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Research Article

Corporate Governance Couture: Tailoring Financial Performance in the Indonesian Textile and Garment Sector

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Abstract.
This research aims to determine the impact of institutional ownership, managerial ownership, independent commissioners, audit committees, and firm size on the financial performance of textile and garment industry sub-sector companies within the period of 2016 to 2021. By adopting an explanatory research approach, the study focuses on a population of textile and garment sub-sector companies listed on the Indonesian Stock Exchange, a total of 21 companies, selected through purposive sampling. Multiple linear regression analysis was employed as the analytical method. The findings indicate that institutional and managerial ownership does not significantly impact the financial performance of the examined companies. However, independent commissioners, active audit committees, and firm size significantly influence financial performance, supporting the critical role of these corporate governance mechanisms and firm characteristics in shaping financial outcomes within the Indonesian textile and garment sector. The study contributes to understanding the complex relationship between corporate governance mechanisms, firm characteristics, and financial performance. Future research should consider expanding the sample size and exploring other variables influencing financial performance in the textile and garment industry. Furthermore, investigating the mediating or moderating effects of other contextual factors or industry-specific characteristics could provide deeper insights into the observed relationships.

Keywords: audit committee, firm size, good corporate governance, independent commissioner, institutional ownership, managerial ownership, ROE

1. Introduction

The Indonesian textile and garment sector has faced opportunities and challenges recently. During the pandemic, the sector demonstrated resilience. It emerged as one of the surviving business sectors, playing a vital role in the regional economy and creating a multiplier effect on the surrounding economy. The sector's importance lies in its contribution to the domestic market and its potential for sustainable production and growth. According to the Coordinating Ministry for Economic Affairs, the Textile Industry and Textile Products played a crucial role in the Indonesian economy, contributing a substantial IDR 180.2 trillion to the Gross Domestic Product (GDP) in 2021 (indonesiabusinesspost.com). The industry's export performance showed promising growth, accounting for 5.6% of the total exports. This positive trend was supported by a significant import reduction, totalling US$ 9.4 billion. The decline in imports can be attributed to the implementation of anti-dumping measures and stricter regulations governing import permits. These developments reflect the industry's resilience and ability to adapt to changing market conditions.

The Indonesian government has recognized the significance of the textile industry and has actively supported its growth through measures such as credit restructuring and encouragement for increased production. To maintain and enhance the productivity of the textile industry, the government has implemented policies and incentives, including tax incentives, infrastructure development, and investment incentives. These measures have attracted foreign investment and fostered industry growth.

Despite the positive outlook, the industry has encountered obstacles, including a decline in demand from the United States and Europe, impacting the industry's performance. According to the Ministry of Industry, in 2020 the largest decline in exports of the textile and garment industry occurred in the United States and Germany. The United States experienced a decrease of 20.5% compared to the previous year. Similarly, in Germany, the export value showed a declining trend from 2016 to 2021, with a decrease of -4.39%. This decline was attributed to a decrease in demand, as evidenced by the decrease in the export volume of apparel. In addition, the textile industry also experienced a decrease in the import of raw materials amounting to US$ 16.55 million, which is a 3.04% decrease compared to February 2021 or a 0.87% decrease compared to March 2020. (kemenperin.go.id). The Indonesian textile industry has also faced challenges associated with the thrifting phenomenon, which involves importing used clothing from abroad. Thrifting, although not prohibited, has raised concerns among textile businesses, mainly due to its impact on the local industry's economic opportunities, waste treatment, and Indonesian cultural identity. While the government has taken steps to address thrifting through restrictions on importing used clothing, further efforts are needed to combat illegal imports and protect the local textile industry.

Moreover, the Indonesian textile industry faces stiff competition from other foreign textile-producing countries, such as China, India, and Vietnam, which benefit from lower production costs and can offer cheaper textile products. This intensifies the challenges for local textile companies, including MSMEs, who must contend with the low prices of original and used textile products.

As an industry operating in a dynamic and competitive global environment, understanding the factors influencing its financial performance is paramount. Previous research has explored the role of various variables on financial performance, providing valuable insights into the industry dynamics. One is understanding the role of corporate governance mechanisms and firm characteristics in shaping financial performance within the Indonesian textile and garment sector. This article investigates the impact of institutional ownership, managerial ownership, independent commissioners, audit committee, and firm size on the financial performance of companies in the industry, shedding light on the strategies required to tailor financial performance in this sector.

Regarding corporate governance mechanisms, institutional ownership has been a topic of interest in the literature. Institutional ownership refers to the ownership stake held by institutional investors such as pension funds, mutual funds, and insurance companies. These institutional investors often play a significant role in influencing companies' strategic decisions and governance practices. According to Jensen (1986), the monitoring business will be more effective since it can limit managers' opportunistic conduct the higher the percentage of shares held by institutional investors. Previous studies have examined the relationship between institutional ownership and financial performance in different industries and contexts (Hermuningsih; Dirman et al., 2020)

Managerial ownership, on the other hand, pertains to the ownership stake held by managers or executives within the company. It has been suggested that managerial ownership aligns the interests of managers with those of shareholders, leading to improved firm performance (Jensen & Meckling, 1976). However, the relationship between managerial ownership and financial performance is only sometimes straightforward and has been subject to debate in the literature. Some studies have found a positive relationship between managerial ownership and firm performance (Hossain, 2016; Sakawa & Watanabe, 2020; Putra & Africa, 2019), while others have reported non-significant or even adverse effects (Wiranata & Nugrahanti, 2013). It is, therefore, essential to investigate the impact of managerial ownership on financial performance in the context of the Indonesian textile and garment sector.

Independent commissioners on the board of directors are another crucial aspect of corporate governance. Independent commissioners have no financial or personal ties to the company and are expected to provide unbiased oversight and guidance (Hermalin & Weisbach, 2003). Previous studies have highlighted the positive influence of independent commissioners on firm performance in various industries. For instance, research by Love & Rachinsky (2015) demonstrated a significant positive relationship between the proportion of independent commissioners and firm performance in the banking industry in Ukraine, while Ongore, K'Obonyo, Ogutu, & Bosire (2015) explored the relationship between board composition and financial performance of the company in Nairobi. A more recent study by Utama & Utama (2019) is also interested in finding the relationship between board commissioners, corporate governance, and firm performance of Indonesian companies.

The audit committee is responsible for ensuring the accuracy and reliability of financial reporting within a company. It plays a crucial role in maintaining transparency and integrity in financial practices. Prior research has examined the impact of audit committee characteristics on firm performance in different contexts. For example, a study by Almarayeh, Abdullatif, & Aibar-Guzmán (2022) investigated the effect of audit committee expertise in mitigating earnings management in Jordan. The findings suggested a positive relationship between audit committee characteristics and earnings management.

As a control variable, firm size is often included in studies examining the relationship between corporate governance mechanisms and financial performance. It captures the scale of operations and resources available to a company. Previous research has shown that firm size can influence financial performance differently, depending on the industry and specific circumstances (Estiasih et al., 2019; Olawale et al., 2017).

In the context of the Indonesian textile and garment sector, there is a need for further investigation into the impact of corporate governance mechanisms, namely institutional ownership, managerial ownership, independent commissioners, and audit committee, on firm financial performance measured by return on equity (ROE).

There are a variety of research findings on the impact of GCG and firm size on financial success in earlier studies. Obradovich Gill (2012) states that the audit committee and managerial ownership impact financial performance. In contrast, Dewi & Tenaya (2017) and Purba & Africa (2019) contend that managerial ownership, the audit committee, and independent commissioners have little impact on financial performance. The size of the company and institutional ownership both have an impact on financial success. Love & Rachinsky's (2015) research shows that independent commissioners impact financial results.

While previous studies have explored the relationship between corporate governance and financial performance in various industries such as manufacture (Hermuningsih, Kusuma, & Cahyarifida, 2020), and financial industries (Tertius & Christiawan, 2015), few have focused explicitly on Indonesia's textile and garment sectors. Therefore, this study aims to fill this gap and provide valuable insights into the factors influencing financial performance within the industry. The primary objective of this study is to examine the influence of Good Corporate Governance implementation and Company Size on Financial Performance. The study incorporates various measured variables to analyze their impacts, including Institutional Ownership, Managerial Ownership, Independent Commissioners, Audit Committee, Firm Size, and ROE.

2. Literature Review and Hypothesis Development

The literature on corporate governance and financial performance in various sectors provides valuable insights into the relationship between corporate governance mechanisms and firm performance. Past research on corporate governance has concentrated on both financial and non-financial companies. Only a few studies have specifically addressed corporate governance in the textile industry. This section reviews several relevant studies and hypothesis development based on previous empirical findings.

2.1. Institutional Ownership and Return on Equity

An institution owning stock in a corporation is referred to as institutional ownership. These institutions may be public, private, or international (Bhattacharya & Graham, 2007). Institutional ownership is an essential monitoring form that can play an active and consistent role in a company. The presence of institutional ownership encourages enhanced and optimal supervision. The more optimal the supervision of a company's performance, the better the financial performance of the company. According to Duggal & Millar (1999), institutional ownership significantly enhances company performance by minimizing agency issues and overseeing corporate management. Companies with little institutional ownership have inadequate governance systems and perform poorly. In order to improve managerial performance, institutional ownership in a company will urge increased oversight (Healy, 2003). According to Love & Rachinsky (2015), the more institutional investors buy a firm's shares, the stronger and more motivated they are to oversee management, giving them more incentive to improve corporate performance and boost financial performance. According to Lin & Fu (2017), institutional ownership has a good and significant link with corporate performance, in this case, profitability, which is consistent with the findings of Sakawa & Watanabe (2020) and Hermuningsih Kusuma & Cahyarifida (2020). The hypothesis is stated as follows in light of the description:

H1: Institutional ownership significantly and favorably influences the return on equity.

2.2. Managerial Ownership and Return on Equity

The larger the managerial ownership, the more motivated managers will be to maximize company profits (alignment of interest) because managers have a stake in the earnings obtained (Jensen & Meckling, 1976). Therefore, the role of a manager is crucial in improving the company's financial performance. Furthermore, increased managerial ownership will lessen the inherent conflict of interest between managers and shareholders, according to Jensen and Meckling's agency theory predictions from 1976. As a result of directly sharing the gains from decisions made and the losses incurred due to bad decisions, managerial share ownership will motivate managers to exercise caution when making decisions. By lowering agency expenses, increasing managerial ownership will raise the company's financial performance (Purba & Africa, 2020). According to studies by Dewi & Tenaya (2017), Fitria (2019), and Tertius & Christian (2015), management ownership has a favorable and significant impact on return on assets. The hypothesis is stated as follows in light of the description:

H2: Managerial ownership significantly and favorably influences the return on equity.

2.3. Independent Commissioners and Return on Equity

According to Law of the Republic of Indonesia Number 24 of 2007 Concerning Limited Liability Company, 2007, independent commissioners are members of a board of commissioners who do not have any financial, managerial, shareholding, or family ties to other commissioners, directors, controlling shareholders, or banks that could impair their ability to act independently. Because independent commissioners are tasked with an unbiased evaluation of a company's strategies, performance, and resources, they impact how well a company performs (Tertius & Christian, 2015). The board of directors resolves agency conflicts and misunderstandings between management and shareholders (Bathala & Rao, 1995). According to Drobetz (2015), the size of independent commissioners benefits business performance. Widagdo and Chariri's (2014) findings indicated that the size of the board of commissioners had a significant influence on financial performance. Similarly, Fitria (2019) found that independent commissioners influence the company value. Therefore, the third hypothesis in this study is as follows:

H3: Independent commissioners significantly and favorably influence the return on equity.

2.4. Audit Committee and Return on Equity

According to Tjager et al. (2003), audit committees are boards of commissioners-instituted committees that answer to them. These committees primarily ensure that the executive uses corporate governance principles consistently and effectively, especially those related to transparency and disclosure. The creation of Audit Committees is intended to fulfill the oversight role over financial reporting, created and disclosed by the company's management within the corporate governance structure. The audit committee enhances the integrity and credibility of financial reporting by overseeing the reporting process, including internal control systems and the application of generally accepted accounting principles, and overseeing the overall audit process. An empirical study by Kallamu & Saat (2015) found that audit committees affect company performance. Malaysia, while Zraiq & Fadzil (2018) found evidence in Jordan. In Indonesia, a recent study by Hermuningsih, Kusuma, & Cahyarifida (2020) confirms that an audit committee influences company performance. Therefore, the fourth hypothesis tested in this study is as follows:

H4: The audit committee significantly and favorably influences the return on equity.

2.5. Firm Size and Return on Equity

Because investors place a higher level of trust in large-scale businesses, firm size becomes crucial in increasing the firm value. To guarantee the organization's long-term health, managers must continue to navigate unpredictable terrain, create policies, and tighten predicted revenues and costs. Managers must take strategic actions to boost corporate expansion, such as looking for funding from investors to quicken expansion and achieve higher profit levels. So, to draw in and persuade investors of the company's potential, the manager needs to be able to package ideas. According to Obradovich & Gill (2013), firm size has a favorable impact on firm value. Recently, Estiasih, Yuniarsih, & Wajdi (2019) also found evidence of the influence of firm size on company value. The fifth hypothesis regarding firm value is the following:

H5: Firm size significantly and favorably influences the return on equity.

3. Research Methods

The textile and apparel industry sub-sector companies listed on the Indonesian Stock Exchange (IDX) are the subject of this study, which uses an explanatory research design to investigate the relationship between institutional ownership, managerial ownership, independent commissioners, audit committees, firm size, and financial performance. The enterprises in the IDX-listed textile and apparel industry subsector make up the population. The sample is chosen with purpose, according to the researcher has established standards. The criteria are:

1. Manufacturing firms in the textile and apparel subsector listed on the IDX from 2016 to 2021 are among the sample criteria.
2. Companies that have made their complete financial statements for the years ending December 31, 2016, and December 31, 2021, public.

The value of each variable is determined by the formula in Table 1 below:

Table 1: Variables and Formulas.

Variable	Formula
Return on Equity (ROE)	Net profit after tax/total equity x 100%
Institutional Ownership (IO)	Total institutional share/number of shares outstanding x 100%
Managerial Ownership (MO)	Total managerial share/number of shares outstanding x 100%
Independent Commissioners (IC)	Number of independent commissioners/number of commissioners
Audit Committee (AC)	Σ Committee audit in the company
Firm Size (SIZE)	Total assets in the company

The analytical method used in this research is multiple linear regression analysis. The multiple linear regression equation used in this study is as follows:

$$(1) ROE_{it} = a_{it} + b_1 IO_{it} + b_2 MO_{it} + b_3 IC_{it} + b_4 AC_{it} + b_5 SIZE_{it} + e_{it}.$$

Equation 1 -- Regression Model

4. Results and Discussions

4.1. Results

After testing the ready-to-process data, two statistical test methods were used—the Descriptive Analysis Method and the Classical Assumption Test Method. The results of descriptive analysis for 126 observations are presented in Table 2.

Table 2 gives descriptive data for the study's variables. It provides the total number of observations (N) and vital summary statistics for each variable, such as the lowest,

TABLE 2: Descriptive Analysis.

	N	Min.	Max.	Mean	Std. Deviation
IO	126	0.00	99.999	65.036	23.125
MO	126	0.00	100.000	7.696	20.279
IC	126	0.00	0.671	0.3456	0.123
AC	126	0.00	5.000	2.663	1.055
SIZE	80	19.480	23.810	21.146	1.189
ROE	80	-253.960	476.192	0.964	68,998

Source: Data processed

maximum, mean, and standard deviation. Institutional ownership, managerial ownership, independent commissioners, audit committees, firm size, and return on equity are the variables that were examined. These statistics give a general overview of the distribution and properties of the dataset's variables.

The normality test is the subsequent analysis performed, shown in Table 3 below. Based on the findings of the Kolmogorov-Smirnov test for normality shows that the p-value than 0.05, or (0.593>0.05). This indicates that the regression model used in the study is regularly distributed. As a result, the regression model produced is appropriate and practical for research since it satisfies the need for normality. However, data must be reduced to 108 observations to reach these results.

TABLE 3: Test of Normality.

Variable	*Kolmogorov Smirnov*		*Results*
	N	p-value	
ROE	108	0.062	Data is normally distributed
IO	108	0.095	Data is normally distributed
MO	108	0.054	Data is normally distributed
IC	108	0.077	Data is normally distributed
AC	108	0.026	Data is normally distributed
SIZE	108	0.035	Data is normally distributed

Source: Data processed

The following analysis conducted is the Classical Assumption Test which includes Multicollinearity, Heteroscedasticity, and Autocorrelation. The complete results are presented in Tables 4, 5, and 6.

Table 4's findings from the multicollinearity test demonstrate that each independent variable had tolerance values more than 0.10 and VIF values lower than 10. Therefore, multicollinearity does not arise in the regression model. Meanwhile, Table 5 above,

TABLE 4: Multicollinearity Test.

Independent Variable	*Colinearity Statistics*		*Result*
	Tolerance	VIF	
(Constant)			
IO	0.499	2.006	There is no multicollinearity
MO	0.427	2.344	There is no multicollinearity
IC	0.751	1.332	There is no multicollinearity
AC	0.737	1.356	There is no multicollinearity
SIZE	0.864	1.157	There is no multicollinearity.

Source: Data processed

TABLE 5: Heteroscedasticity Test.

Independent Variable	*Dependent Variable: ABS_RES_2*		
	Coefficients	*Sig.*	*Result*
(Constant)	81114.479	0.890	
IO	1876549.676	0.150	There is no heteroscedasticity
MO	-95067.397	0.927	There is no heteroscedasticity
IC	-0.013	0.230	There is no heteroscedasticity
AC	-0.003	0.266	There is no heteroscedasticity
SIZE	-5734.022	0.227	There is no heteroscedasticity

Source: Data processed

TABLE 6: Autocorrelation Test.

Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*	*Durbin-Watson*
1	0.133a	0.018	-0.049	70.65727	1.785

Source: Data processed

which uses the Glejser test, demonstrates that each independent variable's significance value is more than 0.05 (sig.> 0.05). Given these findings, the regression model used for the investigation is sound because heteroscedasticity was not seen. Based on Table 6, the Durbin-Watson value obtained is 1.785. Upon analysis, the Durbin-Watson value is greater than the du-value, 1.771, and the value (4-du) = 2.229, so it can be concluded that 1.771 < 1.785 < 2.229. Since the test result meets the criteria, no autocorrelation exists in the regression equation.

The subsequent analysis stage is hypothesis testing, presented in Table 7 of regression results, and the coefficient determination results in Table 8.

Table 7: Hypothesis Testing.

Independent Variable	Coefficients	t-stat	Sig.
(Constant)		0.110	0.453
IO	0.047	0.563	0.578
MO	-0.011	-0.152	0.880
IC	2.053	13.385	0.000***
AC	4.638	9.221	0.000***
SIZE	-6.124	-10.653	0.000***

Source: Data, processed, *, **, *** significant at 10%, 5%, and 1%, respectively.

Table 8: Coefficient of Determination Test.

R	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*
0,954a	0.811	0.795	14801.170

Source: Data processed

Table 7 presents the results of hypothesis testing for the independent variables. The table includes the coefficients, t-statistics, and significance levels. Institutional Ownership (IO) has a positive but insignificant effect on Return on Equity (ROE). The coefficient for IO is 0.047, with a t-statistic of 0.563 and a significance level of 0.578. Since the p-value is more significant than the typical significance levels of 10%, 5%, and 1%, we fail to reject the hypothesis. There is no significant evidence to support the effect of institutional ownership on return on equity. The following variable, Managerial Ownership (MO), was found to have a negative but insignificant impact on ROE.

The coefficient for MO is -0.011 with a t-statistic of -0.152 and a significance level of 0.880. Again, we fail to reject the hypothesis since the p-value is more significant than the typical significance levels. There is no significant evidence to support the impact of managerial ownership on financial performance. Meanwhile, the presence of independent commissioners (IC) has a positive and significant impact on financial performance. The coefficient for IC is 2.053, with a t-statistic of 13.385 and a significance level of 0.000. The p-value is below the typical significance levels, indicating strong evidence to reject the null hypothesis. Therefore, the third hypothesis in this study cannot be rejected. Next, the Audit Committee (AC) also positively and significantly impacts ROE. It can be seen from The coefficient for AC is 4.638 with a t-statistic of 9.221 and a significance level of 0.000. The p-value is below the typical significance levels, providing strong evidence to reject the null hypothesis. The last variable, firm size (SIZE), has a coefficient for SIZE is -6.124 with a t-statistic of -10.653 and a significance level of 0.000. The p-value is below the typical significance levels, providing strong evidence to reject the null hypothesis. Therefore, we reject the hypothesis that firm size does not significantly impact firm financial performance. The results suggest that firm size significantly negatively impacts financial performance (ROE) in the given context.

The coefficient of determination test (R Square) result based on Table 8 indicates that the value of the coefficient of determination (R Square) is 0.795 or similar to 79.5%. According to the regulations, the independent variable can effectively explain the variable if the coefficient of determination value is close to 1 (one). Therefore, ROE is influenced by managerial ownership, institutional ownership, independent commissioner, audit committee, and firm size by 79.5%. The remaining portion (100% - 79.5% = 20.5%) is explained by additional variables or external influences outside the model.

4.2. Discussions

The Impact of Institutional Ownership on Financial Performance

The findings of the study indicate that institutional ownership does not have a significant impact on financial performance. This can be observed from the low level of institutional stock ownership in several subsectors of the textile and apparel industry. In fact, some companies required additional institutional shares overall from 2016 to 2021. The small proportion held by institutional investors limits their role in monitoring internal activities (cnbcindonesia.com). As a result, monitoring or supervision activities are infrequent and conducted at unsustainable intervals, leading to institutional investors not being a variable influencing financial performance. These findings contradict agency theory, which suggests that one way to minimize agency problems and agency costs is by increasing institutional ownership of company stock. Institutional ownership, in the opinion of Gillan & Starks (2000), is essential to preserving a balance in corporate governance between the interests of shareholders and management. The results of this analysis are in line with those of earlier studies by Hermuningsih, Kusuma, and Cahyarifida (2020), Sakawa & Watanabe (2020), Fitria (2019), and Hermuningsih & Watanabe (2020), which similarly came to the same conclusion that institutional ownership had little to no effect on financial performance. Despite the apparent benefits of institutional ownership in encouraging stronger governance, the present analysis shows that institutional ownership does not directly improve the financial performance of the textile industry in Indonesia. Such situations arise due to information asymmetry between shareholders and managers, making it difficult for institutional ownership to control managers. Furthermore, whether institutional ownership of a company is large or small, it has not been effective in controlling and supervising opportunistic managerial actions in the running textile industry. This demonstrates the need for additional study into the complex interactions of ownership structure, governance systems, and financial outcomes.

The Impact of Managerial Ownership on Financial Performance

According to the study's findings, there is no connection between management ownership and financial success in Indonesia's textile sector. This can be ascribed to the low levels of management share ownership in a number of subsectors of the textile and apparel industry, with some businesses even needing additional managerial shares overall from 2016 to 2021 (indopremier.com). Due to the necessity for these organizations' management to participate actively in decision-making processes, subpar performance management may follow. According to an agency theory viewpoint, the lack of a major influence indicates that managerial ownership may not be enough to balance managers' and shareholders' interests. To guarantee effective monitoring and performance management inside Indonesian textile sector enterprises, additional governance and control measures may be required. Due to reduced managerial involvement in decision-making, the low percentage of managerial share ownership may limit the company's profitability. Additionally, when managerial share ownership is minimal, managers could put their own interests—like increasing their wealth—first, which could hurt the company's financial performance. This research confirms the findings previously revealed by Tambalean et al. (2018) and Yuslirizal (2017), stating that limited managerial ownership in the textile and garment industry sector tends to result in managers who are also owners being unable to effectively improve financial performance. Managers believe that having a low ownership stake does not provide significant financial benefits for them, thus keeping their performance suboptimal. In addition, these results are consistent with earlier studies by Dewi & Tenaya (2017) and Purba & Africa (2019), which revealed no discernible effect of managerial ownership on financial performance. These results highlight the value of continuing to review and enhance corporate governance standards within the textile sector. The company's governance system is aligned with best practices when managerial ownership levels, board structures, and control mechanisms are regularly evaluated. This helps to discover areas for improvement.

The Impact of Independent Commissioner on Financial Performance

The findings indicate that the presence of independent commissioners has a significant impact on financial performance. Independent commissioners should not merely serve as a formal requirement to comply with regulations; instead, they should actively promote the implementation of good corporate governance practices per legal regulations. This active involvement is essential to minimize the possibility of irregularities within the company. In this context, it indicates that a higher proportion of independent commissioners in the textile and garment industry is beneficial, because it can enhance the company's management and oversight system. The overall company performance improves with stronger supervision functions. This findings align with previous research conducted by Intia & Azizah (2021), which explained that an increase in the number of independent board commissioners in a company improves financial performance. This is because a higher number of independent board commissioners leads to better supervision, minimizing the likelihood of managers engaging in practices for their own interests, ultimately resulting in better financial performance for textile and garment companies. Additionally, this research is consistent with studies by Pudjonggo & Yuliati (2022), Fitria (2019), and Putri & Muid (2017), which also highlight the significant impact of independent commissioners on financial performance. These results match agency theory from a theoretical standpoint. As independent commissioners, management is held accountable for acting in shareholders' best interests and avoiding agency conflicts. Independent commissioners strengthen company governance procedures and boost financial performance by offering an unbiased viewpoint and performing their supervisory duties. This study's findings provide valuable insights into the positive relationship between independent commissioners and financial performance within the textile industry's specific context in which companies may prioritize appointing qualified and independent individuals as commissioners and strengthening corporate governance practices.

The Impact of Audit Committee on Financial Performance

The study results show that having an audit committee significantly affects how well a company does financially in Indonesia's textile and garment sector. On average, companies in this sub-sector have at least three audit committee members, as regulations require. However, some companies have more prominent audit committees of four or five members. The impact on financial performance increases with the size of the audit committee. By promoting information exchange between management and shareholders, the audit committee is critical in reviewing financial statements and reducing agency conflicts (Obradovich & Gill, 2013). More audit committee members can more successfully prevent fraudulent actions in financial reporting procedures and raise the credibility of financial reports by carrying out their duties. These results align with earlier studies by Hanifah (2011) and Hermuningsih, Kusuma, & Cahyarifida

(2020), emphasizing the audit committee's influence on financial performance. From a theoretical point of view, these results support the agency theory of Jensen & Meckling (1976). The audit committee serves as a vehicle to reduce agency conflicts and guarantee the safety of the interests of shareholders. Audit committees promote corporate governance and boost financial performance in the textile and apparel sector through their position as information-sharing and oversight bodies. The findings imply that companies in the textile and garment industry should prioritize the establishment of full audit committees with an adequate number of members. By doing so, they can strengthen corporate governance practices, improve financial reporting accuracy, and ultimately enhance their financial performance.

The Impact of Firm Size on Financial Performance

This research reveals that business size significantly and negatively affects financial performance in the textile industry. Firm size, traditionally seen as a positive indicator, is regarded as a benchmark for a company's assets and public attention. However, having a more extensive asset base does not necessarily translate into improved financial performance. While large-scale companies are often assumed to have better control over the market and more resources to enhance profitability, this study suggests otherwise. It challenges the notion that increased firm size automatically leads to better financial outcomes. This research aligns with the data from Indonesian textile companies, including Panasia Indo Resources (HDTX), in 2020-2021, where assets decreased while revenue increased (indopremier.com). This research confirms the findings previously revealed by Mentalita (2022), which states that company size has a negative impact on financial performance. So, the larger the company size, the lower the financial performance. Additionally, this finding is consistent with research done in Turkey by Dogan (2013), in Nigeria by Ibagui & Okoloyo (2018), and in Vietnam by Duy & Phuoc (2016), all indicating a negative association between business size and firm value. They stated that small businesses provide their investors with more benefits in terms of dividend payments and capital gains. Despite being smaller than other well-known organizations, they uphold better ideals than the bigger ones. The study's findings about the detrimental effects of firm size on financial performance call for more research and thought. There are a number of reasons why there is a negative correlation between firm size and financial performance. The complexity of decision-making, coordination, and communication may rise as a company expands. The scale of the company may make it more difficult for it to adapt quickly to changes in the market, which could result in inefficiencies and lower profitability. Although this result goes against the conventional wisdom that business size and financial performance are positively correlated, it is important to take into account the unique circumstances of the Indonesian textile industry. This unexpected outcome could be attributed to the particular traits of the industry, market trends, or other industry-specific variables. In order to properly investigate the underlying mechanisms and comprehend the intricacies of the relationship between business size and financial performance in the context of the textile sector, more research is required.

5. Conclusions, Limitations, and Future Research

5.1. Conclusions

According to the study's conclusions, neither management nor institutional ownership has a major effect on the financial performance of the textile and apparel sector. A firm's size, the existence of audit committees, and the number of independent commissioners all have a big impact on financial performance. These findings demonstrate how the size of the organization and efficient corporate governance practices affect financial performance. The study emphasizes how differences between majority and minority shareholders may result from the uneven distribution of share ownership in the textile and apparel industry. It emphasizes the need for companies to ensure proper supervision and governance practices to enhance financial performance. Additionally, although proven to have a negative relationship with firm performance, firm size is crucial in determining profitability and overall company performance.

Practically, it is critical for businesses involved in the textile and apparel industries to manage their operations well and aggressively apply excellent corporate governance procedures. Corporate governance practices should be viewed as more than just a matter of compliance; instead, they should be seen as an integral part of how businesses run. Businesses should routinely assess their financial performance and maintain control over how much capital is used internally and externally through loans. Investors are recommended to carefully analyze their choices and pay special attention to information about the application of good corporate governance within companies when making investment decisions. Investors should evaluate the percentage of managerial ownership and look through the entire equity in the company's financial filings. In order to make wise investment decisions, a thorough review of a company's performance is required.

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5.2. Limitations

Despite the interesting results, this study also has limitations. This study focused only on the textile and garment sub-sector companies, which limited the sample size. Moreover, the absence of managerial stock ownership in some companies within the industry may have impacted the significance of the results.

5.3. Future Research

Future research could expand the scope by including a broader range of industries and increasing the sample size for more robust conclusions. To further advance the research in this field, future studies could consider incorporating additional corporate governance indicators, such as the size of the board of commissioners and the board of directors. Exploring other financial performance measures beyond Return on Equity (ROE), such as Return on Assets (ROA), Net Profit Margin (NPM), and Earnings per Share (EPS), would provide a more comprehensive assessment of the company's financial performance. Extending the analysis by employing more advanced tools, such as structural equation modeling or panel dynamics, would also be interesting.

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