate performance outcomes [11], [23].

2.6.4. Responsibility

Responsibility is measured by the proportion of disclosed corporate responsibility indicators in the company's annual report. This measurement reflects the firm's commitment to regulatory compliance, ethical conduct, and social and environmental responsibility as part of sustainable corporate governance [1], [29]. Disclosure of responsibility-related information signals corporate accountability to stakeholders and is considered an integral component of good governance practices, particularly in industries with high social and environmental impact such as the energy sector [30], [31].

2.6.5. Firm Size

Firm size is measured using the natural logarithm of total assets, which represents the scale of company operations and resource capacity. The logarithmic transformation is commonly used to reduce data skewness and enhance comparability across firms [32], [33]. Larger firms generally possess more extensive resources, stronger internal control systems, and more formalized governance structures, which may contribute to better financial performance[11], [34].

2.6.6. Financial Performance

Financial performance is proxied by Return on Assets , which measures the firm's ability to generate profits from its total assets. Return on Assets is widely employed in financial performance studies because it captures both profitability and asset utilization efficiency [35], [34]. A higher Return on Assets indicates more effective management in deploying corporate resources to generate earnings, making it a relevant indicator for assessing corporate financial performance [11], [36].

2.7. Data Analysis Technique

Data analysis in this study was conducted using both descriptive and inferential statistical methods. Descriptive statistics were employed to summarize the characteristics of the data, including minimum, maximum, mean, and standard deviation values. Prior to hypothesis testing, classical assumption tests were performed to ensure the validity of the regression model. These tests included the normality test using the Kolmogorov Smirnov method, the multicollinearity test based on tolerance and variance inflation factor (VIF) values, the heteroskedasticity test using the Glejser method, and the autocorrelation test using the Durbin Watson statistic [19], [21].

Multiple linear regression analysis was employed to test the proposed hypotheses. Hypothesis testing was conducted through a simultaneous significance test (F-test) to assess the joint effect of all independent variables on the dependent variable, and a partial significance test (t-test) to examine the individual effect of each independent variable. In addition, the coefficient of determination (R^2) was used to evaluate the explanatory power of the regression model in explaining variations in the dependent variable [23], [24].

To examine the effect of good corporate governance mechanisms and firm size on financial performance, this study employs a multiple linear regression model. Financial performance is measured using return on assets, while good corporate governance is represented by accountability, independence, and responsibility. Firm size is included as a structural characteristic that may influence financial performance. The regression model is formulated as follows:

$$\text{financial performance} = \propto + \beta_1 \text{Accountability} - \beta_2 \text{Independence} - \beta_3 \text{Responsibility} + \beta_4 \text{Firm size} + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots..(1)$$

All symbols used in Equation (1) are defined as follows:

- Financial Performance refers to the financial performance of the company measured by return on assets.
- Accountability represents the frequency of meetings of the board of commissioners and supporting committees within one fiscal year.
- Independence refers to the proportion of independent commissioners to the total number of commissioners.
- Responsibility represents the level of corporate responsibility disclosure in the annual report.
- Firm Size represents the scale of the company measured by the natural logarithm of total assets.
- α denotes the constant term.
- β_1, β_2, β_3, and β_4 denote the regression coefficients of each independent variable.
- ε denotes the error term.

3. RESULTS AND DISCUSSION

This section presents the results of data processing and empirical testing conducted to address the research objectives. The presentation of results aims to provide an empirical overview of the data characteristics and to ensure that the data meet the statistical assumptions required for regression analysis. Accordingly, all testing procedures were performed systematically and sequentially to confirm the suitability of the research model for further analysis.

The research findings include descriptive statistical analysis, classical assumption testing, and multiple linear regression analysis accompanied by hypothesis testing. Descriptive statistics are used to describe the characteristics of the research variables, while classical assumption tests are conducted to ensure that the regression model does not violate the required assumptions. Furthermore, regression analysis and hypothesis testing are employed to examine the effects of the independent variables on the dependent variable in accordance with the proposed hypotheses.

3.1. Descriptive statistical

Descriptive statistical analysis is used to provide an overview of the characteristics of the research data, including the minimum and maximum values, the mean, and the standard deviation of each research variable.

Table 2. Descriptive Statistics of Corporate Governance, Firm Size, and Organizational Performance

Variabel	N	Minimum	Maximum	Mean	Std.Deviation
Akuntability	52	4.00	60.00	10.731	8.725
Independence	52	.30	.80	.480	.149
Responsibility	52	.42	1.00	.934	.101
LNsize	52	27.00	32.71	30.506	1.420
LNROA	52	-1	3	1.70	1.097
Valid N(listwise)	52				

Source: Data processed using SPSS version 27

Organizational performance is proxied by ROA. Firm size is measured using the natural logarithm of total assets. Corporate governance variables are measured based on indicators disclosed in annual reports.

Based on the descriptive statistics presented in Table 3.1, all research variables consist of 52 observations, indicating that the dataset is adequate and reliable for further statistical analysis.The accountability variable shows a minimum value of 4.00 and a maximum value of 60.00, with a mean of 10.731 and a standard deviation of 8.725. The relatively high standard deviation indicates substantial variation in accountability practices among energy sector companies. From an institutional perspective, this variation reflects differences in the intensity of oversight, supervisory effectiveness, and internal control mechanisms implemented by firms. Companies with higher accountability scores tend to demonstrate stronger governance structures that support institutional stability and legitimacy, while lower accountability levels may signal weaker monitoring practices and higher institutional risk.

The independence variable ranges from 0.30 to 0.80, with a mean of 0.480 and a standard deviation of 0.149, indicating a relatively homogeneous level of board independence across the sample firms. This finding suggests that most energy companies have complied with regulatory requirements regarding independent commissioners. However, the limited variation also implies that board independence in the energy sector may be driven more by formal regulatory compliance than by substantive governance effectiveness in influencing strategic and operational decisions.

The responsibility variable records a minimum value of 0.42 and a maximum value of 1.00, with a mean of 0.934 and a standard deviation of 0.101. These results indicate that corporate responsibility disclosure is generally high and consistent among energy sector companies. Socially, this condition reflects the institutionalization of responsibility practices as firms respond to increasing societal expectations, environmental pressures, and sustainability demands. High responsibility disclosure serves as a mechanism for maintaining social legitimacy and public trust in a sector characterized by significant social and environmental impacts.

Firm size (natural logarithm of total assets) ranges from 27.00 to 32.71, with a mean of 30.506 and a standard deviation of 1.420, indicating moderate variation in company scale. From an organizational perspective, larger firms typically possess greater resource capacity, more formalized governance structures, and stronger social control mechanisms, enabling them to better manage regulatory demands and institutional pressures. In contrast, smaller firms may face constraints in implementing comprehensive governance systems, which can affect both financial performance and institutional resilience.

Financial performance, proxied by Natural logarithm of return on assets, shows a minimum value of −1 and a maximum value of 3, with a mean of 1.70 and a standard deviation of 1.097. The relatively wide dispersion of Natural logarithm of return on assets indicates notable differences in profitability among energy companies. This variation suggests that financial performance is not solely influenced by market conditions but is also shaped by how effectively firms translate governance quality, organizational capacity, and institutional compliance into economic outcomes.

3.2. Analysis of Classical Assumption Test Results

3.2.1. Normality Test

The normality test was conducted to examine whether the regression residuals follow a normal distribution using the Kolmogorov–Smirnov test on unstandardized residuals. The results indicate that both the Asymp. Sig. (2-tailed) and Monte Carlo Sig. (2-tailed) values exceed the 0.05 significance level, confirming that the residuals are normally distributed. Thus, the normality assumption is satisfied, and the regression model is appropriate for further analysis.

From an analytical perspective, the fulfillment of the normality assumption indicates that the relationship between governance mechanisms, firm size, and financial performance is not distorted by extreme residual behavior. Socially and institutionally, this suggests that variations in financial performance among energy companies occur within a relatively stable structural pattern, rather than being driven by abnormal or irregular governance practices. This condition enhances the credibility of the empirical findings in reflecting real institutional dynamics within the energy sector.

3.2.2. Multicollinearity Test

The multicollinearity test was conducted to assess the presence of high correlations among independent variables using Tolerance and Variance Inflation Factor (VIF) values. The results show that all independent variables have Tolerance values above 0.10 and VIF values below 10, indicating the absence of multicollinearity. Therefore, the regression model satisfies the classical multicollinearity assumption and is suitable for further analysis.

From a governance perspective, the absence of multicollinearity indicates that accountability, independence, responsibility, and firm size represent distinct governance and organizational dimensions. Institutionally, this finding suggests that each governance mechanism contributes independently to corporate

oversight and control, rather than overlapping excessively. This supports the argument that governance quality in energy companies is multidimensional and cannot be reduced to a single dominant mechanism.

3.2.3. Heteroskedasticity Test

The heteroskedasticity test was conducted using the Glejser method by regressing the absolute residuals on all independent variables. The results indicate that all independent variables have significance values greater than 0.05, meaning that none significantly affect the absolute residuals. Consequently, the regression model does not exhibit heteroskedasticity, and the assumption of homoskedasticity is satisfied.

From an institutional standpoint, the presence of homoskedastic residuals suggests that governance practices and firm size influence financial performance in a relatively consistent manner across companies. This indicates that differences in accountability, independence, and responsibility do not create disproportionate financial volatility among firms, reflecting a degree of structural stability in how governance mechanisms operate within Indonesia's energy sector.

3.2.4. Autocorrelation Test

The autocorrelation test was performed using the Durbin Watson statistic to examine the correlation among regression residuals. The results show a Durbin Watson value of 1.873, which is close to the ideal value of 2, indicating no autocorrelation. Therefore, the regression model satisfies the autocorrelation assumption and is appropriate for further analysis.

Socially and institutionally, the absence of autocorrelation implies that financial performance outcomes are not systematically influenced by patterns from previous periods. This finding suggests that governance mechanisms and firm size exert contemporaneous effects on financial performance, reinforcing the relevance of governance quality as an active managerial and institutional control mechanism rather than a passive historical legacy.

3.3. Hypothesis Testing

3.3.1. Multiple Linear Regression Analysis

Based on the results of the multiple linear regression analysis, this study examines the effects of Accountability, Independence, Responsibility, and Firm Size (the natural logarithm of total assets) on financial per formance proxied by Return on assets. The estimated regression model is expressed as follows:

$$\text{Natural logarithm of return on assets} = 0.904 + 0.035\text{Accountability} - 5.378\text{Independence} - 2.795\ \text{Responsibility} + 0.184\ \text{Natural logarithm Firm size} + \varepsilon \ldots\ldots (2)$$

- The constant (α) value of 0.904 represents the expected Natural logarithm of return on assets when all independent variables are held constant. However, the constant is not statistically significant (Sig. = 0.711 > 0.05), indicating that it does not carry substantial economic interpretation. This suggests that financial performance in the energy sector is primarily explained by governance mechanisms and firm characteristics rather than by baseline conditions.
- Accountability shows a positive regression coefficient of 0.035 and is statistically significant (Sig. = 0.004 < 0.05). This finding indicates that stronger accountability mechanisms significantly improve financial performance. Institutionally, enhanced accountability reflects clearer managerial responsibilities, more intensive oversight, and stronger internal control systems, which reduce agency problems and improve managerial efficiency. In the energy sector, where operational risks and public scrutiny are high, accountability functions as a stabilizing governance mechanism that supports both financial outcomes and institutional legitimacy.
- Independence exhibits a negative regression coefficient of −5.378 and is statistically significant (Sig. < 0.001). This result suggests that higher board independence is associated with lower financial performance. From a socio-institutional perspective, this finding may indicate that independent commissioners in energy companies emphasize compliance, risk avoidance, and regulatory adherence over aggressive profit-oriented strategies. While such oversight may constrain short-term financial performance, it potentially strengthens long-term governance quality, risk management, and organizational legitimacy in a highly regulated and socially sensitive sector.
- Responsibility has a negative coefficient of −2.795 and is statistically significant (Sig. = 0.011 < 0.05), indicating that increased responsibility practices negatively affect short-term financial performance. This result reflects the cost implications of compliance with social, environmental, and ethical standards. Institutionally, responsibility initiatives represent an investment in social legitimacy and sustainability, which may reduce profitability in the short run but contribute to long-term business resilience, stakeholder trust, and regulatory acceptance within the energy sector.

- Firm size (the natural logarithm of total assets) shows a positive regression coefficient of 0.184 and is statistically significant (Sig. = 0.012 < 0.05). This finding indicates that larger firms tend to achieve higher financial performance. Organizationally, firm size reflects greater resource availability, operational capacity, and more formalized governance systems. In the energy sector, larger firms are better positioned to manage large-scale projects, absorb regulatory and market risks, and implement governance mechanisms efficiently, thereby enhancing financial performance.
- Overall, the regression results suggest that governance mechanisms and firm size exert differentiated effects on financial performance. Accountability and firm size contribute positively to profitability, while independence and responsibility may impose short-term financial constraints as firms prioritize governance quality, compliance, and institutional legitimacy over immediate financial gains.

3.3.2. Adjusted R Square Test

Table 3. reports the coefficient of determination of the regression model

Model Summary

Model	R	R Square	Adjusted R Square	Std.Eror of the Estimate
1	.791	.625	.594	.699

Source: Data processed using SPSS version 27

The adjusted R^2 indicates the proportion of variation in organizational performance explained by corporate governance and firm size after adjusting for the number of predictors. Table 3 presents the coefficient of determination of the regression model examining the relationship between corporate governance mechanisms, firm size, and organizational performance in Indonesian energy companies. The correlation coefficient (R) of 0.791 indicates a strong positive association between the independent variables accountability, independence, responsibility, and firm size and organizational performance proxied by the natural logarithm of return on assets.

The R Square value of 0.625 suggests that 62.5% of the variation in organizational performance can be explained by the governance structure and firm size incorporated in the model. This finding indicates that institutional governance mechanisms play a substantial role in shaping performance outcomes within the energy sector. Furthermore, the Adjusted R Square value of 0.594 demonstrates that the model retains considerable explanatory power after accounting for the number of predictors, implying that the model is appropriately specified and not overfitted. The remaining variation may be influenced by external institutional, market, and firm-specific factors beyond the scope of this study.

3.3.3. Simultaneous Test (F-Test)

Table 4. Simultaneous Effect of Governance and Firm Size on Organizational Performance (F-Test)

ANOVA

	Model	Sum of Square	df	Mean Square	f	Sig
1	Regression	38.364	4	9.591	19.621	<.001[b]
	Residual	22.974	47	.489		
	Total	61.338	51			

Source: Data processed using SPSS version 27

The F-test evaluates whether corporate governance mechanisms (accountability, independence, responsibility) and firm size jointly influence organizational performance, proxied by the natural logarithm of return on assets. Table 4 presents the results of the F-test examining the simultaneous effect of corporate governance mechanisms and firm size on organizational performance in Indonesian energy companies. The regression model yields an F-statistic of 19.621 with a significance level below 0.001, indicating that accountability, independence, responsibility, and firm size collectively have a statistically significant impact on organizational performance.

From an institutional perspective, these findings highlight that performance outcomes in the energy sector arise from the integrated interaction of governance structures and organizational scale rather than isolated mechanisms. The significant F-test confirms that the regression model is valid and properly specified, providing a reliable basis for further analysis of individual variables using t-tests.

3.3.4. Partial Test (T-Test)

Table 5. Partial Effect of Governance and Firm Size on Organizational Performance (t-Test)

Coefficients[a]

Model		Unstandardized B	Coefficients Std.Error	Standardized coefficients Beta	t	Sig
1	(Constant)	52	4.00	60.00	10.731	8.725
	Akuntability	52	.30	.80	.480	.149
	Indenpendence	52	.42	1.00	.934	.101
	Responsibility	52	27.00	32.71	30.506	1.420
	LNSize	52	-1	3	1.70	1.097

Source: Data processed using SPSS version 27

The t-test evaluates the partial effect of each independent variable corporate governance mechanisms (accountability, independence, responsibility) and firm size on organizational performance, proxied by the natural logarithm of return on assets. Table 5 presents the results of the t-test examining the partial effect of corporate governance mechanisms and firm size on organizational performance in Indonesian energy companies. Accountability shows a positive and significant effect, suggesting that stronger oversight enhances managerial discipline and operational performance. Independence exhibits a negative and significant effect, indicating that higher independence may constrain managerial flexibility in a highly regulated sector. Responsibility also has a negative and significant effect, reflecting the additional operational costs associated with sustainability and legitimacy practices. Firm size demonstrates a positive and significant effect, showing that larger organizations have greater capacity to implement governance mechanisms effectively and absorb regulatory pressures. These results confirm that each independent variable partially influences organizational performance, highlighting the importance of both governance mechanisms and organizational scale from an institutional perspective. Based on these results, H1, H2, H3, and H4 are supported, confirming that each independent variable partially influences financial performance in energy sector companies.

This subsection discusses the research findings by linking empirical results with Institutional Theory, Good Corporate Governance Theory, Financial Performance Theory, the Indonesian General Guidelines for Good Corporate Governance 2021, and relevant governance studies in developing countries. The discussion also incorporates social accountability and corporate legitimacy perspectives to provide a comprehensive understanding of governance dynamics in Indonesia's energy sector.

3.4. Effect of Accountability on Financial Performance

The positive and significant effect of accountability on financial performance confirms H1 and is consistent with both good corporate governance theory and institutional theory. From an institutional perspective, accountability functions not only as an internal control mechanism but also as a legitimacy building instrument that aligns corporate behavior with societal expectations and regulatory norms.

The t-test results show that accountability has a positive regression coefficient of 0.035 with a significance value of 0.004, indicating that enhanced accountability improves financial performance. Institutional Theory suggests that organizations operating in highly regulated environments such as the energy sector are subject to coercive and normative pressures that demand transparent reporting, formal oversight, and clear responsibility structures. Firms that respond effectively to these pressures tend to gain institutional legitimacy, which in turn supports operational stability and financial outcomes.

From the social accountability literature, accountability mechanisms strengthen stakeholder trust by signaling managerial responsibility and compliance with public expectations. In the Indonesian context, where energy companies often face scrutiny related to pricing, environmental impact, and public service obligations, accountability enhances organizational credibility and reduces political and reputational risks.

Compared with governance studies in other developing countries, this finding aligns with evidence from emerging markets where accountability mechanisms improve performance by reducing agency problems and strengthening institutional alignment. The results suggest that accountability in Indonesian energy firms has evolved beyond symbolic compliance toward a functional governance practice that supports both financial efficiency and social legitimacy.

The positive finding on accountability aligns with prior empirical studies indicating that governance mechanisms such as independent boards and firm size significantly impact financial performance in Indonesian firms, where accountability serves as a key governance indicator in multiple regression analyses. Other research demonstrates that strong governance enhances sustainability reporting and profitability through transparency and accountability The implication of your result suggests that enhancing accountability improves both internal

efficiency and external legitimacy for energy companies. A limitation of this study is the reliance on disclosed annual report sdata, which may omit informal governance practices that are not publicly reported [37], [38].

3.5. Effect of Independence on Financial Performance

The negative and significant effect of board independence on financial performance supports H2 and reflects a governance trade-off emphasized in Institutional Theory. The results indicate a regression coefficient of −5.378 with a significance value of < 0.001, suggesting that excessive independence may constrain financial performance.

From an institutional governance perspective, independence serves as a monitoring mechanism designed to mitigate agency conflicts. However, in developing countries with strong regulatory intervention and state involvement, such as Indonesia, excessive monitoring may generate an over-compliance effect. Independent commissioners may prioritize procedural conformity and risk avoidance to meet institutional expectations, potentially at the expense of strategic flexibility and innovation.

Governance studies in emerging economies frequently report similar findings, where board independence does not always translate into superior financial performance due to limited contextual adaptation. In the Indonesian energy sector, where firms operate under complex regulatory frameworks and public accountability demands, overly rigid oversight may slow decision-making and reduce responsiveness to market dynamics [39].

From a social legitimacy perspective, independence enhances public confidence and institutional trust but may weaken short-term financial performance. Thus, independence should be optimized rather than maximized, balancing monitoring effectiveness with managerial discretion.

The negative effect of board independence is consistent with evidence from governance studies in emerging markets indicating that excessive board independence can constrain managerial flexibility under strong regulatory oversight. Research in consumer goods firms shows that the influence of governance mechanisms on finaxncial performance heavily depends on implementation quality and contextual relevance. The implication is that independence must be balanced with strategic agility, especially in volatile sectors like energy. A limitation of this study is the absence of measures for the quality of board independence, which other research suggests can moderate the governance–performance relationship [27], [28].

3.6. Effect of Responsibility on Financial Performance

The negative and significant relationship between responsibility and financial performance supports H3, with a regression coefficient of −2.795 and a significance value of 0.011. This finding reflects a temporal trade-off widely discussed in social accountability and sustainability literature. Institutional Theory explains that responsibility practices such as environmental compliance, maintaining organizational legitimacy. In the energy sector, these pressures are particularly strong due to environmental risks and public sensitivity.

From a financial performance perspective, responsibility initiatives often involve substantial upfront costs, which may reduce short-term profitability. However, governance and sustainability studies emphasize that such costs represent long-term investments in legitimacy, risk mitigation, and stakeholder trust [23]. In developing countries, including Indonesia, the financial benefits of responsibility-oriented governance are often delayed due to regulatory enforcement costs and infrastructure constraints. Therefore, the negative short-term effect observed in this study does not indicate governance inefficiency but reflects the long-term orientation of responsible governance practices.

This finding is supported by research indicating that corporate governance and firm size contribute to sustainability reporting, which often incurs upfront operational costs before financial benefits are realized. Other studies emphasize that social accountability through environmental and social practices yields long-term legitimacy outcomes, consistent with the temporal trade-off observed in your study. The implication is that responsibility should be viewed as a legitimacy investment rather than a short-term cost. A limitation of this research is that responsibility measures are based solely on the proportion of disclosed indicators, without capturing the depth or quality of social responsibility implementation across firms [40].

3.7. Effect of Firm Size on Financial Performance

The positive and significant effect of firm size on financial performance supports H4, with a regression coefficient of 0.184 and a significance value of 0.012. From an institutional perspective, firm size represents organizational capacity to absorb regulatory pressures and implement governance mechanisms effectively.

Large firms in developing economies tend to possess stronger institutional resources, including access to capital, professional management, and formalized governance systems. In the Indonesian energy sector, larger firms are better positioned to manage regulatory compliance, environmental responsibilities, and public accountability demands.While agency theory highlights potential inefficiencies associated with firm size, the findings suggest that Indonesian energy companies are able to translate scale advantages into improved financial performance. This indicates that institutional maturity and governance capacity mitigate size-related inefficiencies.

The positive effect of firm size aligns with empirical evidence showing that company size and governance mechanisms impact financial performance of firms listed on the Indonesia Stock Exchange, particularly in the banking subsector. Other literature also finds that firm size and governance contribute to sustainability reporting and performance, reflecting the organizational capacity to meet financial and legitimacy objectives. The implication is that larger energy firms have stronger capacity to leverage governance structures. A limitation of this study is the use of total assets as a proxy for firm size; future research could examine additional dimensions such as business diversification or capital structure [10], [41].

3.8. Effect of Good Corporate Governance and Firm Size on Financial Performance

The simultaneous significance of good corporate governance mechanisms and firm size supports H5 and reinforces the institutional complementarity between governance and organizational scale. Institutional Theory emphasizes that governance effectiveness depends on the availability of organizational resources, while firm size alone may exacerbate agency problems if not supported by effective governance.

From a social accountability perspective, the joint effect highlights the role of governance in maintaining corporate legitimacy, particularly in strategic sectors with public interest implications. Energy companies are not only economic entities but also institutional actors responsible for delivering socially critical services.The findings suggest important implications for strategic public sector governance. Policymakers and regulators should focus not only on formal governance compliance but also on ensuring that governance mechanisms are supported by adequate organizational capacity. Effective governance in the energy sector requires alignment between institutional expectations, social legitimacy, and financial sustainability.

This simultaneous finding is supported by empirical research across industries showing that governance mechanisms and firm characteristics jointly influence financial performance and sustainability reporting, highlighting the importance of governance organizational capacity synergy. Other studies also document positive relationships between board structure and firm performance in global contexts. The implication of your results is that policymakers and regulators should consider integrating formal governance frameworks with organizational resource enhancement to strengthen social legitimacy and financial outcomes. A limitation of this study is the exclusion of moderating or mediating variables such as Environmental, Social, and Governance disclosure or capital structure, which other research suggests can affect the governance performance relationship [42] [43].

This study is subject to several limitations. First, limited access to financial reports reduced the number of observable companies, thereby constraining the representativeness of the sample. Second, the presence of extreme values required the exclusion of outlier data, which further reduced the sample size and may have affected estimation accuracy. Third, the measurement of Good Corporate Governance is based on the Transparency, Accountability, Responsibility, Independence, and Fairness.framework and does not fully incorporate the more recent Environmental, Transparency, Accountability, and Sustainability [44].

principles, particularly aspects related to ethics and sustainability. Therefore, future research is encouraged to include additional explanatory variables such as leverage, liquidity, and macroeconomic factors, extend the observation period, adopt updated governance frameworks, or examine different industry sectors. For practitioners, this study highlights the importance of strengthening governance quality beyond regulatory compliance, while for academics, it provides empirical insights to support further development of governance and financial performance research [45].

4. CONCLUSION

This study examines the effect of Good Corporate Governance and firm size on the financial performance of energy companies listed on the Indonesia Stock Exchange during the 2021–2024 period. The findings indicate that, on a partial basis, Good Corporate Governance as proxied by the audit committee has a significant effect on financial performance. This result suggests that the existence and effectiveness of the audit committee play a critical role in strengthening managerial oversight and improving the quality of financial decision-making. In contrast, managerial ownership and institutional ownership do not have a significant effect on financial performance, indicating that the ownership structure in the sampled companies has not functioned optimally as a governance mechanism capable of enhancing financial outcomes.

Furthermore, firm size is found to have no significant effect on financial performance, implying that the scale of the company does not automatically translate into superior financial results. This finding suggests that larger asset ownership alone is insufficient to improve performance without being supported by effective operational efficiency and strategic governance practices. In addition, the simultaneous test results reveal that Good Corporate Governance and firm size collectively do not have a significant impact on financial performance, indicating that financial performance in energy companies is influenced by other internal and external factors beyond the variables examined in this study.

Based on the findings and limitations of this study, several recommendations can be proposed for future research. First, future studies are encouraged to expand the measurement of Good Corporate Governance beyond

the audit committee, managerial ownership, and institutional ownership by incorporating other governance mechanisms such as board size, board independence, gender diversity, risk management committees, and sustainability governance indicators. This broader approach may provide a more comprehensive understanding of how governance structures influence financial performance.

Second, future research should consider extending the observation period and increasing the sample size, including firms from different sectors or comparing energy companies with other strategic industries. A longer time horizon may better capture the long-term effects of governance mechanisms and firm size on financial performance, particularly in capital-intensive and highly regulated sectors.

Third, given the insignificant effect of firm size and governance variables found in this study, future studies are recommended to include additional internal and external factors such as operational efficiency, capital structure, market competition, regulatory intensity, macroeconomic conditions, and environmental, social, and governance performance. Incorporating these variables may help explain variations in financial performance more accurately.

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