

The Effects of The Board of Directors, Institutional Ownership, Leverage, and Capital Structure on Financial Performance in Soes Listed on the IDX 2020-2024

Alisya Norma Qotrunnada¹, Agus Prayitno¹, Pradana Jati Kusuma¹, Almira Santi Samasta¹

¹Dian Nuswantoro University, Indonesia

*) Corresponding Email: alysaapril30@gmail.com

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ABSTRACT

The financial performance of state-owned enterprises (SOEs) for the 2020–2024 period shows an improving trend, with ROA increasing from 1.103 to 1.460 and leverage rising to 1.230 in 2022 before declining to 0.553 in 2023 and 0.577 in 2024. This study aims to analyze the influence of the Board of Directors, Institutional Ownership, Leverage, and Capital Structure on Financial Performance. The method used is a quantitative approach employing a Fixed Effects Model (FEM) panel data regression on 25 SOEs listed on the Indonesia Stock Exchange for the 2020–2024 period. The results indicate that the Board of Directors and Institutional Ownership do not have a significant effect on Financial Performance, Leverage has a significant negative effect on Financial Performance, while

Capital Structure has a significant positive effect on Financial Performance. This study offers novelty by re-examining the influence of corporate governance and capital structure on financial performance across 25 SOEs listed on the Indonesia Stock Exchange during the 2020–2024 period using a Fixed Effects Model (FEM) panel data regression approach to address the inconsistencies in previous research findings. SOE management needs to manage leverage more carefully and maintain the capital structure ratio so that the company's financial performance can remain stable and sustainable.

A. INTRODUCTION

Financial performance has been a widely studied topic over the past five years (Bimasakti & Warastuti, 2024; Li, 2024; Misfalah & Adi, 2024; Purwanti & Ekani O, 2024; Islami & Wulandari, 2023; Pramudityo & Sofie, 2023; Sari & Setyaningsih, 2023; Adi & Suwarti, 2022; Citra & Handayani, 2020; Hermanto et al., 2021). Interest in this topic arises because financial performance serves as the primary measure of a company's effectiveness in generating profits and ensuring business sustainability. Increasing competition requires companies to maintain and improve their financial performance in order to generate profits and earn investor confidence (Islami & Wulandari, 2023). Financial performance, which fluctuates over time, is a primary concern for the business world and academia, as companies' efforts to generate profits aim to enhance the well-being of shareholders, which depends on those performance results (Li, 2024).

According to Putri & Rafliis (2024), financial performance indicates the extent to which a company is able to manage its assets optimally to achieve its set targets, and illustrates the company's growth and development potential through the results and achievements attained during a specific period. Financial performance is measured by comparing financial statements across years using profitability ratios such as Return on Assets (ROA) (Panjaitan et al., 2022). ROA is a key indicator for assessing the effectiveness of a company's asset management, including for state-owned enterprises, which bear a significant responsibility for maintaining optimal financial performance and contributing to the national economy.



Under Law No. 40 of 2007 on Limited Liability Companies, a limited liability company is a legal entity that conducts business activities with capital divided into shares. For public companies, these provisions are reinforced by Law No. 8 of 1995 on the Capital Market, which defines public companies as entities whose shares are owned by the public and which are required to adhere to the principle of information disclosure. Additionally, for public companies in the form of State-Owned Enterprises (SOEs), the regulations also refer to Law No. 19 of 2003 on State-Owned Enterprises, which states that an SOE Corporation is a limited liability company whose capital is divided into shares, and all or at least 51% of its shares are owned by the Republic of Indonesia, with the primary objective of pursuing profit. All activities of public companies are supervised by the Financial Services Authority to ensure transparency and investor protection, and SOEs contribute to the economy through joint development efforts with the private sector and cooperatives (Purwanti & Ekani O, 2024).

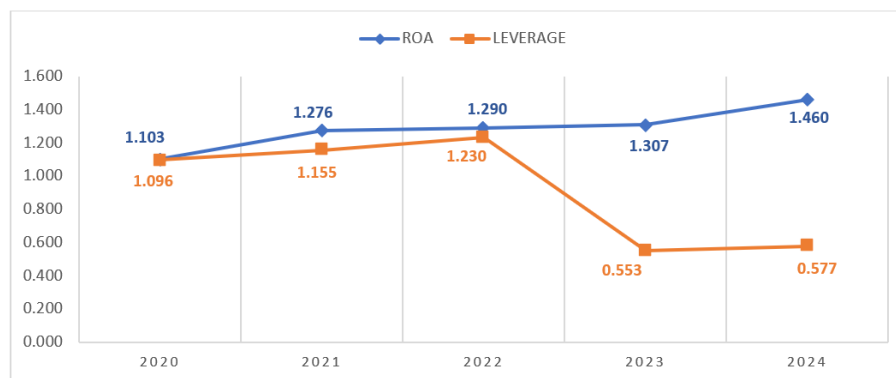


Figure ROA & Leverage of SOEs 2020-2024
Source: Badan Pusat Statistik (BPS) (2025); (2024); (2022)

According to data from the Badan Pusat Statistik 2020-2024, the financial performance (ROA) of state-owned enterprises (SOEs) shows a trend of improvement from 2020 to 2024, as evidenced by a consistent increase in ROA from 1.103 to 1.460, indicating that these companies are becoming more effective at generating profits from their assets. Meanwhile, leverage rose from 1.096 in 2020 to a peak of 1.230 in 2022, reflecting a higher reliance on debt; however, it then dropped sharply to 0.553 in 2023 and rose slightly to 0.577 in 2024. This decline in leverage reflects an improvement in the capital structure with a reduced proportion of debt, thereby lowering financial risk. This trend indicates increasingly healthy conditions for state-owned enterprises, with improved profitability and more controlled debt management.

A company's performance is determined by various factors, the first of which is Good Corporate Governance (GCG). GCG is a corporate management system that emphasizes the principles of responsibility, accountability, independence, fairness, and transparency, first introduced by the Cadbury Committee in the United Kingdom in 1922 through the Cadbury Report (Adi & Suwanti, 2022). The implementation of sound corporate governance can reduce errors and self-serving behavior, thereby improving the company's financial performance through effective collaboration among stakeholders (Bimasakti & Warastuti, 2024). Many SOEs have implemented good corporate governance, but its implementation is still not optimal (Aji & Wulandari, 2024). This has been exacerbated by a number of corruption cases that have eroded investor confidence in investing in the company (Purwanti & Ekani O, 2024).

Several cases highlight weaknesses in the implementation of Good Corporate Governance (GCG), one of which is the alleged embezzlement of Rp28 billion in church funds held at Bank BNI. This case involved a bank employee who offered fictitious investment products to the church, resulting in the funds being inaccessible when needed. This incident indicates weaknesses in internal oversight and the application of the principle of prudence, particularly regarding employee control (know your employee) and product transparency. Although the funds were eventually fully returned by the bank, this case serves as an important

lesson that weak implementation of GCG can lead to reputational risks and losses for customers (Dirgantara & Belarminus, 2025).

Other cases involving fictitious projects and bribery at PT Waskita Karya, PT Jasindo, PT PAL, and PT Krakatau Steel, each of which caused the state to lose trillions of rupiah (Nordiansyah, 2025; Lestari, 2025). This situation reflects a lack of transparency, weak oversight, and a limited understanding of the principles of good governance (Natalia et al., 2023). However, not all SOEs exhibit weak governance. Several companies, such as PT Telkom Indonesia, PT Jasa Marga, PT Jasa Raharja, and PT PLN Nusantara Power, have received national awards for their consistent implementation of sustainable, transparent, and accountable corporate governance principles (Telkom Indonesia, 2025; The Iconomics, 2024).

The implementation of Good Corporate Governance (GCG) can increase a company's profits and reduce the risk of future losses (Aji & Wulandari, 2024). GCG can be assessed through the Board of Directors and institutional ownership. Under Law No. 40 of 2007 on Limited Liability Companies, the board of directors is the corporate body fully empowered to manage and represent the company (both internally and externally), including in legal matters, in order to achieve the interests and objectives as stipulated in the company's articles of association (Panjaitan et al., 2022). The board of directors is responsible for managing all of the company's resources and setting policy direction, so its existence has an impact on the effectiveness of financial performance (Adi & Suwarti, 2022).

In addition to the board of directors, institutional ownership also helps strengthen the implementation of good corporate governance through investor oversight of management, thereby curbing opportunistic behavior and improving corporate performance (Citra & Handayani, 2020). Institutional ownership refers to the ownership of a company's shares by organizations or institutions, which helps mitigate conflicts of interest between shareholders and management; as a result, the involvement of these institutions can drive improvements in the company's financial performance (Adi & Suwarti, 2022).

Another factor that can affect a company's financial performance is leverage. Leverage refers to a company's use of funds that entails fixed costs, it indicates the extent to which a company's assets are financed through debt, which, when managed optimally and efficiently, can enhance the company's profitability (Putri & Rafliis, 2024). According to Sartono (2010:123) in Hendrawan & Handayani (2023), leverage is used by companies as a strategy to maximize profits by utilizing available assets and funding sources, thereby increasing the potential returns for shareholders.

One of the key factors influencing financial performance is capital structure. Capital structure is a financial decision that involves striking a balance between the use of debt and equity as sources of funding for a company's operations (Sari & Setyaningsih, 2023). According to Brigham & Houston (2006:155) in Ngantung & Handoyo (2023) states that an optimal capital structure enables a company to achieve the best possible return, thereby allowing shareholders to benefit as well.

This study is supported by several key theories, namely Agency Theory, Signaling Theory, dan Trade-Off Theory. According to Jensen & Meckling (1976) in Islami & Wulandari (2023), Agency Theory explains the potential for conflicts of interest between principals and agents due to information asymmetry, making the implementation of good corporate governance and information transparency necessary to minimize agency costs (Citra & Handayani, 2020). Furthermore, Signaling Theory according to Pramudityo & Sofie (2023) states that the information provided by management, such as financial statements, serves as a signal for investors in assessing a company's performance and prospects, where positive signals can increase the company's value in line with investors' expectations (Sari & Setyaningsih, 2023). Meanwhile, the Trade-Off Theory proposed by Modigliani & Miller (1958) in Islami & Wulandari (2023) emphasizes that companies must balance the use of debt and equity by weighing their benefits and risks, as excessive reliance on debt can increase the risk of bankruptcy and negatively impact the company's sustainability (Sari & Setyaningsih, 2023).

Previous studies on similar topics have yielded mixed results. Pramudityo & Sofie (2023), found that the Board of Directors has a significant positive effect on financial performance,



whereas Li (2024), found that the Board of Directors had no influence. Islami & Wulandari (2023), found that institutional ownership has a significant positive effect on financial performance, whereas Putra (2024), found the opposite result. Misfalah & Adi (2024), shows that leverage has a significant positive effect on financial performance, whereas Citra & Handayani (2020), found to have no effect. Putri & Rafliis (2024), shows that Capital Structure has a significant positive effect on Financial Performance, whereas Sari & Setyaningsih (2023) shows different results.

The mixed results of previous studies on the effects of the Board of Directors, Institutional Ownership, Leverage, and Capital Structure on Financial Performance indicate that there remains inconsistency in findings across researchers. These differing results serve as the basis for this study to re-examine the effects of the Board of Directors, Institutional Ownership, Leverage, and Capital Structure on Financial Performance in SOEs listed on the Indonesia Stock Exchange (IDX) from 2020 to 2024, in order to obtain more consistent results and strengthen the empirical evidence regarding the relationships among these variables.

B. THEORETICAL STUDY

Agency Theory

According to Jensen & Meckling (1976) in Islami & Wulandari (2023), Agency Theory describes the relationship between principals and agents, which has the potential to create information asymmetry and conflicts of interest, thereby requiring the implementation of good corporate governance and transparent information to achieve objectives and improve performance in a fair manner. Conflicts of interest between managers who have greater knowledge of the company's condition but lack decision-making authority and investors, who hold full authority can result in agency costs due to information asymmetry triggered by moral hazard and adverse selection (Citra & Handayani, 2020).

Signaling Theory

According to Pramudityo & Sofie (2023), Signaling Theory explains that management actions, such as the disclosure of financial statements, serve as signals for investors to assess a company's performance and prospects, where positive signals can increase investment interest and corporate value, while negative signals can decrease them. Signaling theory explains that information such as announcements in annual reports reflects a company's performance, such that the higher the reported profits, the higher the corporate value in line with investor expectations (Sari & Setyaningsih, 2023).

Trade Off Theory

According to Modigliani & Miller (1958) in Islami & Wulandari (2023), The Trade-Off Theory explains that companies must balance the use of debt and equity to maximize profits, taking into account the tax benefits of debt as well as the risks and costs of bankruptcy; thus, additional debt is incurred only when the benefits outweigh the costs. Taking on too much debt can lead to financial difficulties and even bankruptcy, burden legal and accounting aspects, and disrupt relationships with stakeholders; consequently, the cost of bankruptcy is a reason why companies avoid excessive debt (Sari & Setyaningsih, 2023).

Financial Performance

Financial performance reflects a company's ability to manage its resources efficiently in order to generate profits and ensure the sustainability of its operations (Misfalah & Adi, 2024). In state-owned enterprises, financial performance reflects the government's success as the majority shareholder in achieving national economic goals. Financial performance is not measured by a single ratio but encompasses various indicators such as Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), Debt to Equity Ratio (DER), and Current Ratio (CR) (Hossain & Islam, 2025; Shakri et al., 2025). ROA is a financial performance indicator that measures profitability based on the utilization of assets, regardless of the source of funding (Queiri et al., 2021; Suparno et al., 2020).

Board of Directors

The Board of Directors is the primary governing body of the company, bearing overall responsibility for the execution and oversight of the company's management and strategic decision-making (Panjaitan et al., 2022). Diversity in the composition of the board plays a key role in improving the quality of corporate governance (Ullah et al., 2025). A proportionate number of board members can enhance the effectiveness of oversight, expedite the decision-making process, and strengthen the implementation of Good Corporate Governance (GCG) (Pramudityo & Sofie, 2023). The number of board members is used to illustrate the balance and effectiveness of a company's management structure, where the right composition indicates good governance and has the potential to improve financial performance.

Institutional Ownership

Institutional ownership refers to the holding of a company's shares by specific institutions or entities, such as the government, legal institutions, trust funds, foreign investors, or other organizations that oversee the company's management performance (Bimasakti & Warastuti, 2024). Institutional ownership serves as an external control mechanism that can monitor and restrict corporate management's behavior and potentially curb opportunistic behavior (Adi & Suwanti, 2022). A high proportion of institutional ownership indicates strong external oversight, which can ultimately enhance corporate transparency and performance.

Leverage

Leverage is a ratio that indicates the proportion of assets financed by debt and a company's ability to meet its obligations (Bhatia & Kumari, 2025), where higher leverage means greater investment risk (Misfalah & Adi, 2024). Optimal use of leverage can increase a company's profitability, provided that the return on investment exceeds the cost of interest (Amalia & Khuzaini, 2021). Leverage, as measured by the Debt-to-Asset Ratio (DAR), indicates the proportion of assets financed by debt; a high ratio signifies a heavy reliance on debt, while a balanced ratio reflects better risk management.

Capital Structure

The capital structure reflects a company's decisions regarding the optimal combination of long-term debt and equity to maximize profits, manage business risks, and assess financial health using the debt-to-equity ratio in order to enhance profitability (Priyan et al., 2024; Ngantung & Handoyo, 2023). A properly managed capital structure can reduce financing costs while increasing the company's value (Sari & Setyaningsih, 2023). A reasonable debt-to-equity ratio indicates a well-balanced capital structure and supports the company's financial stability.

Hypothesis Development

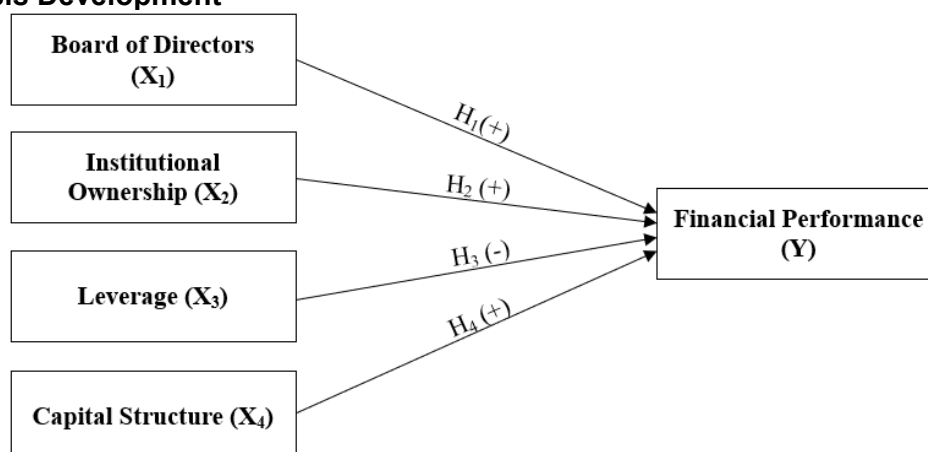


Figure Conceptual Framework

The Relationship Between the Board of Directors and Financial Performance

The board of directors serves as the primary body responsible for coordinating and overseeing the company's operational activities to ensure they align with the objectives and



interests of the shareholders (Guizani, 2025). A board composed of professional and competent individuals will be able to make strategic decisions that enhance efficiency and profitability (Panjaitan et al., 2022). The results of Hendrawan & Handayani (2023), shows that the larger and more effective the board of directors is, the higher the company's financial performance, as the decision-making process is more focused and accountable.

H₁: The Board of Directors has a significant positive impact on Financial Performance.

The Relationship Between Institutional Ownership and Financial Performance

Institutional ownership refers to the proportion of a company's shares held by financial institutions or pension funds, which typically hold their investments for the long term (Octavio et al., 2025). A study by Bimasakti & Warastuti (2024), demonstrates that institutional ownership has a positive impact on financial performance through improved efficiency and managerial control. Adi & Suwarti (2022) also found that companies with high institutional ownership demonstrate better profitability than companies with dispersed ownership.

H₂: Institutional Ownership has a significant positive impact on Financial Performance.

The Relationship Between Leverage and Financial Performance

Leverage reflects the extent to which a company relies on debt financing to support its operations and investments. Rising interest costs and the size of debt obligations can reduce a company's net income, thereby negatively impacting its financial performance (Islami & Wulandari, 2023). The results of the study by Amalia & Khuzaini (2021) indicate that leverage has a significant negative impact on financial performance, as increased debt usage leads to higher interest and principal payment obligations that burden the company. This aligns with the findings of Gemilang & Wiyono (2022), who state that leverage reduces a company's financial performance due to increased default risk and a diminished ability to generate profits.

H₃: Leverage has a significant negative effect on Financial Performance.

The Relationship Between Capital Structure and Financial Performance

Capital structure refers to a company's financial policy in determining the ratio of debt to equity as sources of funding. Research by Citra & Handayani (2020) indicates that capital structure has a significant impact on profitability, as companies can utilize debt to increase the return on equity. Bimasakti & Warastuti (2024) found that an efficient capital structure contributes positively to the financial performance of banking companies in Indonesia.

H₄: Capital Structure has a significant positive effect on Financial Performance.

C. RESEARCH METHODS

This study employs a quantitative associative approach to examine the influence of the Board of Directors, Institutional Ownership, Leverage, and Capital Structure on Financial Performance across all SOEs listed on the Indonesia Stock Exchange (IDX). Research data were obtained from companies' annual reports and IDX publications through a documentary method, with an observation period of 2020–2024. The study population includes all SOEs listed on the IDX during the 2020–2024 period, while sample selection was conducted using purposive sampling based on the following established criteria:

Table Sample Selection Criteria

No.	Description	Total
1.	The company is a state-owned enterprise (SOE).	28
2.	It was not consistently listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period.	(2)
3.	Complete financial statements and annual reports for the 2020–2024 period are not available.	(1)
Total Number of Sample Companies		25
Total Number of Samples × 5 years		125

Based on these criteria, this study uses a sample of state-owned enterprises that meet the requirements, as follows:

Table List of Sample Companies

No.	Company Name	Stock Symbol
1.	PT Bank Mandiri (Persero) Tbk	BMRI
2.	PT Bank Rakyat Indonesia (Persero) Tbk	BBRI
3.	PT Bank Negara Indonesia (Persero) Tbk	BBNI
4.	PT Bank Tabungan Negara (Persero) Tbk	BBTN
5.	PT Bank Raya Indonesia Tbk	AGRO
6.	PT Bukit Asam Tbk	PTBA
7.	PT Aneka Tambang Tbk	ANTM
8.	PT Timah Tbk	TINS
9.	PT Vale Indonesia Tbk	INCO
10.	PT Perusahaan Gas Negara Tbk	PGAS
11.	PT Elnusa Tbk	ELSA
12.	PT Jasa Marga (Persero) Tbk	JSMR
13.	PT Wijaya Karya (Persero) Tbk	WIKA
14.	PT Waskita Karya (Persero) Tbk	WSKT
15.	PT PP (Persero) Tbk	PTPP
16.	PT Adhi Karya (Persero) Tbk	ADHI
17.	PT Waskita Beton Precast Tbk	WSBP
18.	PT PP Presisi Tbk	PPRE
19.	PT Wijaya Karya Beton Tbk	WTON
20.	PT Telkom Indonesia (Persero) Tbk	TLKM
21.	PT Semen Indonesia (Persero) Tbk	SMGR
22.	PT Krakatau Steel (Persero) Tbk	KRAS
23.	PT Kimia Farma Tbk	KAEF
24.	PT Indofarma Tbk	INAF
25.	PT Garuda Indonesia (Persero) Tbk	GIAA

To measure the variables in the study of the sample companies, the measurement instruments presented in table were used, as follows:

Table Research Instruments

Variable	Operational Definition	Measurement	Scale
Financial Performance	A company's ability to manage resources efficiently to generate profits (Misfalah & Adi, 2024).	$ROA = \frac{\text{Net Income After Tax}}{\text{Total Assets}} \times 100\%$ Source: Panjaitan et al., (2022)	Ratio
Board of Directors	The key component within a company responsible for management and strategic decision-making (Panjaitan et al., 2022).	$BoD = \sum \text{Board of Directors}$ Source: Gemilang & Wiyono (2022)	Ratio
Institutional Ownership	Control of a company's shares by a specific institution or entity responsible for overseeing management performance (Bimasakti & Warastuti, 2024).	$InsOwn = \frac{\text{Total Institutional Shares}}{\text{Total Shares Outstanding}} \times 100\%$ Source: Islami & Wulandari (2023)	Ratio
Leverage	A ratio that indicates the proportion of assets financed by debt and the company's ability to repay its obligations (Bhatia & Kumari, 2025).	$DAR = \frac{\text{Total Debt}}{\text{Total Assets}} \times 100\%$ Source: Gemilang & Wiyono (2022)	Ratio



Capital Structure	A combination of debt and equity to maximize earnings, manage risk, and improve profitability (Priyan et al., 2024).	$DER = \frac{Total\ Debt}{Total\ Equity} \times 100\%$ Source: Ngantung & Handoyo (2023)	Ratio
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Data analysis was conducted using a panel data regression model with EViews 13 software, as this model is capable of simultaneously integrating time series and cross-sectional dimensions, resulting in more optimal and reliable estimates. The empirical model used in this study is written as follows:

$$Y = \alpha + \beta_1 BoD + \beta_2 InsOwn + \beta_3 L + \beta_4 CS + \varepsilon$$

Notes

Y	= Financial Performance (ROA)	CS	= Capital Structure
BoD	= Board of Directors	α	= constant
InsOwn	= Institutional Ownership	$\beta_1 - \beta_4$	= koefisien regresi
L	= Leverage	ε	= error

The analysis began with descriptive statistics, followed by the selection of a panel regression model using the Chow test, the Hausman test, and the Lagrange multiplier test to determine the best model among the common-effects, fixed-effects, or random-effects models. Once the model was selected, the analysis proceeded with tests of classical assumptions. The next step is panel data regression analysis to estimate the effect of each independent variable on the dependent variable through regression coefficient testing. Finally, hypothesis testing is performed, including the t-test (partial), F-test (simultaneous), and the coefficient of determination (R^2).

D. RESULTS AND DISCUSSION

Result

Descriptive Statistics

Table Descriptive Statistics

	N	Mean	Maximum	Minimum
Board of Directors (X_1)	125	6.616	14.000	3.000
Institutional Ownership (X_2)	125	0.477	0.998	0.000
Leverage (X_3)	125	0.717	2.851	0.114
Capital Structure (X_4)	125	2.632	18.200	-22.700
Financial Performance (Y)	125	-0.318	17.620	-91.740

Source: Processed Data (2025)

The board of directors has a mean of 6.616, indicating that the majority of SOEs have a relatively moderate management structure, with the highest number found in the banking sector, such as BBRI (14 directors), which reflects high operational complexity. Institutional ownership has a mean of 0.477, indicating that institutional investors play a fairly dominant role in corporate oversight; in fact, some companies, such as AGRO, were almost entirely owned by institutional investors (0.998) in 2020, while ANTM had no institutional ownership (0.000) in the early period. A leverage ratio of 0.717 indicates that most companies still rely on debt for financing, with the highest ratio (2.851) observed at INAF in 2024, reflecting financial strain, while INCO exhibited a very low debt ratio (0.114) in 2022.

A capital structure with a mean of 2.632 indicates that the company's funding mix tends to be dominated by debt rather than equity, with the highest value (18,200) at BBTN in 2020, reflecting high reliance on debt, and the lowest value (-22,700) at GIAA in 2020 indicating negative equity or severe financial strain. Financial performance with a mean of -0.318 indicates that, on average, SOEs are operating at a loss, with the highest value (17,620) recorded by PTBA in 2023, reflecting excellent performance or the generation of net profit, and the lowest value (-91,740) recorded by INAF in 2024 indicating a very significant loss.

Regression Model Selection

Chow Test

The Chow test is used to select the best model between the Fixed Effects Model (FEM) and the Common Effects Model (CEM), based on the following hypotheses:

- H_0 : CEM is more appropriate to use if the p-value > 0.05 .
- H_1 : FEM is more appropriate to use if the p-value < 0.05 .

Table Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	3.414	(24,96)	0.000
Cross-section Chi-square	77.132	24	0.000

Source: Processed Data (2025)

The Chow test resulted in a p-value of $0.000 < 0.05$. Therefore, the FEM model is suitable for estimating panel data regression. Consequently, a follow-up test was conducted using the Hausman test.

Hausman Test

The Hausman test is used to select the best model between the Fixed Effects Model (FEM) and the Random Effects Model (REM), with the following hypotheses:

- H_0 : REM is more appropriate to use if the p-value > 0.05 .
- H_1 : FEM is more appropriate to use if the p-value < 0.05 .

Table Hausman Test

Test Summary	Chi-Sq.Statistic	Chi-Sq. d.f.	Prob.
Cross-section Random	37.978	4	0.000

Source: Processed Data (2025)

The Hausman test resulted in a p-value of $0.000 < 0.05$, so the Fixed Effects Model (FEM) is the appropriate model to use for estimating the panel data regression. Based on the results of the Chow and Hausman tests, the Fixed Effects Model (FEM) is the best model to use in this study. Therefore, the Lagrange Multiplier (LM) test is not necessary.

Classical Assumptions

According to Basuki (2021), in panel data regression, the only classical assumptions that need to be tested are multicollinearity, since there is more than one variable and heteroscedasticity, since panel data are similar to cross-sections. Meanwhile, linearity tests are rarely performed because the model is assumed to be linear, normality tests are not required, and autocorrelation tests are only relevant for time series data.

Multicollinearity Test

Table Multicollinearity Test

	Board of Directors (X ₁)	Institutional Ownership (X ₂)	Leverage (X ₃)	Capital Structure (X ₄)
Board of Directors (X ₁)	1.000	-0.403	0.034	0.349
Institutional Ownership (X ₂)	-0.403	1.000	-0.031	-0.187
Leverage (X ₃)	0.034	-0.031	1.000	-0.072
Capital Structure (X ₄)	0.349	-0.187	-0.072	1.000

Source: Processed Data (2025)

According to Basuki (2021), If the correlation coefficient is less than 0.85, then the data does not contain multicollinearity. The correlation coefficient between X₁ and X₂ is $-0.403 <$



0.85; X_1 and X_3 is $0.034 < 0.85$; X_1 and X_4 is $0.349 < 0.85$; X_2 and X_3 is $-0.031 < 0.85$; X_2 and X_4 is $-0.187 < 0.85$; X_3 and X_4 is $-0.072 < 0.85$. The results show that all correlation coefficients < 0.85 . Therefore, none of the variables exhibit multicollinearity.

Heteroscedasticity Tes

Table Heteroscedasticity Tes

F-Statistic	0.001	Prob. F(1, 122)	0.922
Prob(F-statistic)	0.001	Prob. Chi-Square (1)	0.921

Source: Processed Data (2025)

According to Basuki (2019), a test for heteroscedasticity can be performed using the ARCH method, where the values are *Obs*R-squared Prob. Chi-Square* > 0.05 . The test results showed an *Obs*R-squared Prob. Chi-* value of $0.921 > 0.05$, indicating that the data is free of heteroscedasticity.

Autocorrelation Test

Table Autocorrelation Test

Durbin-Watson stats	1.930
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Source: Processed Data (2025)

Notes:

DL = 1.6426

4-DL = 2.3574

DU = 1.7745

4-DU = 2.2255

$$\text{DU} < \text{DW} < \text{4-DU} \\ 1.7745 < 1.930 < 2.2255$$

Autocorrelation Test: The autocorrelation test using the Durbin-Watson method resulted in a DW value of 1.930, indicating that the data is free of autocorrelation.

Table Results of the FEM Panel Data Estimation

Variable	Coefficient	Std. Error	t-Stats	Prob.
C	9.962	7.766	1.283	0.203
Board of Directors (X_1)	0.882	0.980	0.900	0.370
Institutional Ownership (X_2)	10.224	6.106	1.675	0.097
Leverage (X_3)	-31.035	2.676	-11.600	0.000
Capital Structure (X_4)	0.480	0.211	2.269	0.026

Source: Processed Data (2025)

Panel Data Regression Analysis

$$Y = \alpha + \beta_1 BoD + \beta_2 InsOwn + \beta_3 L + \beta_4 CS + \varepsilon \\ Y = 9.962 + 0.882*BoD + 10.224*InsOwn - 31.035*L + 0.480*CS + \varepsilon$$

1. The constant (C) of 9.962 indicates that when the Board of Directors (X_1), Institutional Ownership (X_2), Leverage (X_3), dan Capital Structure (X_4) have no effect, Financial Performance (Y) is 9.962.
2. Board of Directors (X_1) has a coefficient of 0.882, meaning that any increase in the number of board members tends to increase Financial Performance (Y).
3. Institutional Ownership (X_2) has a coefficient of 10.224, meaning that as institutional ownership increases, Financial Performance (Y) also increases.
4. Leverage (X_3) has a coefficient of -31.035, so any increase in leverage will reduce financial

performance (Y).

5. Capital Structure (X_4) has a coefficient of 0.480, meaning that any improvement in the capital structure will improve financial performance (Y)

Hypothesis Testing

Table 9 shows that the Board of Directors (X_1) ($0.370 > 0.05$) does not have a significant effect on Financial Performance (Y), so Hypothesis 1 is rejected. Institutional Ownership (X_2) ($0.097 > 0.05$) also has no significant effect on Financial Performance (Y), so Hypothesis 2 is rejected. Leverage (X_3) ($0.000 < 0.05$) has a significant negative effect on Financial Performance (Y), so hypothesis 3 is accepted. Capital Structure (X_4) ($0.026 < 0.05$) has a significant positive effect on Financial Performance (Y), so hypothesis 4 is accepted.

F-Test

Table F-Test

F-Statistic	10.820
Prob(F-statistic)	0.000

Source: Processed Data (2025)

The results of the F-test show a p-value of $0.000 < 0.05$, Board of Directors (X_1), Institutional Ownership (X_2), Leverage (X_3), and Capital Structure (X_4) simultaneously have a significant effect on Financial Performance (Y).

Coefficient of Determination (Adj R Square)

Table Adj R Square

Adj R Square	0.689
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Source: Processed Data (2025)

The adjusted R-squared value of 0.689 indicates that 68.9% of the variation in Financial Performance (Y) can be explained by the Board of Directors (X_1), Institutional Ownership (X_2), Leverage (X_3), and Capital Structure (X_4), while the remainder is influenced by other factors outside the scope of this study.

Discussion

The Relationship Between the Board of Directors and Financial Performance

Based on the research findings, which indicate that the board of directors has no effect on financial performance, Hypothesis 1 is rejected. These findings are consistent with Misfalah & Adi (2024); Nurmayanti & Shanti (2023); Intia & Azizah (2021); Aziza et al. (2020). A large board of directors does not guarantee improved financial performance; therefore, companies need to place greater emphasis on the quality, competence, and professionalism of their directors rather than simply the number of members (Misfalah & Adi, 2024). This can be explained by the Agency Theory proposed by Michael C. Jensen and William H. Meckling (1976), which states that the board of directors should serve as a monitoring mechanism to reduce conflicts of interest between managers and owners. However, when this monitoring function does not operate optimally, information asymmetry and agency costs remain high, thereby failing to improve financial performance (Islami & Wulandari, 2023).

Furthermore, from the perspective of Signaling Theory, this lack of significance indicates that the decisions and policies adopted by the board of directors have not yet been able to serve as a strong signal to investors regarding the company's prospects (Pramudityo & Sofie, 2023). This situation is reflected in state-owned enterprises, where fluctuations in ROA during the 2020–2024 period were more influenced by operational factors and industry characteristics than by the composition of the board of directors. Thus, although in theory the board of



directors is expected to improve performance through its oversight function and by sending positive signals, in practice this role has not been effective due to the persistence of agency problems and limitations in generating credible information for the market (Sari & Setyaningsih, 2023).

The Relationship Between Institutional Ownership and Financial Performance

Based on the research findings, which indicate that institutional ownership does not affect financial performance, Hypothesis 2 is rejected. These findings are consistent with Purwanti & Ekani O (2024); Nurmayanti & Shanti (2023); Pramudityo & Sofie (2023); Nugrahani & Yuniarti (2021); Aziza et al. (2020). Institutional ownership does not affect financial performance because the larger the share of stock they hold, the greater the tendency to act in their own interests and those of the majority shareholders (Purwanti & Ekani O, 2024). Significant institutional ownership does not always guarantee that managers will be able to manage the company's assets to maximize profits and improve financial performance (Aziza et al., 2020). This can be explained by the Agency Theory proposed by Michael C. Jensen and William H. Meckling (1976), which states that the presence of institutional shareholders is not always effective in reducing conflicts of interest between principals and agents. In fact, ownership concentrated in specific institutions can give rise to new conflicts, such as the dominance of majority shareholders, which actually increases the potential for agency problems and is not optimal in reducing agency costs (Islami & Wulandari, 2023).

Furthermore, from the perspective of Signaling Theory, this lack of significance indicates that high levels of institutional ownership have not yet been able to serve as a strong positive signal to investors regarding the company's performance (Pramudityo & Sofie, 2023). In state-owned enterprises, Return on Assets (ROA) as a performance indicator shows fluctuations across sectors, suggesting that institutional ownership has not yet been able to consistently reflect the effectiveness of asset management (Purwanti & Ekani O, 2024). This indicates that the information conveyed through financial statements is not yet fully perceived as a credible signal by investors. Thus, although in theory institutional ownership is expected to enhance oversight and performance, in practice this effect is not significant due to the dominance of vested interests, limitations in monitoring functions, and the greater influence of the company's operational conditions in determining financial performance.

The Relationship Between Leverage and Financial Performance

Based on the research findings, which indicate that leverage has a significant negative effect on financial performance, Hypothesis 3 is accepted. These findings are consistent with Shakri et al. (2025); Misfalah & Adi (2024); Gemilang & Wiyono (2022); Amalia & Khuzaini (2021). High leverage reduces profitability by increasing debt burdens and risks, a situation exacerbated by weak market protection, causing companies to adopt a more conservative approach and miss out on profitable investment opportunities (Shakri et al., 2025). Reliance on external funding increases leverage and interest expenses, which ultimately raises borrowing costs and reduces financial performance (Gemilang & Wiyono, 2022). The higher the leverage, the more financial performance tends to decline, therefore, debt must be managed carefully so as not to burden the company (Misfalah & Adi, 2024).

These findings can be strongly explained by the Trade-Off Theory proposed by Franco Modigliani and Merton H. Miller (1958), which states that while the use of debt does provide benefits, exceeding the optimal level increases the risk of bankruptcy and financial costs, thereby reducing the company's performance (Islami & Wulandari, 2023). Furthermore, from the perspective of Agency Theory as proposed by Michael C. Jensen and William H. Meckling (1976), high leverage can exacerbate conflicts of interest among managers, shareholders, and creditors, particularly regarding risky decision-making that could harm the company and undermine its financial performance (Islami & Wulandari, 2023).

In state-owned enterprises, leverage must be managed carefully because ROA is a key indicator of the effective use of assets, however, fluctuations in ROA across sectors indicate that high leverage tends to undermine financial performance (Purwanti & Ekani O, 2024). This

reinforces the notion that when the debt-to-equity ratio is not at an optimal level, the benefits no longer outweigh the costs and risks involved. Empirical data on state-owned enterprises also show that highly leveraged companies tend to have low or volatile ROA, meaning that financial performance is largely determined by the company's ability to manage its capital structure optimally and the effectiveness of its asset utilization.

The Relationship Between Capital Structure and Financial Performance

Based on the research findings, which indicate that capital structure has a significant positive effect on financial performance, Hypothesis 4 is accepted. These findings are consistent with Ndruru & Permatasari (2024); Putri & Rafli (2024); Rahman (2020). A well-managed capital structure with an appropriate debt-to-equity ratio can drive improved financial performance, while a balanced composition helps mitigate risks for the company (Putri & Rafli, 2024). A higher debt-to-equity ratio encourages companies to manage their assets more productively in order to meet their debt obligations (Rahman, 2020). A positive capital structure indicates that the company is able to effectively manage and control its debt, thereby improving its financial performance (Ndruru & Permatasari, 2024).

These findings can be explained by the Trade-Off Theory proposed by Franco Modigliani and Merton H. Miller (1958), which states that the optimal capital structure is achieved when a company is able to balance the benefits of using debt against the risk of bankruptcy (Islami & Wulandari, 2023). When a company reaches this optimal point, the use of debt actually improves capital efficiency and drives increased profitability. Furthermore, from the perspective of Agency Theory by Michael C. Jensen and William H. Meckling (1976), debt also serves as a control mechanism that can curb opportunistic behavior by managers through disciplined repayment obligations, thereby driving improved financial performance (Islami & Wulandari, 2023).

In state-owned enterprises, capital structure plays a crucial role in enhancing the effectiveness of asset management, as reflected in ROA, however, performance fluctuations across sectors indicate that striking a balance between debt and equity remains a major challenge (Islami & Wulandari, 2023). Empirical data show that a relatively stable capital structure at an optimal level tends to be accompanied by an increase in ROA, whereas an imbalanced capital structure is correlated with a decline in financial performance (Purwanti & Ekani O, 2024). Thus, proper capital structure management not only strengthens a company's performance but also plays a key role in enhancing the contribution of state-owned enterprises to the national economy.

E. CONCLUSION AND SUGGESTIONS

Conclusion

Based on the results of a fixed-effects panel regression analysis of 25 state-owned enterprises (SOEs) for the 2020–2024 period, this study concludes that the Board of Directors and Institutional Ownership do not have a significant impact on Financial Performance, indicating that structural roles in oversight and ownership have not yet been able to enhance the effectiveness of corporate asset management. On the other hand, Leverage has a significant negative effect on Financial Performance, indicating that high reliance on debt increases risk and reduces profitability, while Capital Structure has a significant positive effect, suggesting that a proportional composition of funding sources can improve asset efficiency and yield better financial performance.

State-owned enterprises are expected to improve the effectiveness of their governance structures by placing greater emphasis on the competence, experience, and professionalism of the Board of Directors rather than simply increasing the number of members, as research findings indicate that the number of directors does not have a significant impact on financial performance; thus, the quality of individual members is a more decisive factor in the effectiveness of decision-making and oversight functions. Additionally, companies need to strengthen the oversight function of institutional ownership to ensure it is not merely oriented toward the interests of the majority of shareholders, as high levels of institutional ownership



have not been able to improve financial performance due to potential conflicts of interest and weak monitoring. Companies also need to maintain leverage control within productive limits, as high leverage has been shown to negatively impact financial performance due to increased interest expenses and financial risks, and to design a proportional capital structure, as an optimal capital structure has been proven to enhance a company's efficiency and profitability

Suggestions

This study is limited by its scope of variables, which only includes four internal factors, and by the observation period of 2020–2024, thus not capturing the influence of external factors or non-financial variables. Therefore, future research is recommended to incorporate additional variables such as firm size and ESG. Firm size should be included because companies with larger total assets generally have broader access to financing, greater flexibility in resource management, and better capacity for business diversification, which can potentially enhance financial performance. Meanwhile, ESG variables are important as they reflect the quality of environmental, social, and governance practices, which not only affect a company's reputation but also influence investor confidence, cost of capital, and long-term performance sustainability. In addition, expanding the research object to include non-state-owned enterprises is necessary to enable comparisons of governance effectiveness and financial structures, thereby producing more comprehensive findings and strengthening theoretical implications.

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