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The Effect of Good Corporate Governance and Capital Structure on Financial Performance

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Abstract

This study examines the effect of corporate governance and capital structure on Financial performance in insurance companies listed on the Indonesia Stock Exchange (IDX) for the 2021-2024 period. The research method used in this study is panel data regression, which makes the Common Effect model the best model for panel data regression analysis. The variables used in this study are independent commissioners, board of director independence, and the debt-to-asset ratio as independent variables, with Financial performance as the dependent variable. The results show that independent commissioners have a positive effect on Financial performance, while board of director independence and the debt-to-asset ratio have no effect on Financial performance.

Keywords: Independent Commissioners; Board of Director Independence; Debt-to-Asset Ratio; Financial performance

JEL Codes: G22, G30, G32

1. Introduction

Financial performance is a key factor in a company's progress because it helps assess how well a company implements financial management practices in accordance with applicable regulations (Sarapi et al., 2022). Proper and correct financial performance ensures a company's long-term survival and growth. Financial performance, particularly in the insurance industry, has become extremely important because insurance companies have a direct impact on a large portion of the public, including policyholders and potential investors (Febriyanti et al., 2021).

PT Asuransi Jiwa Adisarana Wanaartha (PT WAL) is a case in point of the adverse consequences of a company's poor financial performance in Press Release No. 89/DHMS/OJK/XII/2022. The case involving PT Asuransi Jiwa Adisarana Wanaartha (PT WAL) involved the revocation of PT WAL's business license due to its failure to meet its solvency ratio, resulting in losses for policyholders because the company was unable to refund premiums already paid and could not

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fulfill submitted policy claims. The company's assets, which were frozen by the Attorney General's Office, were one of the main factors contributing to an extremely high debt-to-asset ratio. A high debt-to-asset ratio indicates an unhealthy capital structure because the company relies too heavily on debt, which ultimately leads to bankruptcy.

PT Asuransi Jiwa Kresna (Kresna Life) is the second insurance company to have its license revoked by the Financial Services Authority in 2023 due to Kresna Life's poor financial performance. As stated in a press release issued by the Head of the Department of Financial Literacy, Inclusion, and Communication Santoso & Junaeni (2023) in press release No. 69/GKPB/OJK/VI/2023. This occurred because, by the end of the special monitoring period, Kresna Life's solvency and liquidity ratios did not meet the minimum requirements stipulated by applicable regulations, rendering the company unable to cover its financial deficit (Anggraeni, 2023). Imprudent investment decisions including the placement of funds in high-risk affiliated companies without adequate feasibility analysis signaled weak governance and a lack of management independence at Kresna Life Insurance.

PT Asuransi Jiwa Prolife Indonesia (Prolife) is the third insurance company to have its license revoked by the Financial Services Authority (OJK) in 2023, specifically on November 2, 2023, as stated in a press release issued by the Head of the Department of Financial Literacy, Inclusion, and Communication, Aman Santosa (2023). in press release No. 165/OJK/GKPB/XI/2023. This was because Prolife was unable to meet the minimum requirements for the solvency ratio, equity ratio, and investment adequacy ratio. Furthermore, the Financial Services Authority had granted Prolife sufficient time to resolve the Business Activity Restriction Sanction (SPKU); however, this effort failed because it did not receive support from all policyholders and prospective investors (Putri, 2023). This indicates that the decline in earnings per share reflects a significant drop in profits, serving as an early indicator of deteriorating financial performance. The inability to generate earnings per share points to weak operational effectiveness and contributed to the company's financial crisis, ultimately leading to the revocation of its business license by the OJK.

This is consistent with Febriyanti et al. (2021), who noted that sound financial performance is essential for a company to survive in the industry and support its growth. This is also highly relevant to the life insurance industry, as this sector faces losses in the early stages while aiming for long-term growth. Several commonalities among these three insurance companies' cases regarding the revocation of their business licenses by the Financial Services Authority (OJK) include ineffective corporate governance, where the board of commissioners and the board of directors failed to carry out their oversight and internal control functions effectively. In accordance with the Indonesia Stock Exchange (IDX) Board of Directors' Regulation No. KEP-00001/BEI/01-2014 of 2014 regarding the listing of shares and equity securities in addition to shares issued by listed companies (IDX Regulation of 2014) listed companies are required to have at least one independent director among the members of the board of directors and independent commissioners comprising at least 30% of the members of the board of commissioners.

In general, independent commissioners are expected to enhance oversight and accountability, which can have a positive impact on a company's financial performance whether through more efficient use of assets, increased profitability, or reduced risks associated with poor management. This is consistent with empirical research conducted by Ferriswara et al. (2022), Francis et al. (2025), which shows that good corporate governance as proxied by independent directors has a

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significant effect on financial performance. This indicates that good corporate governance can improve financial performance. This contrasts with research conducted by Yunia (2018), which found that independent commissioners do not affect financial performance. This is because independent commissioners are tasked with overseeing management in running the company, not with making decisions. Management carries out both practical and strategic decision-making (Yunia, 2018).

In addition to oversight by independent commissioners, an independent board of directors is also a key focus, as it is expected to ensure more objective assessments in corporate management. The presence of independent directors on a company's board is expected to improve the quality of corporate governance and company performance (Danquah et al., 2018). This is consistent with research conducted by Hermawan et al. (2022) and Danquah et al. (2018), which shows that good corporate governance proxied by board independence has a significant effect on financial performance. They state that an independent board of directors can make more objective decisions, thereby driving greater efficiency and effectiveness in corporate performance. However, in contrast to the study by Sunanti et al. (2021), which found that an independent board of directors does not affect financial performance, they argue that although independent directors are intended to strengthen internal oversight, they often lack sufficient information or authority to directly influence the company's operational decisions.

In the context of corporate governance in Indonesia, companies in Indonesia follow a dual-board structure, namely a supervisory board (board of commissioners) and a management board (board of directors). This study focuses more on the aspect of independence, as the system in Indonesia adopts a two-board system rather than a one-board system specifically regarding the independence of the Board of Directors (BOD) and the independent Board of Commissioners (BOC) (Alijoyo & Sirait, 2022). The independence of the BOD and BOC enables more objective and transparent oversight and decision-making, free from the intervention of certain parties with vested interests.

In addition to corporate governance, an unhealthy capital structure is also one of the reasons why some insurance companies have had their licenses revoked by the OJK. As was the case with Adisarana Wanaartha Life Insurance, a high debt-to-asset ratio can increase financial risk and reduce financial performance (Dahlena & Munawaroh, 2020). This is consistent with research conducted by Tarigan & Akbar (2022), Dahlena & Munawaroh (2020), and Padilah & Janudin (2024), which found that capital structure, as proxied by the Debt-to-Asset Ratio (DAR), has a significant effect on financial performance. This indicates that an unhealthy capital structure can be identified based on the Debt-to-Asset Ratio (DAR). A DAR that is too high indicates a high dependence on debt, which can increase interest expenses and the risk of default. This contrasts with findings from studies by Ferriswara et al. (2022) and Amelia & Wijaya (2023), in which capital structure, proxied by the DAR, had no significant effect on financial performance. The results of these studies assume that companies with sound financial management can manage their debt efficiently; thus, even with a high DAR, interest expenses do not significantly erode profits, allowing financial performance to remain stable (Amelia & Wijaya, 2023).

Based on the above discussion, the researcher is interested in conducting a study titled "The Effect of Good Corporate Governance and Capital Structure on Financial Performance," using independent commissioners and board independence as measurement indicators for the good corporate governance variable, with board independence serving as a distinctive innovation in this

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study. The study uses the debt-to-assets ratio (DAR) as an indicator for the capital structure variable and earnings per share as an indicator for the financial performance variable. The companies under study will be focused on the financial sector, specifically insurance companies listed on the Indonesia Stock Exchange (IDX) from 2021 to 2024, which also represents a novel aspect of this study.

2. Literature review

2.1 Agency Theory

According to a book published by Purba, (2023) titled Accounting Theory, Agency Theory was first introduced by Jensen & Meckling (1976), who defined agency theory as a contract between one or more parties (principals) who instruct another party (agent) to perform services on behalf of the principal and grant the agent the authority to make decisions in the principal's best interest. This theory was subsequently developed by Lesmono & Siregar (2021) to describe an agency relationship that arises when one or more principals hire an agent to provide services and grant decision-making authority to the agent, which can eventually lead to conflicts arising from differing interests between the principal and the agent. The principal will prioritize the company's sustainability, while the agent will prioritize the well-being of the company's management (Endiana & Suryandari, 2021). The relationship between the principal and the agent must be based on trust in order to achieve shared goals.

According to agency theory, financial performance can be used as a tool to measure the extent to which an agent acts in the principal's best interests (Clarita et al., 2023). Financial performance reflects the results of managerial decisions made by the agent in managing the company's resources; thus, it can be used by the principal to assess the level of management's effectiveness, efficiency, and accountability. Good financial performance indicates that the agent can carry out corporate management functions optimally and focus on creating value for shareholders. Conversely, poor financial performance may indicate a misalignment of interests between the agent and the principal, which can lead to agency conflicts. Therefore, financial performance serves as a key indicator for the principal in evaluating the agent's behavior and assessing the success of implementing control and oversight mechanisms within the company.

Corporate governance regulates how a company is controlled and supervised so that the interests of shareholders (principals) and management (agents) are aligned (Tambun et al., 2017). Meanwhile, capital structure refers to the combination of debt, equity, and assets a company uses to finance its operations; thus, agency theory is highly relevant for understanding how corporate governance and capital structure can mitigate conflicts of interest and further improve the company's overall financial performance.

2.2 Financial performance

Financial performance is a company's ability to manage and control its resources. According to Dewi & Candradewi (2018), financial performance refers to a company's achievements over a specific period, as reflected in the health of its financial statements. Hutabarat (2020) further developed this theory, defining financial performance as an analysis that assesses the extent to which a company has complied with financial regulations properly and accurately. According to Boyoh & Sinabutar (2021), financial performance is a means of confirming a company's achievement of predetermined targets and a tool for describing future targets. Research conducted

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by Abdullah et al. (2023) found that a company's financial performance can be assessed using liquidity, profitability, and activity ratio analyses.

Earnings per share is an indicator used to measure a company's profitability based on its financial performance, showing the amount of money generated per common share (Ardiyanto et al., 2020). Earnings per share is the ratio of net income after taxes to the number of shares outstanding Mikrad (2020), so this indicator directly reflects a company's ability to generate profits for shareholders. From an agency theory perspective, principals can use EPS as an evaluation tool to assess the extent to which agents manage the company effectively and responsibly to maximize shareholder welfare. A high EPS value indicates that the agent has successfully improved the company's financial performance and optimized business results, thereby increasing the profit investors receive per share. Conversely, a low EPS value may indicate weak financial performance as well as a potential misalignment of interests between the agent and the principal. Therefore, EPS serves as a key indicator for assessing a company's financial performance as well as the effectiveness of management's role in mitigating agency conflicts.

2.3 Good Corporate Governance

The report states that Good Corporate Governance is a system that guides and controls a company to ensure it operates effectively to serve the interests of shareholders and other stakeholders. Good Corporate Governance is one of the pillars of the market economy system, closely tied to trust both in the companies that implement it and in a country's business climate. Rusdiyanto et al. (2019) define Good Corporate Governance as a system that guides the professional management of a company in accordance with governance principles: transparency, accountability, responsibility, independence, fairness, and equality.

In this study, Good Corporate Governance (GCG) is not measured using a comprehensive GCG assessment or a direct GCG score, but is proxied through two structural indicators: the independence of the board of commissioners and the independence of the board of directors. These indicators were selected because direct GCG assessments are generally not consistently available in financial statements or sustainability reports and are often self-assessments or conducted by external agencies using varying methodologies.

These conditions have the potential to introduce bias and limitations in comparisons between companies. Furthermore, from an agency theory perspective, conflicts of interest between the principal and the agent are primarily managed through oversight and decision-making mechanisms; thus, a focus on the independence of the board of commissioners and the board of directors is considered more relevant because it directly represents the company's monitoring and internal control functions. Therefore, the use of these two indicators is expected to provide a more objective, measurable, and consistent assessment of GCG in line with the research objectives. A corporate governance system is established by the principal to guide and supervise the agent so that they move in the same direction as desired by the principal. Agency theory serves as a bridge and the primary theoretical foundation for the relationship between principal and agent, which must be based on trust in order to achieve shared goals.

2.4 Capital Structure

Capital structure was first proposed by Weston et al. (1996), who defined it as permanent financing consisting of long-term debt, preferred stock, and shareholders' equity. According to Weygandt et

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al. (2019), capital structure is the ratio of external capital in the form of debt to equity. Capital structure is a financial concept that reflects a company's debt-to-equity ratio.

These obligations limit agents' discretion in using company funds for personal gain or unproductive projects, thereby enhancing management accountability. Thus, a capital structure that includes debt serves not only as a source of funding but also as a means of controlling agents' behavior to align it with the principal's interests. However, excessive use of debt also has the potential to increase the company's financial risk; therefore, an optimal capital structure policy is necessary to ensure that the disciplinary function of debt operates effectively without creating excessive risk.

Capital structure can be measured by dividing total debt by total assets, as Ferriswara et al. (2022) support, using the debt-to-assets ratio (DAR) as one indicator of capital structure. This ratio indicates the extent to which a company's assets are financed by debt, thereby illustrating the company's level of leverage and the financial risks it faces. From an agency theory perspective, the DAR is a key indicator for principals to evaluate agents' financing policies, particularly the use of debt as both a financing tool and a control mechanism. A high DAR may reflect increased disciplinary pressure on management due to debt repayment obligations; however, it simultaneously raises the risk of default, which can negatively impact the company's financial stability. Conversely, a DAR that is too low may indicate that the company has not optimally utilized the disciplinary function of debt in controlling the agent's opportunistic behavior. Therefore, the use of DAR as a proxy for capital structure is relevant in explaining the relationship between financing policies, agency conflicts, and the company's financial performance.

3. Methodology

This study uses a quantitative approach to analyze the effects of Good Corporate Governance and Capital Structure on Financial Performance in insurance companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. The population in this study includes all insurance companies listed on the IDX, with the sampling technique employing purposive sampling, that is, selecting a sample based on specific criteria aligned with the study's objectives. The selection criteria include insurance companies listed on the IDX that published financial reports consecutively during the 2021–2024 period. Based on these criteria, 13 of the 16 listed insurance companies were selected, resulting in 52 company-year observations for this study.

This study uses two independent variables and one dependent variable. The first independent variable is Good Corporate Governance (GCG), proxied by the number of independent commissioners and board independence. The second independent variable is Capital Structure, which is measured using the Debt-to-Assets Ratio (DAR) that is, the ratio of total debt to total assets of the company. Meanwhile, the dependent variable in this study is Financial Performance, measured using Earnings per Share (EPS) the ratio of net income after taxes to the number of shares outstanding. These indicators are used to measure the relationship between corporate governance mechanisms, capital structure, and the financial performance of insurance companies.

The data analysis technique used is panel data regression, an analytical method that combines cross-sectional data consisting of several companies with time-series data consisting of observations over a specific period. The analysis begins with descriptive statistics to provide an overview of the research data's characteristics through the mean, median, maximum, minimum, and standard deviation. Next, panel data regression analysis is performed using the equation:

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$$EPS_{it} = \alpha + \beta_1 KI_{it} + \beta_2 IDD_{it} + \beta_3 DAR_{it} + e_{it}$$

Notes:
EPS = Earnings per Share
KI = Independent Commissioner
IDD = Independence of the Board of Directors
DAR = Debt-to-Asset Ratio
α = Constant in the Regression Equation
e = Error Term
it = Panel Data

The selection of the panel regression model was conducted using the Chow test to choose between the Common Effects Model and the Fixed Effects Model, the Hausman test to choose between the Fixed Effects Model and the Random Effects Model, and the Lagrange Multiplier test to choose between the Common Effects Model and the Random Effects Model. These three tests were used to determine the regression model that best fits the research data.

To ensure the model's validity, this study also conducted relevant assumption tests, namely the multicollinearity test and the heteroscedasticity test. The multicollinearity test assessed whether the independent variables were highly correlated, while the heteroscedasticity test identified unequal residual variances in the regression model. Next, hypothesis testing was conducted using the t-test to determine the partial effect of each independent variable on the dependent variable. The test results were used to evaluate whether independent commissioners, board independence, and the debt-to-assets ratio had an effect on financial performance at insurance companies listed on the Indonesia Stock Exchange during the study period.

4. Results and Discussion

4.1. Descriptive Statistical Analysis

According to Ghozali (2016), descriptive statistics are used to describe data using measures such as the mean (average), standard deviation, variance, maximum value, total count, range, kurtosis, and skewness. Therefore, descriptive analysis is a method that presents a general overview of the research subject based on available data. The results of the descriptive statistical tests in this study are as follows:

Table 1. Descriptive Statistical Analysis Results

	EPS	KI	IDD	DAR
Mean	57,09442	0,549423	0,053077	0,578654
Median	27,49000	0,500000	0,000000	0,610000
Maximum	655,90000	0,750000	0,333333	0,790000
Minimum	-562,08000	0,330000	0,000000	0,330000
Std. Dev.	141,57260	0,124734	0,130917	0,130895
Observations	52	52	52	52

Source: Data processed (2026)

Table 1 above shows that the dataset used in this study consists of 52 samples analyzed over the 2021–2024 period. The mean value of the EPS variable is 57.09442, and the median value is 27.49.

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The maximum value of the EPS variable is 655.9, recorded by Lippo General Insurance Tbk. in 2021, due to high insurance premium volumes under post-pandemic conditions, which led to high profits. Meanwhile, the minimum value was recorded by Maskapai Reasuransi Indonesia in 2021 at -562.07, as the company incurred a loss of Rp. 291,039,505,535 that year due to heavy claims pressure from various insurance companies directed at Maskapai Reasuransi Indonesia.

For the KI variable, the mean value is 0.549426 and the median value is 0.5. The maximum value of the KI variable is 0.75, observed in Asuransi Bina Dana Artha Tbk. from 2021 to 2023 and Asuransi Harta Aman Pratama Tbk. from 2021 to 2022. Meanwhile, the minimum value is 0.33, recorded by Maskapai Reasuransi Indonesia from 2021 to 2024 and Victoria Insurance Tbk. from 2022 to 2024; this essentially represents the minimum requirement stipulated by regulations regarding the presence of independent commissioners at every company listed on the Indonesia Stock Exchange. The mean value for the IDD variable is 0.053077, while the median value for the IDD variable is equal to its minimum value, namely 0.000, because the vast majority of insurance companies in Indonesia during the 2021–2024 period did not have independent directors on their boards. The maximum value for the IDD variable was recorded by Victoria Insurance Tbk. from 2022 to 2024, at 0.333.

The DAR variable has a mean of 0.5786 and a median of 0.61. The maximum value is 0.79, recorded by Harta Aman Pratama Tbk. in 2024, indicating a high leverage ratio because 79% of the company's assets are financed by liabilities; therefore, the risk to its financial performance warrants close attention. Meanwhile, the minimum value is 0.33, recorded by Victoria Insurance Tbk. in 2021, indicating greater stability since the company uses only 33% of its liabilities to finance its assets.

4.2. Model Selection Tests

Chow Test

According to Mahendra (2023), the Chow test is used to choose between the common-effects model and the fixed-effects model to determine which is more appropriate for a panel data regression study. The Chow test is conducted with the following hypotheses:

H0: Common Effects Model

H1: Fixed Effects Model

H0 is accepted and the Common Effects Model is selected if the value of Prob Cross-section F > 0.05, whereas H1 is accepted and the Fixed Effects Model is selected if the value of Prob Cross-section F < 0.05.

Table 2. Chow Test Results

Redundant Fixed Effects Test			
Effects Test	Statistic	d.f.	Prob
Cross-section F	1,296573	-12,36	0,2627

Source: Data processed (2026)

Based on Table 2, the Chow test yielded a cross-sectional F-value of 0.2627 > 0.05, so H0 is accepted, and the Common Effect Model was selected.

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Hausman Test

After conducting the Chow test, the next step is the Hausman test. The Hausman test determines whether the random-effects model or the fixed-effects model is more appropriate (Mahendra, 2023). The Hausman test was conducted as follows:

H0: Random-Effects Model

H1: Fixed-Effects Model

H0 is accepted and the Random-Effects Model is selected if the value of the cross-sectional random probability is > 0.05, whereas H1 is accepted and the Fixed-Effects Model is selected if the value of the cross-sectional random probability is < 0.05.

Table 3. Hausman Test Results

Correlated Random Effects - Hausman test			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0,113734	3,0000	0,9901

Source: Data processed (2026)

Based on Table 3, the Hausman test yields a p-value of 0.9901 > 0.05, so H0 is accepted and the Random Effects Model is selected.

Lagrange Multiplier (LM)

Test Since the Chow test and the Hausman test yielded different model selections, the Hausman test must be conducted. The LM test was performed to determine whether the common-effects model or the random-effects model is more appropriate to use (Mahendra, 2023). The Hausman test was conducted as follows:

H0: Common-Effects Model

H1: Random Effects Model

H0 is accepted and the Common Effects Model is selected if the value of the Cross-Section Breusch-Pagan (BP) Probability is > 0.05, whereas H1 is accepted and the Random Effects Model is selected if the value of the Cross-Section Breusch-Pagan (BP) Probability is < 0.05.

Table 4. Lagrange Multiplier Test Results

Lagrange Multiplier Test for Random Effects	
	Cross Section
Breusch-Pagan	(0,5557)

Source: Data processed (2026)

Based on Table 4, the Lagrange Multiplier test yields a Breusch-Pagan (BP) cross-sectional probability of 0.5557 > 0.05, so we accept H0 and select the Common Effect Model. Based on the model selection test results, the most appropriate method for this study is the Common Effect Model.

4.3. Testing Classical Assumptions

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Multicollinearity Test

The multicollinearity test aims to determine whether there is a correlation (relationship) between the independent variables (Basuki & Prawoto, 2016). Multicollinearity can be detected by examining the Tolerance and Variance Inflation Factor (VIF) values; if the VIF value is less than 0.85, there is no multicollinearity, but if the VIF value is greater than 0.85, multicollinearity is present.

Table 5. Multicollinearity Test Results

	KI	IDD	DAR
KI	1,000000	-0,249523	0,191623
IDD	-0,249523	1,000000	-0,068750
DAR	0,191623	-0,068750	1,000000

Source: Data processed (2026)

Based on Table 5, the multicollinearity test results show that the VIF values between variables are less than 0.85. Therefore, it can be concluded that the data is not affected by multicollinearity.

Heteroscedasticity Test

The heteroscedasticity test aims to determine whether factors cause unequal or non-constant variances (Basuki & Prawoto, 2016). Data are not considered to exhibit heteroscedasticity if the p-values for each independent variable are greater than 0.05; conversely, the data are considered to exhibit heteroscedasticity if the p-values for each independent variable are less than 0.05.

Table 6. Heteroscedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-35,21969	86,25152	-0,408337	0,6848
KI	27,06884	120,4438	0,224743	0,8231
IDD	184,20800	112,8953	1,631671	0,1093
DAR	155,42790	111,4077	1,395127	0,1694

Source: Data processed (2026)

Based on Table 6, the results of the heteroscedasticity test show that the p-values for all independent variables are greater than 0.05. Therefore, it can be concluded that the data are not affected by heteroscedasticity.

4.4. Results of the Panel Data Regression Analysis

Based on the model selection test, the common-effects model was selected as the regression model for this study.

Table 7. Panel Data Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-150,0673	114,0242	-1,316101	0,1944
KI	431,1206	159,2262	2,707599	0,0094
IDD	216,8243	149,2471	1,452787	0,1528
DAR	-71,22444	147,2805	-0,483597	0,6309

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R-squared	0,143041	Mean dependent var	57,09442
Adj. R-squared	0,089481	S.D. dependent var	141,5726
S.E. of regression	135,0902	Akaike info criterion	12,72357
Sum squared resid	875969,5	Schwarz criterion	12,87366
Log likelihood	-326,8127	Hannan-Quinn criter	12,78111
F-statistic	2,670664	Durbin-Watson stat	1,180662
Prob(F-statistic)	0,057944		

Source: Data processed (2026)

Based on Table 7, the panel data regression model, the following panel data regression equation is obtained:

$$EPS_{it} = \alpha + \beta_1 KI_{it} + \beta_2 IDD_{it} + \beta_3 DAR_{it} + e_{it}$$

$$EPS = -150,067 + 431,120*KI + 216,824*IDD - 71.224*DAR$$

From the panel data regression results, the coefficient α is -150.067253022, meaning that if all independent variables are held constant, they will not improve financial performance (Basuki & Prawoto, 2016). A positive coefficient for a given independent variable indicates a positive relationship between that variable and the dependent variable, while a negative coefficient indicates an inverse relationship between the independent variable and the dependent variable.

It is known that the β1 coefficient value of +431.12 indicates that every 1% increase in X1 will increase the EPS value by +431.12; the β2 coefficient value of +216.82 indicates that every 1% increase in the IDD value will increase the EPS value by +216.82, while the β3 coefficient of -71.22 indicates that a 1% increase in DAR will decrease EPS by -71.22.

4.5. Hypothesis Testing

The t-test is used to determine the partial effect of each independent variable (Basuki & Prawoto, 2016). This study used a significance level of α = 0.05; the t-test was conducted by comparing each variable's p-value with α. An independent variable is considered to have an effect on the dependent variable if the p-value is less than 0.05. The following are the results of the partial hypothesis testing:

Table 8. Hypothesis Testing Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-150,0673	114,0242	-1,316101	0,1944
KI	431,1206	159,2262	2,707599	0,0094
IDD	216,8243	149,2471	1,452787	0,1528
DAR	-71,22444	147,2805	-0,483597	0,6309

Source: Data processed (2026)

Based on Table 8, the t-test results show that the p-value for Independent Commissioners is 0.0094 (< 0.05), and the coefficient is +431.12; therefore, X1 (Independent Commissioners) has a positive effect on Y (Financial Performance). Meanwhile, the p-values for X2 (Board of Directors Independence) and X3 (Debt-to-Asset Ratio), 0.1528 and 0.6309, respectively, are greater than 0.05 and are therefore considered to have no significant effect on Y (Financial Performance).

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4.6. Discussion

The Effect of Independent Commissioners on Financial Performance

The results of this study indicate that independent commissioners have a positive effect on financial performance, as evidenced by the coefficient for independent commissioners of +431.12 and a t-test showing a p-value of 0.0094 < 0.05. This indicates that the research hypothesis, H1: Independent directors have a positive effect on financial performance, is accepted. It shows that the more independent directors insurance companies listed on the Indonesia Stock Exchange have, the better the oversight without intervention from any party. From an agency theory perspective, independent directors serve as an effective oversight mechanism to reduce conflicts of interest between principals and agents. Independent commissioners who have no affiliations with management or controlling shareholders are expected to perform their monitoring functions objectively and professionally. This more effective oversight encourages management to act more accountably and focus on shareholders' interests, thereby minimizing the potential for opportunistic behavior by agents. This situation ultimately has a positive impact on the company's strategic decision-making and operational efficiency, as reflected in improved financial performance.

These findings also indicate that the more independent directors a company has, the less likely it is that certain parties will interfere in the oversight and managerial decision-making processes. Independent directors are able to provide a more objective perspective when evaluating management policies and ensuring that the company's operational activities align with the principles of good corporate governance. Therefore, the results of this study reinforce the view that the independence of the board of commissioners is a key element in the effective implementation of good corporate governance particularly in the context of insurance companies thereby enabling sustainable improvements in the company's financial performance.

This is consistent with the findings of previous studies conducted by Maulana (2020), Damanik & Purnamasari (2022), which indicate that an independent board of commissioners has a positive effect on financial performance. Maulana (2020) argues that an independent board of commissioners can safeguard minority shareholders' interests and enable direct oversight of the company's performance without being bound by other interests. Damanik & Purnamasari (2022) believe that the higher the proportion of independent board members from outside the company with diverse expertise and experience the greater the board's ability to exercise oversight. Damanik & Purnamasari (2022) also argue that the presence of independent commissioners is intended to create a more objective and independent environment, uphold fairness, and strike a balance between the interests of majority shareholders and the protection of minority shareholders' interests as well as the interests of other stakeholders.

The Effect of Board Independence on Financial Performance

The results of this study indicate that board independence does not affect financial performance, as evidenced by the t-test results with a p-value of 0.1528 > 0.05. This indicates that the second hypothesis of this study, H2: Board independence has a positive effect on financial performance, is rejected. These findings suggest that the presence of independent directors in insurance companies listed on the Indonesia Stock Exchange has not yet made a significant contribution to improving companies' financial performance. This is supported by the results of a study conducted by Onatuyah & Akpokerere (2023), which found that board independence does not affect financial

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performance in insurance companies in Nigeria. They argue that, within the complex context of Nigeria's insurance industry, board independence is often not accompanied by effective governance, thereby limiting its contribution to financial performance. This reinforces the assertion that the quality of board members has a greater impact than the proportion of independent board members.

From the perspective of agency theory, the independence of the board of directors is essentially expected to reduce conflicts of interest between the principal and the agent through more objective decision-making that is free from the influence of specific parties. However, in the Indonesian context, which adopts a two-tier system, the primary oversight function rests with the board of commissioners, while the board of directors plays a greater role as the body responsible for managing the company's operations. This situation limits the role of independent directors in the oversight mechanism, meaning their influence on the company's financial performance is not as strong as that of independent commissioners. In other words, although independent directors are structurally expected to be objective, their authority and scope of action within the two-tier system tend to be more limited when it comes to directly influencing financial performance. Furthermore, the absence of regulations in Indonesia that explicitly mandate the existence or a specific proportion of independent directors also affects the effectiveness of their role. This lack of mandatory requirements means that the implementation of board independence is voluntary and risks being merely a formality, without being accompanied by adequate strengthening of functions and authority. Consequently, the presence of independent directors does not necessarily reflect better decision-making or more effective management oversight, so their impact on financial performance is insignificant.

The findings of this study differ from those of a study conducted by Amukti & Sampurno (2023), which found that board independence has a positive effect on financial performance among companies included in the LQ-45 index. This difference in results can be explained by the characteristics of the study sample. Companies included in the LQ-45 index are generally those with high liquidity, relatively more mature corporate governance, and stricter market oversight. Under these conditions, the role of independent directors tends to be more substantial and effective in influencing managerial policies and corporate performance. Meanwhile, in insurance companies, the complexity of industry regulations and the dominant role of the board of commissioners in the two-tier system can limit the strategic role of independent directors, thereby rendering their influence on financial performance insignificant. Thus, the results of this study indicate that board independence does not necessarily have a direct impact on financial performance, particularly in the context of companies that adopt a two-tier system and do not yet have regulations mandating strict board independence especially the insurance companies included in this study's sample.

The Effect of the Debt-to-Asset Ratio on Financial Performance

The results of this study indicate that the debt-to-asset ratio does not affect financial performance, as evidenced by the t-test results with a p-value of 0.6309 > 0.05. This indicates that the third hypothesis in this study, H3: The debt-to-asset ratio has a significant positive effect on financial performance, is rejected. This finding suggests that the level of debt utilization in the capital structure of insurance companies listed on the Indonesia Stock Exchange has not yet been able to make a significant contribution to improving the companies' financial performance. This indicates

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that the majority of insurance companies' assets come from accumulated premiums and mandatory technical reserves, rather than from debt financing.

In agency theory, the use of debt in the capital structure is essentially viewed as a disciplinary mechanism to reduce conflicts of interest between the principal and the agent. The obligation to make periodic payments of interest and principal is expected to encourage management to manage the company's resources more efficiently and with a focus on improving performance. However, the results of this study indicate that this disciplinary mechanism has not been functioning effectively in insurance companies. This may be due to the characteristics of the insurance industry, where the primary sources of funding come from premiums and technical reserves, resulting in a relatively lower reliance on debt compared to other sectors. Consequently, variations in the DAR do not directly influence management behavior or the company's financial performance.

These findings also indicate that the optimal capital structure for insurance companies is not determined solely by the level of debt but is more strongly influenced by the effectiveness of premium management, risk management, and compliance with industry regulations. Thus, although in theory debt can serve as a disciplinary mechanism in agency relationships, in practice the impact of the debt-to-assets ratio on financial performance is insignificant in the context of insurance companies. This is supported by research conducted by Amelia & Wijaya (2023), which found that the debt-to-assets ratio has no effect on financial performance. Amelia & Wijaya (2023) concluded that meeting a company's funding needs does not entirely depend on debt financing. Furthermore, this may also occur due to ineffective asset management; thus, when total debt decreases, the company's profitability actually declines as well, making the relationship between the DAR and financial performance inconsistent. Similarly, research conducted by Amelia & Wijaya (2023) found that the DAR has no effect on financial performance, as proxied by stock prices. Amelia & Wijaya (2023) noted that debt is typically used for day-to-day working capital, such as the purchase of raw materials, rather than for long-term investments that significantly impact financial performance.

5. Conclusion

Based on the results of empirical testing, this study shows that independent commissioners have a positive effect on the financial performance of insurance companies listed on the Indonesia Stock Exchange during the 2021–2024 period. These findings indicate that the presence of independent commissioners can enhance the effectiveness of oversight over management. From an agency theory perspective, independent commissioners play a role in minimizing conflicts of interest between principals and agents, thereby promoting more transparent and efficient corporate management. Conversely, the independence of the board of directors does not have a significant effect on financial performance. This is likely related to the implementation of the two-tier governance system in Indonesia, which assigns the oversight function to the board of commissioners, as well as the limited presence of independent directors in insurance companies. Additionally, the debt-to-assets ratio also does not have a significant effect on financial performance. This suggests that the financial performance of insurance companies is determined not only by their debt structure but also by the characteristics of their technical liabilities, industry regulations, and corporate risk management. Overall, the research findings underscore the importance of strengthening corporate governance particularly the effectiveness of independent

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directors in supporting the financial performance of insurance companies. Management also needs to improve transparency, premium management, and risk management to ensure the sustainability of the company's performance.

This study has several limitations. First, the sample consists only of insurance companies listed on the Indonesia Stock Exchange, so the results may not necessarily be generalizable to other industrial sectors. Second, the measurement of good corporate governance relies on only two indicators independent commissioners and the independence of the board of directors and thus does not fully capture the comprehensive implementation of corporate governance. Furthermore, the small number of independent directors at insurance companies limits the range of data and the interpretation of how these variables influence financial performance. Third, the study period covers only four years 2021–2024 which falls within the post-pandemic recovery phase. These conditions have the potential to affect the financial performance of insurance companies during the observation period. Therefore, future research is advised to expand the sample scope, extend the study period, use more comprehensive governance indicators, and include other relevant variables such as audit quality to gain a more thorough understanding of the factors influencing a company's financial performance.

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