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THE IMPACT OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE ON STATE-OWNED ENTERPRISES

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ABSTRACT

This research was conducted with the aim of determining whether corporate governance, as indicated by board size, audit committee size, the proportion of independent directors, and the proportion of independent commissioners, affects financial performance, measured by return on equity. The study was conducted on state-owned enterprises ("SOE") listed on the Indonesia Stock Exchange from 2019 to 2022. The research used an empirical data analysis method by collecting data from the annual financial reports of publicly listed companies in Indonesia, from which 15 companies were selected. The research data was processed using multiple regression analysis with Microsoft Excel 2019 and EViews 12. The results of the study show that corporate governance significantly influences the financial performance of state-owned enterprises (SOE). Variables such as audit committee size and the proportion of independent commissioners have a positive impact on financial performance, while board size and the proportion of independent directors do not affect financial performance. The research findings emphasize the importance of implementing good corporate governance practices in state-owned enterprises. This includes having a broader audit committee and increasing the proportion of independent commissioners on the board of directors. By optimizing these aspects, state-owned enterprises can enhance their financial performance.

Keywords*: Corporate Governance, Financial Performance, State-Owned Enterprises*

1. INTRODUCTION

State-Owned Enterprises ("SOE") are a business sector that receives special attention in corporate governance discussions. SOE plays a central role in Indonesia's economy. They manage a significant amount of national assets and resources and play a key role in maintaining economic stability. Therefore, the success and performance of SOE not only affect the economy but also have a direct impact on the well-being of the population and overall economic growth. The financial performance of SOE companies holds particular significance in Indonesia, as these state-owned enterprises have a responsibility to safeguard and maximize profits that can be used for infrastructure development and essential social programs aimed at improving the welfare of the population.

Since the exposure of corruption scandals within Indonesian state-owned enterprises in recent years, the implementation of good corporate governance ("GCG") has been strengthened. Some examples of corruption cases that have occurred in state-owned enterprises include the corruption case involving the Director of Operations at PT Waskita Karya (WSKT) in mid-2017, which resulted in a state loss of 27 billion Indonesian Rupiah related to the procurement and construction of the IPDN campus in Gowa Regency (Source: CNBC Indonesia). Additionally, as reported by detiknews.com, there were also corruption cases related to PT Wijaya Karya (WIKA) in 2015-2016 concerning the construction of a bridge in Kampar Regency, Riau, and a corruption case in the construction of the Blast Furnace Plant by PT Krakatau Steel (KRAS) in early 2023, resulting in a state loss of 2.3 trillion Indonesian Rupiah.

Corporate governance encompasses a set of principles, rules, and practices aimed at managing and overseeing companies with good faith, transparency, and high accountability. Corporate governance practices are an important factor to be considered by the business world for financial sustainability (Zehir et al., 2023). Effective implementation of GCG not only enhances efficiency and economic growth but also instills investor confidence (Sembiring and Saragih, 2019). Good corporate governance itself serves multiple functions, such as balancing interests, controlling and monitoring corporate governance, and capturing stakeholders' attention while fostering investor trust. The application of good corporate governance helps companies prevent errors and fraud, compete in a competitive business environment, gain investor trust, and improve corporate performance (Kumala and Widyasari, 2020).

Financial performance is an assessment of a company's performance that can determine the company's overall health using financial ratios (Irma, 2019). Financial performance can be evaluated through various factors, such as corporate governance. Financial performance has implications for a company's well-being and, ultimately, its survival (Samoei and Rono, 2016). A well-performing company is characterized by positive profit growth, which can be seen from the increase in a company's profit in the subsequent financial periods (Saputra and Rafiqa, 2017). Return on equity (ROE) is a valuation method used to measure the ability of capital to generate income.

Previous research conducted by Abdullah and Tursoy (2023) in the context of corporate governance provides evidence that the characteristics of the audit committee and the board of directors have a significant and negative impact on company financial performance. In contrast, research conducted by Zehir et al. (2023) concluded that the size of the board of directors has a significant and positive impact on financial performance, as measured by Return on Investment (“ROI”), Return on Asset (“ROA”), Return on Equity (“ROE”), Leverage (“LEV”), and Liquidity (“LIQ”). Research conducted by Handayani et al. (2020) states that variables such as the audit committee and independent commissioners have a significant and positive impact on company performance. Another study revealed that the size of the board of directors can significantly and positively influence financial performance, the audit committee has a significant and negative influence on financial performance, while the proportion of independent commissioners does not affect financial performance (Irma, 2019).

Based on the background outlined, this research aims to analyze the impact of corporate governance, expressed through board size, audit committee size, the proportion of independent directors, and the proportion of independent commissioners, on a company's financial performance. Therefore, this research is titled "The Impact of Corporate Governance on Financial Performance on State-Owned Enterprises."

Paper Structure

The rest of the paper is organized as follows. Section 2 introduces the preliminaries used in this paper, covering the basic theories used in this study. Section 3 presents the research model and hypothesis used in the study. Then, the population, sample count, sample criteria, and proxies are described in Section 4. Section 5 shows the results of the study. Finally, Section 6 concludes the paper and presents direction for future research.

2. THEORETICAL REVIEW

Agency Theory

Agency theory is a conceptual framework that explains the management system within a company. Jensen and Meckling (1976) describe agency relationships as agreements between owners who employ others to provide services on behalf of the owners, who hold the authority and responsibility for decision-making. Company owners delegate authority and responsibility to managers during the decision-making process to maximize the company's profits. According to Kumala and Widyasari (2020), agency theory originates from the separation of management tasks from ownership interests within a company, and it also asserts that company owners do not participate or interfere in the decision-making undertaken by company management. In a company, owners act as principals, while management acts as agents.

Stakeholder Theory

The term "stakeholders" refers to individuals or groups that influence the decisions, policies, and operations of an organization (Rahmawati et al., 2017). According to stakeholder theory, information about all company activities that can influence or even change stakeholders' decisions regarding the company is the right of stakeholders, although whether they choose to use this data or not is at their discretion. Stakeholder theory outlines who is the responsibility of the company. The primary goal of stakeholder theory is to enhance the value of the impact of stakeholders' activities and minimize the losses incurred by these stakeholders. Stakeholders have a right to information about a company's activities that can influence decision-making. Companies must be capable of maintaining relationships with their stakeholders because stakeholders have the power over the availability of resources used by the company to support its operations, such as labor, commodity markets, and more (Ningsih et al., 2019).

Financial Performance

Financial performance in the context of a company refers to a holistic evaluation of how an entity manages its financial resources and achieves the expected financial results. The measurement of a company's financial performance is carried out to make improvements and controls over the company's operational activities to compete with other companies [20]. This enables management and stakeholders to monitor and evaluate financial performance, identify potential issues or growth opportunities, and take necessary corrective actions. In other words, financial performance is a reflection of a company's financial health.

Good Corporate Governance

GCG or Good Corporate Governance, can be defined as a framework that encompasses principles, procedures, and practices designed to efficiently manage and control a company, while considering the interests of all stakeholders. This includes aspects of transparency, accountability, responsibility, independence, and equality (Sarafina and Saifi, 2017). From the explanation above, it can be concluded that one of the primary functions of GCG is to protect the interests of shareholders by ensuring that the company is run efficiently and that there is no abuse of power by the management.

Board Size

Board size, or the size of the board, refers to the number of members on the board of directors and commissioners in a company (Sari and Ardiana, 2014). Board size represents an internal body within the company that collectively oversees and manages the company's affairs (Lee and Lukman, 2023). Board members are responsible for making both short-term and long-term decisions and policies based on their expertise in their respective fields.

Audit Committee

An audit committee is a group of individuals within an organization who are responsible for monitoring and controlling the company's financial reporting process to ensure that financial statements are prepared in accordance with generally accepted accounting standards (Kumala and Widyasari, 2020). The audit committee must operate independently from the company's management to ensure that there are no conflicts of interest in the oversight process.

Independent Director

An independent director (also known as an external director) is a board member who does not have any material or financial relationships with the company or related parties, excluding session fees. Independent directors do not hold shares in the company (Batth et al., 2016). They serve as non-executive directors and play a role in assisting the company in enhancing credibility and corporate governance standards (Fajarwati and Witiastuti, 2022).

Independent Commissioner

According to in Irma (2019), an independent commissioner is a member of the board of commissioners who does not have any relationships or affiliations with the company's management. Independent commissioners have the responsibility of overseeing the performance of the board of directors to ensure that they carry out their duties effectively to meet the interests of stakeholders (Lee and Lukman, 2023). Independent commissioners play a role in providing oversight to ensure that the company operates optimally (Handayani et al., 2020).

Hypothesis Development

The Effect of Board Size on Financial Performance

The relationship between board size and a company's financial performance has been a significant subject of research in the context of corporate governance. Board size reflects the internal structure of the company and how decision-making is organized. The number of board members can influence decision-making processes to become more robust, as they can exchange opinions, knowledge, and expertise and work together in carrying out their duties.
H_1: Board size has a positive and significant impact on the financial performance.

The Effect of Audit Committee Size on Financial Performance

The audit committee has the task and responsibility of overseeing the financial reporting process of the company to ensure it complies with accounting standards. Financial statements monitored by the audit committee will be of higher quality, validity, and provide relevant

information. A larger audit committee has more resources and capabilities to conduct deeper oversight and evaluation of financial reports. This advantage can help in identifying potential inaccuracies or misappropriation.
H_2: Audit committee size has a positive and significant impact on the financial performance.

The Effect of Independent Director on Financial Performance

An independent director, also known as an outside director, is a member of the board of directors who does not have material or financial relationships with the company or related parties. They have no ties to internal parties, but they are selected for their experience in managing or directing other large companies. Independent directors are known for their ability to provide independent oversight of the company's management actions.
H_3: Independent directors have a positive and significant impact on the financial performance.

The Effect of Leverage on Financial Distress

Independent commissioners are members who are not influenced or biased towards the parties within the company. Independent commissioners have the task of overseeing the performance of the board of directors to ensure that they carry out their duties effectively and in line with the goals of stakeholders. Independent commissioners can play a role in identifying and managing corporate risks from a more objective perspective. They can assist the company in avoiding or reducing potential financial risks.
H_4: Independent commissioners have a positive and significant impact on the financial performance.

In summary, the hypotheses are shown below:
H_1: Board size has a positive and significant impact on the financial performance.
H_2: Audit committee size has a positive and significant impact on the financial performance.
H_3: Independent directors have a positive and significant impact on the financial performance.
H_4: Independent commissioners have a positive and significant impact on the financial performance.

The research model of this study as presented in Figure 1 below:

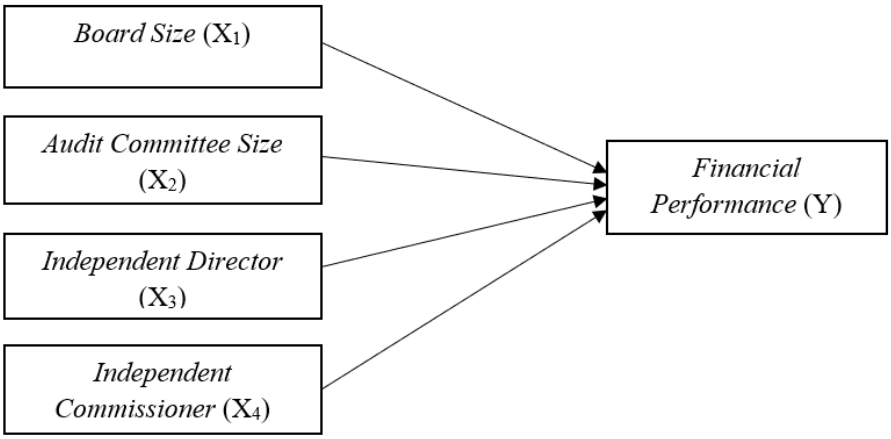


Figure 1. Research Model

3. RESEARCH METHOD

This research utilizes secondary data for data processing and analysis, where the data is sourced from the annual financial reports of state-owned enterprises (SOE) listed on the Indonesia Stock Exchange for the years 2019-2022, which have been audited and published and obtained through the Indonesia Stock Exchange website (www.idx.co.id). The method used for selecting the research sample is purposive sampling. The following are some criteria that have been established for selecting the sample in determining the research sample: (1) State-owned enterprises (SOE) listed on the Indonesia Stock Exchange and classified on the stockbit website for the years 2019-2022. (2) Companies that publish financial reports at the end of the year, specifically as of December 31st, and have been audited for the years 2019-2022 consecutively. (3) Financial statements of these companies are presented in Indonesian Rupiah. (4) Completeness of information in the financial reports that will be used for calculating the variables under investigation. EViews software 12, the student edition, was used to process the data for this investigation. The operationalization of the research variables shown in Table 1 is as follows:

Table 1. The Operationalization of Research Variables

Variable	Proxies and Formulas	Source
Financial Performance	Proxy: *Return on Equity* $ROE = \frac{Earning\ After\ Taxes}{Total\ Equity}$	Al-Ahdal *et al.* (2020)
Board Size	Proxy: *Board of Directors* *BS = Number Board of Directors*	Alabdullah *et al.* (2018)
Audit Committee	Proxy: *Audit Committee Size* *AC = Number of Audit Committee Members*	Akram Naseem, M. *et al.* (2017)
Independent Director	Proxy : *Percentage of Independent Directors* $ID = \frac{Independent\ Directors}{Total\ Directors}$	Bhagat & Bolton (2019)
Independent Commissioner	Proxy = *Percentage of Independent Commissioners* $IC = \frac{Independent\ Commissioners}{Total\ Commissioners}$	Akram Naseem, M. *et al.* (2017)

4. RESULTS

The result of descriptive statistical test of 15 samples of dependent and independent variable in state-owned enterprises can be seen in the following table.

Table 2. Descriptive Statistics

	ROE	BS	AC	IC	ID
Mean	0.077693	7.283333	4.216667	0.459485	0.004167
Median	0.072466	6.000000	4.000000	0.500000	0.000000
Maximum	0.189530	14.00000	10.00000	0.700000	0.250000
Minimum	-0.013250	4.000000	2.000000	0.250000	0.000000
Std. Dev.	0.058689	2.882393	1.627014	0.116415	0.032275
Skewness	0.202254	1.221188	1.670214	0.145389	7.550957
Kurtosis	1.657064	3.128204	5.495266	2.097573	58.01695
Jarque-Bera	4.917759	14.95410	43.46203	2.247319	8137.331
Probability	0.085531	0.000566	0.000000	0.325088	0.000000
Sum	4.661560	437.0000	253.0000	27.56908	0.250000
Sum Sq. Dev.	0.203219	490.1833	156.1833	0.799596	0.061458
Observations	60	60	60	60	60

Source: Data Processed using EViews 12

The chow test shows the cross-section F probability value is 0.0276. It is smaller than the level 5% significance. It indicates Ha is accepted and the estimation model chosen from the Chow Test is Fixed Effect Model (FEM).

Table 3. Chow Test Result

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.166316	(14,41)	0.0276
Cross-section Chi-square	33.223367	14	0.0027

Cross-section fixed effects test equation:
Dependent Variable: ROE
Method: Panel Least Squares
Date: 10/21/23 Time: 22:04
Sample: 2019 2022
Periods included: 4
Cross-sections included: 15
Total panel (balanced) observations: 60

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.075400	0.026964	-2.796383	0.0071
BOARD SIZE	-0.005193	0.004413	-1.176569	0.2444
AUDIT COMMITTEE SIZE	0.018446	0.007378	2.500099	0.0154
INDEPENDENT DIRECTORS	-0.057838	0.195701	-0.295544	0.7687
INDEPENDENT COMMISSIONERS	0.246742	0.059237	4.165322	0.0001

R-squared	0.389328	Mean dependent var	0.077693
Adjusted R-squared	0.344916	S.D. dependent var	0.058689
S.E. of regression	0.047501	Akaike info criterion	-3.176469
Sum squared resid	0.124100	Schwarz criterion	-3.001940
Log likelihood	100.2941	Hannan-Quinn criter.	-3.108201
F-statistic	8.766196	Durbin-Watson stat	1.229214
Prob(F-statistic)	0.000015		

Source: Data Processed using EViews 12

After Chow Test, Hausman test is used to proven the model used in this research is Fixed Effect Model (FEM). The Hausman test shows that the probability value of random cross-section is 0.9950, greater than the level 5% significance. Therefore, Ha is rejected and the model used in this research is Random Effect Model (REM).

Table 4. Hausman Test Result

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	27.593228	6	0.0001

Source: Data Processed using EViews 12

After Hausman Test, Lagrange Multiplier test is used to proven the model used in this research is Random Effect Model (REM). The Lagrange Multiplier test shows that the Breusch-Pagan value of cross-section is 0.0293, smaller than the level 5% significance. Therefore, Ha is accepted and the model used in this research is Random Effect Model (REM).

Table 5. Lagrange Multiplier Test Result

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	4.750877 (0.0293)	2.631635 (0.1048)	7.382512 (0.0066)
Honda	2.179651 (0.0146)	1.622232 (0.0524)	2.688337 (0.0036)
King-Wu	2.179651 (0.0146)	1.622232 (0.0524)	2.387788 (0.0085)
Standardized Honda	2.946694 (0.0016)	2.153613 (0.0156)	0.035246 (0.4859)
Standardized King-Wu	2.946694 (0.0016)	2.153613 (0.0156)	0.287030 (0.3870)
Gourieroux, et al.	--	--	7.382512 (0.0095)

Source: Data Processed using EViews 12

The data used in this study is panel data, which is a combination of cross-sectional and time-series data. The multicollinearity test and the heteroscedasticity test are the conventional assumption tests performed since panel data are being used.

Table 6. Multicollinearity Test Result

Variance Inflation Factors
Date: 10/21/23 Time: 22:44
Sample: 1 60
Included observations: 60

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.000727	19.33286	NA
BOARD_SIZE	1.95E-05	31.70823	4.231649
AUDIT_COMMITTE...	5.44E-05	29.50552	3.768006
INDEPENDENT_DI...	0.038299	1.060859	1.043179
INDEPENDENT_C...	0.003509	20.94389	1.243518

Source: Data Processed using EViews 12

According to the findings above, the value of all centered VIF were less than 10, which indicates that there are no multicollinearity issues with the correlation between the independent variables.

Table 7. Heteroscedasticity Test Result

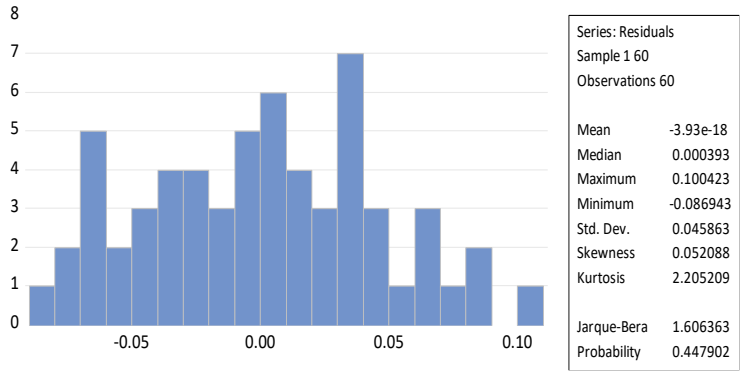
Heteroskedasticity Test: White
Null hypothesis: Homoskedasticity

F-statistic	0.909531	Prob. F(10,49)	0.5320
Obs*R-squared	9.393508	Prob. Chi-Square(10)	0.4952
Scaled explained SS	4.756451	Prob. Chi-Square(10)	0.9068

Source: Data Processed using EViews 12

The heteroscedasticity tests reveal that all variables have probability of Obs*R-Squared values greater than 0.05. This indicates that there is no heteroscedasticity in the regression model.

Table 8. Normality Test Result



Source: Data Processed using EViews 12

The normality test shows the Jarque-Bera value is 1.606363. It is greater than the level 5% significance. It indicates that all data in the model was distributed normally.

Table 9. Autocorrelation Test Result

Dependent Variable: ROE
Method: Panel Least Squares
Date: 10/21/23 Time: 22:27
Sample: 2019 2022
Periods included: 4
Cross-sections included: 15
Total panel (balanced) observations: 60

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.075400	0.026964	-2.796383	0.0071
BOARD_SIZE	-0.005193	0.004413	-1.176569	0.2444
AUDIT_COMMITTEE_SIZE	0.018446	0.007378	2.500099	0.0154
INDEPENDENT_DIRECTORS	-0.057838	0.195701	-0.295544	0.7687
INDEPENDENT_COMMISSIONERS	0.246742	0.059237	4.165322	0.0001

R-squared	0.389328	Mean dependent var	0.077693
Adjusted R-squared	0.344916	S.D. dependent var	0.058689
S.E. of regression	0.047501	Akaike info criterion	-3.176469
Sum squared resid	0.124100	Schwarz criterion	-3.001940
Log likelihood	100.2941	Hannan-Quinn criter.	-3.108201
F-statistic	8.766196	Durbin-Watson stat	1.229214
Prob(F-statistic)	0.000015		

Source: Data Processed using EViews 12

The autocorrelation test shows the Durbin-Watson value is 1.229214. The value is between -2 and 2 on the Durbin-Watson scale. It indicates that all data in the model has no autocorrelation.

Table 10. Multiple Regression Analysis Results

Dependent Variable: ROE
Method: Panel EGLS (Cross-section random effects)
Date: 10/21/23 Time: 22:17
Sample: 2019 2022
Periods included: 4
Cross-sections included: 15
Total panel (balanced) observations: 60
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.071494	0.036903	-1.937360	0.0578
BOARD SIZE	-0.004920	0.005554	-0.885815	0.3796
AUDIT COMMITTEE SIZE	0.017627	0.008543	2.063431	0.0438
INDEPENDENT DIRECTORS	-0.069570	0.186449	-0.373133	0.7105
INDEPENDENT COMMISSIONERS	0.241531	0.077321	3.123753	0.0028

Source: Data Processed using EViews 12

The multiple linear regression is obtained as follows:

$$\Delta ROE = -0{,}0714939800615 - 0{,}00491953346345BS + 0{,}0176270153711AC - 0{,}0695704108864ID + 0{,}241531158334IC + \varepsilon$$

Table 11. F-Test Result

Dependent Variable: ROE
Method: Panel Least Squares
Date: 10/21/23 Time: 22:27
Sample: 2019 2022
Periods included: 4
Cross-sections included: 15
Total panel (balanced) observations: 60

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.075400	0.026964	-2.796383	0.0071
BOARD SIZE	-0.005193	0.004413	-1.176569	0.2444
AUDIT COMMITTEE SIZE	0.018446	0.007378	2.500099	0.0154
INDEPENDENT DIRECTORS	-0.057838	0.195701	-0.295544	0.7687
INDEPENDENT COMMISSIONERS	0.246742	0.059237	4.165322	0.0001

R-squared	0.389328	Mean dependent var	0.077693
Adjusted R-squared	0.344916	S.D. dependent var	0.058689
S.E. of regression	0.047501	Akaike info criterion	-3.176469
Sum squared resid	0.124100	Schwarz criterion	-3.001940
Log likelihood	100.2941	Hannan-Quinn criter.	-3.108201
F-statistic	8.766196	Durbin-Watson stat	1.229214
Prob(F-statistic)	0.000015		

Source: Data Processed using EViews 12

The F-test shows the Probability F-statistics value is 0.001652. It is smaller than the level 5% significance. It means that the independent variables, namely board size, audit committee size, independent director, and independent commissioner, collectively have a significant simultaneous influence on the dependent variable, which is return on equity.

According to the results of the partial significance test (t-test), independent variables that affect the dependent variable are board size, audit committee size, independent director, and independent commissioner. The results are shown as follows:

Table 12. The Results of Hypotheses Testing

Hypothesis		Coefficient	Significance	Conclusion
H1	Board size has a positive and significant impact on financial performance	-0.004920	0.3796	H1 Rejected
H2	Audit Committee Size has a positive and significant impact on financial performance	0.017627	0.0438	H2 Accepted
H3	Independent Director has a positive and significant impact on financial performance	-0.069570	0.7105	H3 Rejected
H4	Independent Commissioner has a positive and significant impact on financial performance	0.241531	0.0028	H4 Accepted

5. CONCLUSIONS

The authors came to various conclusions based on the data collected and supplied by this study.

First, board size does not have an impact on financial performance, as expressed through return on equity. The findings of this study are consistent with previous research conducted by Sari and Ardiana (2014) and Lee and Lukman (2023), which also state that board size does not affect financial performance. This research contradicts the study conducted by Rahmawati et al. (2017), which stated that board size has a significant positive impact on financial performance. The reason why board size does not influence financial performance is that state-owned enterprises often have a close relationship with the government as the major shareholder, which can influence decision-making dynamics within the board. The board's size may not be the primary determinant in decision-making, while the role and influence of government shareholders could be more dominant.

Second, audit committee size has a positive and significant impact on financial performance, in line with hypothesis H_2. The results of this study align with previous research conducted by Naseem et al. (2017) and Sarafina and Saifi (2017), which also state that audit committee size has a positive and significant impact on financial performance. This research contradicts the study conducted by Ningsih et al. (2019), which stated that audit committee size has no significant impact on financial performance. Audit committee size influences the financial performance of state-owned enterprises (SOEs) because of the critical role and function of the audit committee in maintaining the integrity, transparency, and accountability of the company. Thus, a larger audit committee size can enhance the capacity of SOEs to manage risks, prevent fraud, and ensure the quality of financial reporting, which, in turn, can have a positive impact on the confidence of shareholders, the market, and the overall financial performance of the company.

Third, independent director does not have an impact on financial performance, contrary to hypothesis H_3, thus this hypothesis is rejected. The results of this study are in line with Zehir et al. (2023), which states that an independent director does not influence financial performance. However, the results of this study are not in line with the research conducted by Fajarwati and Witiastuti (2022), which stated that independent directors have a negative impact on financial performance.In the context of state-owned enterprises (SOEs), independent directors may have limitations in making independent decisions due to stronger political pressures or influences. Because of the dominant influence of the government, independent

directors may have constraints in influencing business strategies or financial policies that ultimately affect the company's performance

Fourth, independent commissioner has a positive and significant impact on financial performance, in line with hypothesis H_4, thus this hypothesis is accepted. The results of this study align with previous research conducted by Naseem et al. (2017), Handayani et al. (2020), and Sarafina and Saifi (2017), which also state that the independent commissioner has a positive and significant impact on financial performance. This study contradicts the research conducted by Lee and Lukman (2023), which stated that independent commissioners have a significant negative impact on financial performance. The independent commissioner has a significant influence on the financial performance of state-owned enterprises (SOEs) because of their role in enhancing corporate governance and maintaining stronger accountability. They help ensure that the company operates in accordance with principles of good governance, including monitoring legitimate financial transactions, accurate financial reporting, and compliance with applicable regulations and standards.

6. LIMITATIONS AND SUGGESTIONS

This study has several limitations as follows.
1. The study solely focuses on state-owned enterprises (SOEs). There is no specific research sector.
2. Second, the research sample is limited to 15 SOEs that meet the research criteria.
3. Third, the dependent variable in this study is solely financial performance, which is proxied by return on equity.

Some suggestions for further researchers are:
1. For further research: (a) conduct research with a specific sector concentration in state-owned enterprises (SOEs); (b) expand the research sample to provide a more accurate representation; (c) adding more dependent variables to the research. For example, in terms of financial performance, adding other proxies such as ROI, ROA, leverage, and liquidity;
2. For investor: based on this study, investors are advised to consider companies with a substantial and high-quality audit committee size and a strong presence of independent commissioners. Such companies often exhibit robust corporate governance practices and a higher degree of financial transparency, which can potentially enhance investor confidence and mitigate risks associated with financial performance.
3. For the companies studied, based on the test results from this study, state-owned enterprises are advised to focus on enhancing corporate governance practices, particularly by increasing the quantity and quality of the audit committee size and independent commissioners. This will strengthen corporate governance, enhance transparency, and potentially contribute to better financial performance and overall organizational effectiveness.

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