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Capital Structure As Mediating Variable in Financial Performance and Good Corporate Governance Banking Sector

Lintang Kinasih[1], Evi Sofiatul Laeliyah[2], Tri Neliana[3*]
[1]Swadaya Gunung Jati University, Cirebon, Indonesia. Email lintanggkinasihh@gmail.com
[2]Swadaya Gunung Jati University, Cirebon, Indonesia. Email sofiatullaeliah@gmail.com
[3]Swadaya Gunung Jati University, Cirebon, Indonesia. Email tri.neliama@ugj.ac.id
***Corresponding Author: tri.neliana@ugj.ac.id**

Abstract
Background. Banking and financial institutions are essential to the functioning of modern economies, serving as key drivers of economic stability and growth. In Indonesia, the banking sector holds a dominant position within the financial system, playing a vital role in the implementation of monetary policy.
Aims. Ensuring a robust banking environment depends on the practical application of GCG, which is assessed using the RGEC framework, consisting of Risk Profile, Governance, Earnings, and Capital. The importance of GCG has become even more evident following financial crises, such as the 1997 monetary crisis and the 2024 Bank BJB corruption scandal, both of which highlighted serious shortcomings in oversight and transparency.
Methods. The population in this study comprises all banking companies listed on the Indonesia Stock Exchange (IDX) during the period from 2019 to 2023. The sample was selected using purposive sampling, a method that involves selecting participants based on specific criteria to meet the study's objectives. The criteria applied included banks listed on the IDX and those that consistently published their financial statements from 2019 to 2023. Based on these criteria, a total of 51 banking companies were selected as the research sample
Result. Although banking performance has improved, issues such as inefficiency and a lack of transparency persist. Studies indicate that GCG elements—such as board structure, audit committees, and ownership models—impact financial outcomes, though findings are not always consistent.
Conclusion. This research examines the impact of GCG, incorporating capital structure as a mediating factor to gain a deeper understanding of these relationships. Focusing on the banking sector underscores its critical role in the economy and its ongoing digital transformation, reinforcing the need for governance systems that foster sustainable and innovation-driven financial development.

Keywords: GCG, Capital Structure, Financial Performance

INTRODUCTION

Banking and financial institutions serve as foundational elements of the modern economic framework. Their roles range from offering essential financial services to managing intricate global market risks, making them vital to sustaining economic stability and growth. As such, gaining a thorough understanding of the core principles, effective practices, and current trends in the banking and finance sector is crucial.(Putri & Muhammad, 2023)

The business segment of Indonesia's financial sector has experienced significant changes due to the country's fast economic growth.(Verico & Pangestu, 2004). According to Law Number 7 of 1992, financial institutions known as banks collect public funds through savings to support the improvement of communal living standards(Mangantar, 2019).

Optimal economic growth could occur if financial sector stability is adequately maintained. The banking sector remains a significant force in Indonesia's financial landscape.(Gunawan, 2019). This results in a substantial reliance of the national economy on banking. A well-functioning intermediate role and a healthy banking environment are markers of banking system stability. When these factors are maintained, the circulation of money and the transmission of monetary policy, primarily through banks, can function efficiently.(Padoa-Schioppa & Central Bank, n.d.).

Bank Indonesia Regulation No. According to Bank Indonesia Regulation No. 13/1/PBI/2011 the RGEC analysis, which examines Risk Profile, Good Corporate Governance, Earnings, and Capital serves as an effective way to assess bank performance and well-being.(Nadirsyah et al., 2018). Good Corporate Governance (GCG) plays a critical role throughout the assessment process. The 1997 financial crisis, caused by inadequate banking performance and insufficient health oversight, led the government to shut down some banks while it recapitalized nine banks, took control of seven banks, and kept 73 banks functioning(Pangestu, 2003). By 2001, only 151 banks remained active. Bank Indonesia established the Indonesian Banking Architecture (API) in January 2004 to enhance the banking sector and aid economic recovery.(Mashitoh, 2013). Furthermore, on January 30, 2006, the government issued a policy package emphasizing its dedication to enhancing banking health, including through the enforcement of GCG principles.(Aprianingsih, 2016)

According to Asian Corporate Governance research, Indonesia holds the 11th position among Asia-Pacific nations in terms of corporate ethics implementation. The ranking demonstrates the inadequate application of Good Corporate Governance by numerous Indonesian companies. The general public has minimal knowledge about corporate core values

and practices, which could be a contributing factor. The goal of enhancing companies' financial performance requires Indonesia to enforce GCG standards uniformly across all sectors.Lusiana & Beruh (2022)

The Financial Services Authority (2023) noted that, from 2022 onward, banking performance has shown continuous improvement and positive growth, reflecting its resilience in navigating global economic pressures. Given the distinctive nature of the banking sector, corporate governance plays an essential role, as it significantly contributes to the overall stability of the financial industry. (Shafa Nur & Rohman, 2024).

However, in Indonesia, company financial performance is still often hampered by non-transparent and unaccountable practices. One example is the inflated advertising budget case at the Regional Development Bank of West Java and Banten (BJB). On September 22, 2024, the Anti-Corruption Organization (KPK) announced the elevation of the investigation status of this case, indicating serious problems in the management of public funds. The alleged budget inflation of up to IDR 200 billion between 2021 and 2023 is evidence of weak internal oversight systems. On October 5, 2024, the KPK named five suspects, including senior BJB officials, suspected of colluding with six advertising agencies. Such practices not only harm corporate finances but also damage public trust in financial institutions. Optimal financial performance can only be achieved if a company has effective control mechanisms, including transparent financial reporting, an effective board structure, and responsible managerial ownership. Without these, companies are vulnerable to mismanagement and inefficiencies, ultimately reducing profitability and corporate value. Therefore, improvements in influential factors such as ownership structure and transparency are crucial to support overall enhancements in financial performance.(Nguyen et al., 2024).

Research by Y in several previous studies on GCG and financial performance examined the roles of the board of directors and the audit committee, as well as their impact on earnings management and corporate financial performance. The board of directors demonstrated a substantial positive impact on financial performance, while the audit committee showed a significant adverse effect(Ghofur, 2023) Studied the influence of Good Corporate Governance on financial performance, projected through managerial ownership, and found that managerial ownership affected financial performance. Research by (Rola & Dunakhir, 2022) Examined how institutional ownership, the audit committee, and the board of commissioners affected financial performance. The findings demonstrated that institutional ownership, the audit

committee, and the board of commissioners all improved financial performance.(Ariyanti et al., 2022).

Although many studies have examined corporate governance, results remain varied and inconsistent. This study refers to (Boshnak, 2021) and differs from prior research by adding one more variable—capital structure—as an intervening variable. This is an interesting focus, as good corporate governance is currently a vital non-financial aspect that companies must consider to improve their performance. The researcher chose the banking sector because it is growing rapidly, especially with the rise of digital banking technology.(Ferilli et al., 2024). With the implementation of good corporate governance in banking, it is expected to enhance company performance through better decision-making processes and improve investor confidence in the institution.(Aprilia Jumroh, 2024).

LITERATURE REVIEW

Agency Theory, as proposed by (Jensen & Meckling, 1979) Explains the relationship between company owners (principals) and managers (agents). In executing the mission of a business entity, agents are expected to adhere to sound corporate governance principles, while principals are responsible for overseeing their performance. The theory posits that human behavior is driven by self-interest, bounded rationality, and risk aversion, suggesting that managers, like all individuals, tend to prioritize their interests. This behavior can lead to agency problems, as highlighted by (Asai, 2020)

Agency problems arise from conflicts between managers, who often focus on short-term personal or operational goals, and shareholders, who are more concerned with the company’s long-term success.(Khandelwal et al., 2023). This divergence creates information asymmetry, where internal parties (managers) possess more knowledge about the company than external parties (investors or shareholders). Internal parties may withhold or distort information, leading to misinformed external stakeholders.

To address these conflicts, the implementation of good corporate governance (GCG) becomes essential. GCG not only assures shareholders of competent management in areas such as capital structure decisions but also enhances the company’s appeal to investors. As noted by (Darniaty et al., 2023) Good governance enhances corporate value by fostering transparency and accountability, enabling investors to make informed decisions, and mitigating the risk of fraud or misconduct.

The Impact of Independent Commissioners on Financial Performance

Dezy Dwi Kusumaningrum (2015) notes that studies on the impact of the board of commissioners' size on corporate performance have yielded inconclusive findings. The study references the arguments of Jensen and Meckling (1979) to substantiate the claim that an increase in the number of board members typically diminishes firm performance. This is due to the difficulties associated with an expanded board size, especially in sustaining efficient communication and cooperation among non-executive directors.

A greater number of non-executive directors may also improve oversight functions. (Rahma & Bukair, 2015) The increasing number of non-executive directors has a positive influence on bank performance. Consequently, further study is required to investigate the impact of non-executive board size on financial performance within the Indonesian context. Consequently, the subsequent research hypothesis is posited:

H1: Independent commissioners impact financial performance.

The Effect of Managerial Ownership on Financial Performance

Corporate governance is essential in influencing a company's financial performance. Effective execution of leading, managing, and controlling processes typically enhances a firm's overall performance. (Affes & Jarboui, 2023). Managerial ownership, characterized by managers possessing shares in the company, constitutes a significant element of corporate governance. This ownership aligns managerial interests with those of shareholders, prompting managers to engage in more prudent and responsible decision-making. Fuad Alamsyah and Yulianti, 2022.

An increased level of managerial ownership may signify a more substantial alignment of interests between management and shareholders, consequently improving the company's performance. It further consolidates the authority of managers in overseeing the organization. Engaging managers as shareholders aims to incentivize them to enhance their performance, as they immediately experience the repercussions of their decisions (Aprianingsih, 2016)

H2: Managerial ownership has a significant effect on a firm’s financial performance.

The Impact of Independent Commissioners and Managerial Ownership on Financial Performance Mediated By Capital Structure

Effective governance and corporate governance (GCG) indirectly affect a company's financial success via capital structure decisions. An effective board of commissioners can steer the company towards an ideal capital structure, including sustaining a judicious amount of debt

to reduce financial risk. Moreover, the majority shareholders typically exhibit greater prudence in capital structure decisions, as they assume a bigger proportion of the related financial risks.. (David Handoko Haryanto et al., 2023).

H3: Capital structure serves as a mediator in the independent commissioners on financial performance

H4: Capital structure serves as a mediator in the relationship between managerial ownership and financial performance.

METHOD

Population and Sample

The population of this study comprises all banking firms listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. (Sahabuddin et al., 2024). The sample was chosen using purposive sampling, a technique that involves selecting individuals based on predetermined criteria to achieve the study's objectives. The criteria utilized encompassed banks listed on the IDX and those that continuously disseminated their financial results from 2019 to 2023. A total of 51 banking institutions were chosen as the research sample based on these criteria (Yunus & Setijaningsih, 2024).

Table 1. Purposive Sampling

No.	Criteria	Total
1.	Banking companies listed on the IDX in 2019-2023	46
2.	Banking companies that did not publish financial reports consecutively on the IDX in 2019-2023	(3)
3.	Companies that experienced consecutive losses in 2019-2023	(26)
4.	Companies that can be used as samples	17
5.	Number of research data (17x3)	51

Definition And Measurement Of Variables

Table 2. Definition and Measurement of Variables

Variable	Definition	Indicator	Formula	Scale
Independen				

Good Corporate Governance	Administer and regulate corporate systems to generate enhanced value for all stakeholders.	(DK) Board of Commissioners	Number of members of the board of commissioners	Nominal
		(KM) Managerial Ownership	$\frac{Number\ of\ shares\ owned\ by\ management}{Number\ of\ shares\ issued\ and\ outstanding}$ x 100%	Ratio
Intervening				
Capital Structure	Shows how well a company uses funds obtained through debt compared to funds obtained through equity.	(DER) *Debt to Equity Ratio*	$\frac{Total\ liabilities}{Total\ Equitas}\ x\ 100\%$	Ratio
Dependencie				
Financial performance	The financial performance indicates the company's capacity to maximize profit generation from its assets.	(ROA) *Return Of Asset*	$\frac{Net\ profit\ after\ tax}{Total\ Asset}\ x\ 100\%$	Ratio

DISCUSSION

Descriptive Statistics Results

Table 3. Statistics Results

	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance
Board Of Commissioners	60	7,00	3,00	10,00	5,5833	2,07725	4,315
Managerial Ownership	60	19,34	0,00	19,34	0,7128	2,72267	7,413
Financial Performance	60	3,44	0,02	3,46	1,2987	0,90400	0,817
Capital Structure	60	8,42	1,56	9,98	5,2210	1,55369	2,414
Valid N (Listwise)	60						

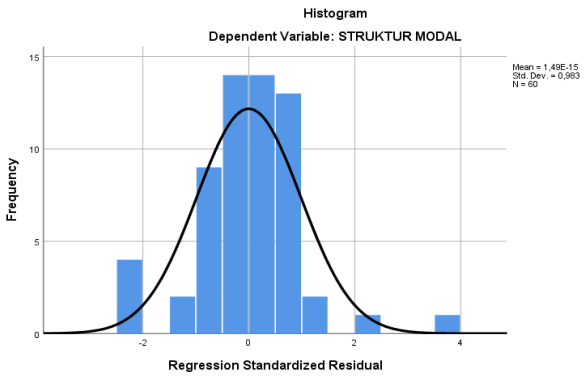
Board of Commissioners

An examination of 60 data points (N = 60) indicates variability in the number of Board of Commissioners members across the examined companies. The smallest board size is three members, and the largest is ten, yielding a range of seven. The mean number of commissioners is roughly 5.58. A standard deviation of 2.07725 signifies a considerable degree of variability in board size among organizations, with data distributed approximately 2.08 units from the mean.

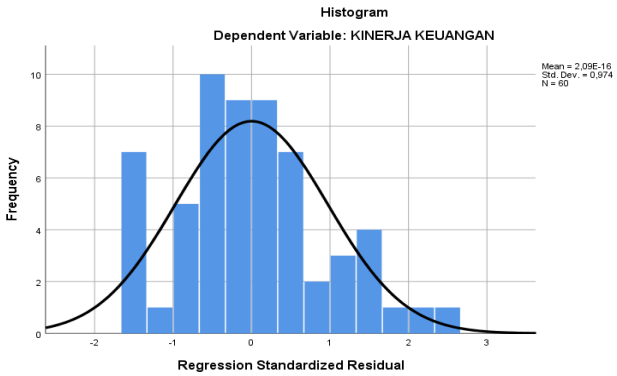
1. **Managerial Ownership.** For the variable of Managerial Ownership, the analysis is also based on 60 observations (N = 60). The lowest observed value is 0.00%, indicating the absence of managerial ownership in some companies, while the highest is 19.34%, resulting in a range of 19.34. The average (mean) level of managerial ownership is relatively low at 0.7128%. However, the standard deviation of 2.72267—substantially higher than the mean—suggests significant variability across firms. This indicates that while most firms exhibit minimal or no managerial ownership, a few show substantially higher levels, contributing to a wide dispersion in the data.
2. **Financial Performance.** A financial performance analysis was performed on 60 observations (N = 60). The least financial performance number, typically assessed by ratios like Return on Assets (ROA) or Return on Equity (ROE), is 0.02, and the greatest is 3.46, yielding a range of 3.44. The mean financial performance is 1.2987. A standard deviation of 0.90400 signifies a moderate degree of variability among organizations, however the dispersion is less pronounced than that seen in the Managerial Ownership indicator.
3. **Capital Structure.** The capital structure variable was examined utilizing 60 observations (N = 60). The least figure, presumably assessed via a metric like the Debt-to-Equity Ratio (DER), is 1.56, while the greatest is 9.98, resulting in a range of 8.42. The average capital structure value in the sample is 5.2210. A standard deviation of 1.55369 signifies a considerable degree of variability in the capital structure among the examined enterprises.

4.

Classical Assumption Test Results
Normality Test Results
X Against Z Results

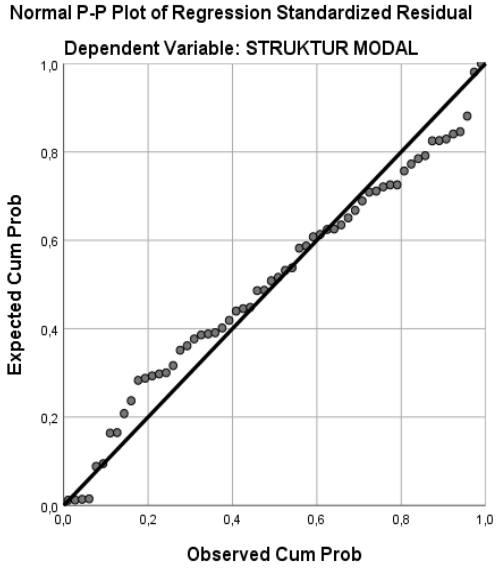


Results Of X And Z Against Y

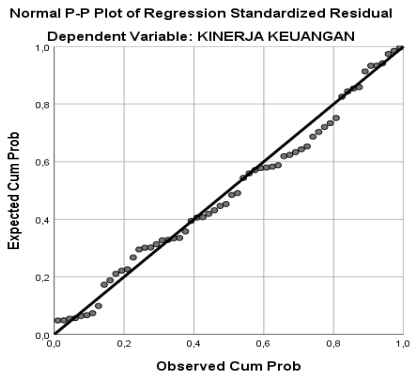


Based on the histogram above, the data distribution is below the curve and the curve forms a bell shape. This means that the data distribution is normal, to strengthen the results above, a test is carried out through the P-P Plot graph below :

X Against Z Results



Results Of X And Z Against Y



The P-P Plot reveals that the data points are tightly aligned with the diagonal line, signifying adherence to a normal distribution. A One-Sample Kolmogorov-Smirnov (K-S) test was performed on the unstandardized residuals from the regression model to substantiate this

observation. The results indicated a significance value over 0.05, implying that the residuals are normally distributed.

X Against Z Results

Table 4. One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		60
Normal Parameters[a,b]	Mean	0,0000000
	Std. Deviation	1,38591425
Most Extreme Differences	Absolute	0,113
	Positive	0,100
	Negative	-0,113
Test Statistic		0,113
Asymp. Sig. (2-tailed)		,055[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Results of X and Z Against Y

Table 5. One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		60
Normal Parameters[a,b]	Mean	0,0000000
	Std. Deviation	0,80708036
Most Extreme Differences	Absolute	0,076
	Positive	0,076
	Negative	-0,057
Test Statistic		0,076
Asymp. Sig. (2-tailed)		,200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Multicollinearity Test Results

The multicollinearity assessment was performed by analyzing the tolerance and Variance Inflation Factor (VIF) values of the independent variables. Multicollinearity is deemed present when the tolerance value is less than 0.01 and the Variance Inflation Factor (VIF) exceeds 10 (Siti Lam'ah Nasution et al., 2020). The analysis results demonstrated that all variables satisfied the criteria, indicating the absence of multicollinearity in the regression model.

X Against Z Results

Table 6. Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)	3,886	0,547		7,111	0,000		
	Board Of Commissioners	0,209	0,090	0,279	2,316	0,024	0,961	1,041
	Managerial Ownership	0,237	0,069	0,415	3,443	0,001	0,961	1,041

a. Dependent Variable: Capital Structure

Results of X and Z Against Y

Table 7. Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)	0,263	0,441		0,597	0,553		
	Board Of Commissioners	0,032	0,055	0,075	0,586	0,561	0,878	1,139
	Managerial Ownership	-0,137	0,044	-0,413	-3,091	0,003	0,795	1,257
	Capital Structure	0,182	0,078	0,313	2,343	0,023	0,796	1,257

a. Dependent Variable: Financial Performance

The calculations presented in the table above indicate that the tolerance values exceed 0.1, while the VIF values remain below 10. This signifies the absence of multicollinearity in the research data.

Heteroscedasticity Test Results

The heteroscedasticity test was performed using the Glejser method, where the absolute residuals of each regression model (AbsRes1 for the Capital Structure model and AbsRes2 for the Financial Performance model) were regressed on their respective independent variables.

X Against Z Results

Table 8. Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1,794	0,358		5,013	0,000
	Board Of Commissioners	-0,146	0,059	-0,315	-2,468	0,017
	Managerial Ownership	0,015	0,045	0,043	0,340	0,735

a. Dependent Variable: AbsRes1

Results of X and Z Against Y

Table 9. Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-0,038	0,251		-0,150	0,881
	Board Of Commissioners	0,090	0,032	0,372	2,856	0,006

Managerial Ownership	0,028	0,025	0,152	1,111	0,271
Capital Structure	0,027	0,044	0,083	0,606	0,547

a. Dependent Variable: AbsRes2

The results revealed signs of heteroscedasticity in both models, as indicated by the significance values of the Board of Commissioners variable, which were less than 0.05 (Sig. = 0.017 for AbsRes1 and Sig. = 0.006 for AbsRes2). As at least one independent variable significantly affected the absolute residuals in each model, it can be concluded that both regression models violate the assumption of homoscedasticity.

Autocorrelation Test Results

Autocorrelation was tested using the Durbin-Watson (DW) statistic to detect correlations among residuals in the regression models. For the first model (dependent variable: Capital Structure), the DW value was 1.258.

X Against Z Results

Table 10. Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,452[a]	0,204	0,176	1,41002	1,258

a. Predictors: (Constant), Managerial Ownership, Board Of Commissioners
b. Dependent Variable: Capital Structure

Results Of X And Z Against Y

Table 11. Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,450[a]	0,203	0,160	0,82842	0,772

a. Predictors: (Constant), Capital Structure, Board Of Commissioners, Managerial Ownership
a. Dependent Variable: Financial Performance

This is below the lower critical value (dL ≈ 1.55, N = 60, k = 2, α = 0.05), indicating the presence of positive autocorrelation. Similarly, for the second model (dependent variable: Financial Performance), the DW value was 0.772, which is also significantly lower than the critical value (dL ≈ 1.51, N = 60, k = 3). This strongly suggests positive autocorrelation in the second model as well. In conclusion, both regression models exhibit signs of positive autocorrelation, indicating a violation of the assumption of residual independence.

Path Analysis Test Results

The next analysis method employed is multiple regression. The data is processed using the SPSS version 26 software, which assists in performing the necessary calculations obtained the following results:

X Against Z Results

Table 12. Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	3,886	0,547		7,111	0,000		
	Board Of Commissioners	0,209	0,090	0,279	2,316	0,024	0,961	1,041
	Managerial Ownership	0,237	0,069	0,415	3,443	0,001	0,961	1,041

a. Dependent Variable: Capital Structure

Results of X And Z Against Y

Table 13. Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	0,263	0,441		0,597	0,553		
	Board Of Commissioners	0,032	0,055	0,075	0,586	0,561	0,878	1,139
	Managerial Ownership	-0,137	0,044	-0,413	-3,091	0,003	0,795	1,257
	Capital Structure	0,182	0,078	0,313	2,343	0,023	0,796	1,257

a. Dependent Variable: Financial Performance

From the table of path analysis test results (regression), the following regression equation was obtained:

Capital Structure = 3.886 + 0.209 Board of Commissioners + 0.237 Managerial Ownership

Financial Performance = 0.263 + 0.032 Board of Commissioners - 0.137 Managerial Ownership + 0.182 Capital Structure

Hypothesis Test Results

Partial Test Results (T-Test)

The use of the t-test is to determine the effect of the dependent variable. Hypothesis testing in this study uses SPPS software, where testing is carried out at a significant level of 0.05 (a = 5%). The decision-making criteria are as follows:

X Against Z Results

Table 14. Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)	3,886	0,547		7,111	0,000		
	Board Of Commissioners	0,209	0,090	0,279	2,316	0,024	0,961	1,041
	Managerial Ownership	0,237	0,069	0,415	3,443	0,001	0,961	1,041

a. Dependent Variable: Capital Structure

Table 15. Coefficients[a]

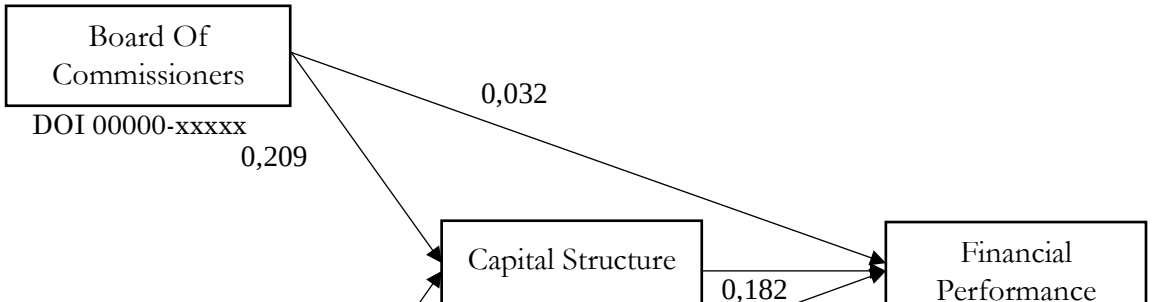
Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)	0,263	0,441		0,597	0,553		
	Board Of Commissioners	0,032	0,055	0,075	0,586	0,561	0,878	1,139
	Managerial Ownership	-0,137	0,044	-0,413	-3,091	0,003	0,795	1,257
	Capital Structure	0,182	0,078	0,313	2,343	0,023	0,796	1,257

a. Dependent Variable: Financial Performance

Path Analysis

Capital Structure = 3.886 + 0.209 Board Of Commissioners + 0.237 Managerial Ownership

Financial Performance = 0.263 + 0.032 Board Of Commissioners - 0.137 Managerial Ownership + 0.182 Capital Structure



Direct Effect

Board of Commissioners → Capital Structure:

The direct effect coefficient is 0.209, indicating that, holding other variables constant, a one-unit increase in the Board of Commissioners variable results in a 0.209-unit increase in Capital Structure.

Managerial Ownership → Capital Structure:

The direct effect is 0.237, indicating that a one-unit increase in Managerial Ownership corresponds to a 0.237-unit increase in Capital Structure, assuming all other variables remain constant.

Board of Commissioners → Financial Performance:

The coefficient of 0.032 suggests a positive, but weak, direct influence. A one-unit increase in the Board of Commissioners variable results in a 0.032 increase in Financial Performance, holding other factors constant.

Managerial Ownership → Financial Performance:

The direct effect is -0.137, indicating a negative relationship; a one-unit increase in Managerial Ownership reduces Financial Performance by 0.137, assuming all other variables are constant.

Capital Structure → Financial Performance:

With a coefficient of 0.182, capital structure has a positive influence on financial performance. A one-unit increase in Capital Structure leads to a 0.182 increase in Financial Performance, ceteris paribus.

Indirect Effect

Indirect Effect of the Board of Commissioners on Financial Performance via Capital Structure:

The indirect effect is determined by multiplying the direct impact of the Board of Commissioners on Capital Structure (0.209) by the direct impact of Capital Structure on Financial Performance (0.182), yielding a value of 0.038. This signifies that Capital Structure

serves as a partial mediator in the relationship, augmenting the total influence of the Board of Commissioners on Financial Performance by an additional 0.038.

Indirect Effect of Managerial Ownership on Financial Performance via Capital Structure:

The indirect effect is calculated by multiplying the direct effect of Managerial Ownership on Capital Structure (0.237) by the direct effect of Capital Structure on Financial Performance (0.182), yielding an indirect effect value of 0.043. This indicates that Capital Structure serves as a mediating variable in this connection, exerting an indirect effect of 0.043 from Managerial Ownership to Financial Performance.

Total Effect

The total effect represents the sum of both direct and indirect influences exerted by exogenous variables—Board of Commissioners (BOC) and Managerial Ownership (MO)—on the ultimate dependent variable, Financial Performance (FP). The indirect effects are mediated through Capital Structure (CS).

Total Effect of the Board of Commissioners on Financial Performance
= Direct Effect (BOC → FP) + Indirect Effect (BOC → CS → FP)
= 0.032 + 0.038 = 0.070
Total Effect of Managerial Ownership on Financial Performance
= Direct Effect (MO → FP) + Indirect Effect (MO → CS → FP)
= −0.137 + 0.043 = −0.094

The Board of Commissioners has a positive total effect of 0.070 on Financial Performance, both directly and indirectly through its impact on capital structure.
Managerial Ownership has an adverse total effect of −0.094 on Financial Performance, combining both its direct and indirect (via Capital Structure) influences.

CONCLUSION:

This study examined the influence of the Board of Commissioners and Managerial Ownership—both essential components of Good Corporate Governance (GCG)—on financial performance and capital structure. The methodology employed distinct model testing to evaluate the impact of independent variables (X) on the mediating variable (Z), as well as the combined effect of X and Z on the dependent variable (Y). Path analysis was employed to ascertain the direct, indirect, and total effects among the principal variables: Board of Commissioners, Managerial Ownership, Capital Structure, and Financial Performance. The results indicate that each variable has both direct and indirect influences.

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