

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



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Abstract

This study examines the impact of corporate governance mechanisms on the financial performance of State-Owned Enterprises (SOEs) in Indonesia. The governance variables analyzed include board size, female board representation, board independence, audit committee, firm age, and leverage. Using panel data from Indonesian SOEs, the results show that board size, female board representation, board independence, audit committee, and firm age do not have a significant effect on financial performance as measured by return on equity (ROE). In contrast, leverage is found to have a significant negative effect on ROE, indicating that higher debt levels tend to reduce equity returns. These findings suggest that, within Indonesian SOEs, financial structure plays a more prominent role in determining profitability than the corporate governance attributes examined in this study.

Keywords: Corporate Governance Mechanism, Board Size, Female Board, Board Independence, Audit Committee, Firm Age, Leverage, Financial Performance, State-Owned Enterprises

INTRODUCTION

Financial performance represents a key indicator of a firm's ability to manage resources efficiently and generate value for shareholders. One of the most widely used measures of financial performance is Return on Equity (ROE), which reflects how effectively a company utilizes shareholders' equity to generate profits (Achim & Lungu, 2025). For State-Owned Enterprises (SOEs), financial performance is particularly important because these entities are expected not only to pursue profitability but also to fulfill public service obligations and contribute to national economic development. Consequently, evaluating the determinants of financial performance in SOEs is essential to ensure both economic efficiency and public accountability.

In Indonesia, SOEs play a strategic role in supporting key sectors of the economy, including infrastructure, manufacturing, transportation, and energy. However, recent reports indicate that the financial performance of Indonesian SOEs has shown fluctuating trends, with profitability indicators such as ROE experiencing a decline (Statistics Indonesia, 2023). This situation highlights the need to evaluate the effectiveness of corporate governance practices implemented within SOEs. To address governance challenges, the Indonesian government has strengthened regulatory frameworks through the implementation of Good Corporate Governance (GCG) principles, emphasizing transparency, accountability, responsibility, independence, and fairness (Ministry of SOEs Regulation No. PER-2/MBU/2023). Despite these regulations, the extent to which corporate governance mechanisms contribute to improving financial performance remains an open empirical question.

Corporate governance mechanisms are designed to mitigate agency problems arising from the separation between ownership and control (Jensen & Meckling, 1976). In the context of SOEs, agency problems tend to be more complex due to political intervention, multiple objectives, and the government's dual role as owner and regulator. Governance mechanisms such as board size, female board representation, board independence, audit committee, firm age, and leverage are expected to influence monitoring effectiveness, decision-making quality, and risk management, which ultimately affect financial performance (Achim & Lungu, 2025).

Prior empirical studies provide mixed evidence regarding the relationship between corporate governance mechanisms and financial performance. Achim and Lungu (2025) find that board size has a positive effect on financial performance, while board independence shows a negative but insignificant relationship with ROE. Similarly, Kurniasari and Lestari (2025) report that board independence and audit committee do not significantly influence ROE in Indonesian insurance companies, suggesting that these mechanisms may function primarily as formal compliance tools rather than effective performance drivers. In contrast, Abiad et al. (2025) document that board size positively affects ROE and ROA, indicating that larger boards may enhance monitoring and strategic decision-making when properly managed.

Gender diversity on boards has also attracted increasing academic attention. Several studies argue that female board representation improves governance quality, ethical sensitivity, and decision-making, which may enhance financial performance (Muskan Sahu et al., 2025; Abiad et al., 2025). However, evidence from emerging markets remains

inconclusive. Achim and Lungu (2025) find that female board representation has a negative and significant impact on ROE, suggesting that institutional and cultural factors may limit the effectiveness of gender diversity in certain contexts. These findings indicate that the impact of female board representation on financial performance is highly context-dependent.

Audit committees are widely regarded as an essential governance mechanism for strengthening financial reporting quality and internal control systems. While Al-Matari et al. (2024) find that effective audit committees can enhance financial transparency and reduce reporting risk, other studies show insignificant effects on profitability. For example, Bansal and Singh (2021) and Kurniasari and Lestari (2025) report that audit committees do not significantly affect ROE, implying that their role may be limited to regulatory compliance rather than performance enhancement. In addition, firm-specific characteristics such as firm age and leverage further influence financial performance. Achim and Lungu (2025) find that firm age and leverage negatively affect ROE, suggesting that older firms may face bureaucratic rigidity and that excessive reliance on debt increases financial risk.

Given the mixed empirical findings and the unique institutional characteristics of SOEs, this study aims to examine the effect of corporate governance mechanisms on the financial performance of Indonesian SOEs. Using panel data from 39 non-financial SOEs over the period 2020–2024, this research analyzes the influence of board size, female board representation, board independence, audit committee, firm age, and leverage on ROE. By focusing on SOEs in an emerging market context, this study contributes to the corporate governance literature by providing evidence on whether governance mechanisms serve as effective tools for enhancing financial performance or primarily function as instruments of regulatory compliance.

REVIEW OF LITERATURE

Corporate governance refers to a set of mechanisms, processes, and structures used to direct and control a company in order to achieve its objectives and protect stakeholders' interests. Effective corporate governance is expected to reduce agency conflicts between owners and managers by improving monitoring, accountability, and transparency (Jensen & Meckling, 1976). In the context of financial performance, corporate governance mechanisms play a crucial role in ensuring that managerial decisions align with shareholders' interests, thereby enhancing profitability and firm value.

For State-Owned Enterprises (SOEs), corporate governance assumes greater complexity due to the government's dual role as both owner and regulator. SOEs often face political intervention, multiple and sometimes conflicting objectives, and weaker market discipline compared to private firms. As a result, the effectiveness of corporate governance mechanisms in improving financial performance within SOEs remains a critical issue, particularly in emerging economies such as Indonesia (Achim & Lungu, 2025).

Board Size

Board size represents the total number of directors and commissioners responsible for overseeing and directing corporate strategy. From a theoretical perspective, larger boards may enhance monitoring effectiveness by providing broader expertise, experience, and diversity of perspectives (Fama & Jensen, 1983). Empirically, Achim and Lungu (2025) find

that board size has a positive and significant effect on financial performance, as measured by ROE, suggesting that a larger board may strengthen governance and strategic oversight.

However, other studies argue that excessively large boards may reduce efficiency due to coordination problems, slower decision-making, and free-rider issues (Jensen, 1993). Kurniasari and Lestari (2025) report a negative relationship between board size and ROE, indicating that an optimal board size is necessary to balance effective monitoring and managerial efficiency. These mixed findings suggest that the impact of board size on financial performance is context-dependent and influenced by institutional and organizational characteristics.

Female Board

Female board representation has gained increasing attention in corporate governance literature as an indicator of board diversity. Gender diversity is expected to improve decision-making quality, ethical sensitivity, and monitoring effectiveness, potentially leading to better financial performance. Muskan Sahu et al. (2025) find that female board representation positively affects ROE and firm value, arguing that women bring diverse perspectives and stronger governance discipline to board deliberations.

Similarly, Abiad et al. (2025) document a positive relationship between female board representation and financial performance in the banking sector. However, evidence from emerging markets is not always consistent. Achim and Lungu (2025) find that female board representation has a negative and significant effect on ROE, suggesting that cultural, institutional, and structural barriers may limit the effectiveness of gender diversity. These findings indicate that the relationship between female board representation and financial performance is influenced by the broader socio-institutional environment in which firms operate.

Board Independence

Board independence refers to the presence of independent commissioners who have no material relationship with management or controlling shareholders. Independent board members are expected to enhance monitoring quality and reduce agency problems by providing objective oversight (Fama & Jensen, 1983). Empirical evidence shows mixed results regarding the effectiveness of board independence.

Some studies report a positive impact of board independence on financial performance. For example, Tulung and Ramdani (2018) find that independent boards improve ROA and ROE in Indonesian banking institutions. Similarly, Kyere and Ausloos (2021) show that board independence strengthens monitoring functions and enhances firm performance. In contrast, Achim and Lungu (2025) find that board independence has a negative but insignificant effect on ROE, suggesting that independent directors may exist primarily to satisfy regulatory requirements rather than to perform effective oversight. Kurniasari and Lestari (2025) also report no significant relationship between board independence and ROE. These mixed findings highlight the importance of board effectiveness rather than mere formal independence.

Audit Committee

The audit committee plays a central role in supporting the board of commissioners by overseeing financial reporting, internal controls, and audit processes. A strong audit committee is expected to enhance transparency, reduce financial misstatements, and improve financial performance. Al-Matari et al. (2024) find that effective audit committees contribute

positively to financial reporting quality and risk management, which may indirectly improve profitability.

However, several empirical studies suggest that audit committees do not always have a direct impact on financial performance. Bansal and Singh (2021) find no significant relationship between audit committees and profitability, while Kurniasari and Lestari (2025) report similar results for Indonesian firms. These findings imply that audit committees may function primarily as compliance mechanisms rather than as active drivers of financial performance, particularly in highly regulated environments such as SOEs.

Firm Age

Firm age reflects the length of time a company has been in operation and is often associated with experience, reputation, and organizational stability. Older firms may benefit from established governance systems and accumulated managerial expertise, which can enhance financial performance. Al-Matari et al. (2014) find that firm age positively influences profitability due to better resource utilization and cost efficiency.

Conversely, Achim and Lungu (2025) report that firm age negatively affects ROE, suggesting that older firms may suffer from bureaucratic rigidity, reduced innovation, and inefficiencies. Bansal and Singh (2021) also find a negative relationship between firm age and financial performance, indicating that younger firms may be more flexible and adaptive. These findings suggest that the effect of firm age on financial performance is ambiguous and depends on how firms manage organizational maturity.

Leverage

Leverage reflects the extent to which a firm relies on debt financing relative to equity. According to capital structure theory, leverage can enhance ROE through the financial leverage effect, but excessive debt increases financial risk and interest burdens (Modigliani & Miller, 1963). Achim and Lungu (2025) find that leverage negatively affects ROE, indicating that high debt levels reduce profitability due to increased financial risk.

Similarly, Khan et al. (2024) report a negative relationship between leverage and financial performance, arguing that firms with excessive debt face higher bankruptcy risk. However, Muskan Sahu et al. (2025) suggest that leverage can positively affect profitability when used strategically to finance productive investments. These findings highlight the importance of effective debt management in determining the impact of leverage on financial performance.

RESEARCH METHOD

This study implements a quantitative approach with a hypothesis-testing approach to examine the effect of corporate governance mechanisms on the financial performance of State-Owned Enterprises (SOEs) in Indonesia. The research focuses on identifying causal relationships between governance-related variables and financial performance by using panel data analysis, which combines cross-sectional and time-series dimensions. This approach allows for a more comprehensive understanding of firm-specific characteristics and temporal dynamics.

The population of this study consists of all State-Owned Enterprises under the supervision of the Indonesian Ministry of SOEs during the period 2020–2024. The sample is selected using a purposive sampling method based on specific criteria to ensure data

consistency and comparability. SOEs operating in the banking, financial services, and insurance sectors are excluded due to differences in regulatory frameworks and financial reporting characteristics. In addition, firms with incomplete data related to the research variables are excluded. Based on these criteria, the final sample consists of 39 non-financial SOEs observed over a five-year period, resulting in a total of 195 firm-year observations. The data used in this study are secondary data obtained from annual reports and audited financial statements published on the official websites of the respective SOEs and the Indonesia Stock Exchange.

The dependent variable in this study is financial performance, measured by Return on Equity (ROE). ROE is calculated as net income divided by total equity and reflects the firm's ability to generate profit from shareholders' capital (Achim & Lungu, 2025). The independent variables represent corporate governance mechanisms. Board size is measured by the total number of directors and commissioners serving on the board. Female board representation is measured as the percentage of female members on the board of directors and commissioners. Board independence is measured as the proportion of independent commissioners to the total number of commissioners. The audit committee is measured by the total number of audit committee members. Firm age is measured as the number of years since the company was established or listed as an SOE. Leverage is measured as the ratio of total debt to total equity, reflecting the firm's capital structure.

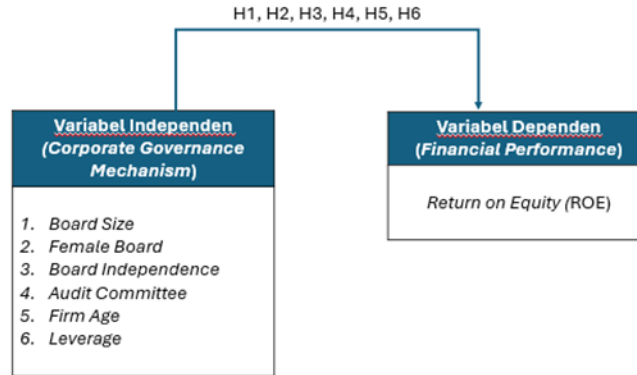
Research Hypothesis

This study aims to analyze the impact of board size, female board, board independence, audit committee, firm age, leverage on financial performance in SOE. Based on the review of the literature and previous research, the hypothesis proposed in this study is as follows:

- H1: Board size has a positive effect on the financial performance of State-Owned Enterprises.
- H2: Female board representation has a positive effect on the financial performance of State-Owned Enterprises.
- H3: Board independence has a positive effect on the financial performance of State-Owned Enterprises.
- H4: Audit committee has a positive effect on the financial performance of State-Owned Enterprises.
- H5: Firm age has a positive effect on the financial performance of State-Owned Enterprises.
- H6: Leverage has a positive effect on the financial performance of State-Owned Enterprises

Research Model

This research model describes the relationship between independent variables (board size, female board, board independence, audit committee, firm age, leverage) to dependent variables (financial performance). This model can be illustrated as follows:



The research model of this study illustrates that corporate governance mechanisms have a direct relationship with financial performance, which is examined using panel data regression analysis. This study adopts a quantitative research approach, employing secondary data obtained from the annual reports and financial statements of State-Owned Enterprises (SOEs) in Indonesia. Financial performance is measured by Return on Equity (ROE), while the independent variables consist of board size, female board representation, board independence, audit committee, firm age, and leverage.

The data analysis technique applied in this study is multiple linear regression using panel data, allowing for the examination of both cross-sectional and time-series variations. Model selection is conducted through the Chow test, Hausman test, and Lagrange Multiplier test to determine the most appropriate estimation model. Hypothesis testing is performed using t-tests to assess the individual effects of each governance mechanism on financial performance, and an F-test to evaluate their joint significance.

RESULTS AND DISCUSSION

The regression analysis was conducted using EViews 9 software. Prior to estimation, a series of panel data model selection tests were performed. The results of the Chow Test indicated a significant probability value (Prob. = 0.0001), suggesting that the Fixed Effects Model was the appropriate specification. This finding was further supported by the Hausman Test, which also produced a significant result (Prob. = 0.0033). Therefore, it can be concluded that the Fixed Effects Model is the most suitable model for analyzing the effect of the independent variables on the dependent variable in this study.

Table 1.
Panel Data Regression Results Summary

Fixed Effect Model		
Variables	Coefficient	Prob.
Constanta	-81.85205	0.3335
Board Size	1.829585	0.4837
Female Board	-0.048421	0.9088
Board Independence	-0.172001	0.4897
Audit Committee	0.874275	0.7903
Firm Age	2.122161	0.2120

<i>Leverage</i>	-0.412387	0.0008
**) Signifikan pada 5%		

Source: Data processed (2025)

T Test

The analysis indicates that board size does not have a significant effect on return on equity (ROE). Based on the t-test results, the board size variable has a significance value of 0.4837, which is greater than 0.05. Therefore, the null hypothesis is not rejected, indicating that variations in board size do not significantly influence ROE.

Similarly, female board representation does not significantly affect ROE. The t-test results show that the female board variable has a significance value of 0.9088 (> 0.05). As a result, the null hypothesis is not rejected, suggesting that the presence of female directors does not directly impact ROE.

The analysis further reveals that board independence has no significant effect on ROE. The t-test shows a significance value of 0.4897, which exceeds the 0.05 threshold. Consequently, the null hypothesis is not rejected, indicating that board independence does not significantly influence ROE.

In addition, the audit committee variable is found to have no significant effect on ROE. The t-test results indicate a significance value of 0.7903 (> 0.05), leading to the non-rejection of the null hypothesis. This suggests that the audit committee does not play a direct role in affecting ROE.

Likewise, firm age does not have a significant effect on ROE. The t-test results show a significance value of 0.2120, which is greater than 0.05. Therefore, the null hypothesis is not rejected, indicating that firm age does not significantly influence ROE.

In contrast, leverage is found to have a significant effect on ROE. The t-test results show a significance value of 0.0008, which is lower than 0.05, with a negative regression coefficient of -0.412387 . Thus, the null hypothesis is rejected, indicating that higher leverage leads to a decrease in ROE, while lower leverage is associated with higher ROE.

Overall, the findings suggest that corporate governance variables, namely board size, female board representation, board independence, audit committee, and firm age do not exert a statistically significant influence on return on equity (ROE) in the observed firms. Among all variables examined, leverage emerges as the only determinant that significantly affects ROE, with a negative relationship indicating that higher leverage tends to reduce firms' profitability as measured by ROE. These results imply that financial structure plays a more critical role in shaping shareholder returns than governance attributes in this context, highlighting the importance of prudent leverage management to enhance firm performance.

F Test

Although the partial test results indicate that only leverage has a significant effect on return on equity (ROE), the simultaneous test results confirm that the independent variables jointly contribute to explaining variations in ROE. This is supported by the adjusted R^2 value of 0.270613, indicating that board size, female board representation, board independence, audit committee, firm age, and leverage are able to explain 27.0613% of the variation in ROE. Meanwhile, the remaining 72.9387% is explained by other factors not included in this research model.

These findings suggest that, while corporate governance variables do not individually influence ROE, their collective inclusion alongside leverage remains relevant in capturing

firm performance. However, the partial test results clearly show that leverage plays a dominant role in determining ROE. Therefore, firm performance improvement, as reflected by ROE, is more strongly associated with capital structure decisions than with the governance attributes examined in this study.

The Effect of Responsiveness on Customer Satisfaction

The results of this study indicate that responsiveness significantly and positively affects customer satisfaction with telecommunication services. These results align with research by Parasuraman, Zeithaml, and Berry (1988), who found that responsiveness is an important component of service quality that determines customer satisfaction. The company's ability to respond quickly to customer complaints, provide clear information, and offer solutions to customer problems is an indicator of high responsiveness.

Research conducted by Ladhari (2009) also supports these results by stating that the faster a company responds to customer requests, the higher the level of customer satisfaction. This is especially true in the service industry, including telecommunications, where customers expect services to be fast and responsive to their needs. In addition, research by Tjiptono and Chandra (2016) confirms that high responsiveness can create customer loyalty because customers feel valued and cared for.

In telecommunication services, responsiveness includes the speed of response to network disruptions, ease of accessing customer service, and clarity of information provided. Research by Setiawan and Sayuti (2017) in the telecommunications sector in Indonesia shows that companies with responsive customer service tend to get higher levels of customer satisfaction than companies with low responsiveness. Therefore, the results of this study confirm that responsiveness is a key factor in improving customer satisfaction.

However, although the results of this study support existing theories, it is important to pay attention to other aspects that can strengthen responsiveness, such as the quality of digital-based customer service systems, efficiency in handling customer complaints, and consistency in providing fast and responsive services. Thus, telecommunication companies must continuously improve their responsiveness to maintain customer satisfaction.

The Effect of Board Size on Financial Performance

The findings indicate that board size does not have a significant effect on return on equity (ROE). This result suggests that variations in the number of board members do not necessarily translate into improved financial performance. In the context of Indonesian state-owned enterprises (SOEs), board size plays a role not only in overseeing financial performance but also in ensuring accountability and transparency in managing public-oriented entities.

This finding is consistent with prior studies that report an insignificant relationship between board size and firm performance. Specifically, Kajola (2008) finds that board size does not significantly affect ROE in non-financial firms, while Uwigbe and Fakile (2012) also document no significant association between board size and ROE among publicly listed companies. These consistent results reinforce the view that board size alone is not a decisive factor in determining financial performance. Instead, the effectiveness of corporate governance may depend more on qualitative aspects such as board competence, monitoring quality, and internal board dynamics rather than merely the number of board members.

The Effect of Female Board on Financial Performance

The results indicate that female board representation does not have a significant effect on financial performance, as measured by return on equity (ROE). In the context of Indonesian state-owned enterprises (SOEs), the appointment of female board members is often intended to strengthen governance practices and promote board diversity. However, the absence of formal gender diversity regulations and the relatively low representation of women on boards may limit their ability to influence strategic decisions and, consequently, firm performance.

This finding is consistent with prior empirical studies documenting an insignificant relationship between female board representation and firm performance. Agyemang and Schadewitz (2019) find that female board presence does not significantly affect ROE in UK firms, while Martinez and Bel-Omz (2016) report similar results for Spanish companies, attributing the insignificant impact to the limited roles and influence of female directors.

Additionally, Alshirah (2020) documents a positive but statistically insignificant relationship between female board representation and ROE, suggesting that conservative governance environments and male-dominated decision-making structures may constrain the effectiveness of female board members.

Overall, the findings of this study indicate that the presence of female board members does not yet demonstrate a consistent association with measurable improvements in financial performance, particularly in contexts where female participation remains relatively low and institutional support for gender diversity is still evolving. These results suggest that the impact of gender diversity on boards may depend not solely on representation, but also on other factors such as the extent of influence in decision-making processes, regulatory support, and the level of inclusiveness within corporate governance practices.

The Effect of Board Independence on Financial Performance

The results indicate that board independence does not have a significant effect on financial performance, as measured by return on equity (ROE). This finding is consistent with prior studies documenting an insignificant relationship between board independence and firm performance. Kurniasari and Lestari (2025) report that board independence does not significantly affect ROE in Indonesian insurance companies, while Fauzi and Locke (2012) find similar results in the context of New Zealand firms, where the proportion of independent board members shows no significant association with ROE or other profitability indicators.

Similarly, Haniffa and Hudaib (2006) document that board independence does not significantly influence the financial performance of Malaysian public companies, attributing this outcome to the limited effectiveness of the monitoring role performed by independent board members. Based on these findings, it appears that these findings suggest that the presence of independent board members alone may not be sufficient to enhance firm profitability when their oversight function is constrained or operates primarily in a formal capacity. In the context of Indonesian state-owned enterprises (SOEs), this result implies that board independence has yet to demonstrate a measurable contribution to improving ROE.

The Effect of Audit Committee on Financial Performance

The results indicate that the audit committee does not have a significant effect on financial performance, as measured by return on equity (ROE). This finding is consistent with Kurniasari and Lestari (2025), who report that audit committee characteristics do not significantly influence ROE in Indonesian insurance companies. These results suggest that,

although the audit committee is an important corporate governance mechanism, its presence alone may not be sufficient to improve firm financial performance.

Similarly, Sajidan and Husnaini (2025), examining 61 non-bank firms listed on the Indonesia Stock Exchange in 2022, find that audit committee size does not significantly affect financial performance. This evidence indicates that the number of audit committee members alone does not necessarily enhance monitoring effectiveness or profitability. Overall, the limited empirical evidence showing a significant positive impact of audit committees on ROE, particularly in international studies, highlights the need for further research to better understand the conditions under which audit committees may contribute to firm profitability, especially across different institutional, industry, and geographic contexts.

The Effect of Firm Age on Financial Performance

The results show that firm age does not have a significant effect on financial performance, as measured by return on equity (ROE). This finding is consistent with Agyapong and Boamah (2013), who document that firm age does not significantly influence ROE, as a firm's longevity does not necessarily reflect operational efficiency or value creation. Similar evidence is provided by Isik and Ince (2016), who find no significant relationship between firm age and financial performance among manufacturing firms in Turkey. Overall, these findings suggest that firm age alone is not a reliable determinant of profitability. In the context of Indonesian state-owned enterprises (SOEs), this result implies that longer firm existence does not automatically translate into superior financial performance. Instead, firm profitability may depend more on internal management practices and governance mechanisms rather than the length of time a firm has been in operation.

The Effect of Leverage on Financial Performance

The results indicate that leverage has a significant effect on financial performance, as measured by return on equity (ROE). This finding is consistent with Abor (2005), who shows that leverage significantly affects ROE in manufacturing firms, highlighting the important role of debt usage in shaping profitability. Similarly, Zeitun and Tian (2007) document that leverage significantly influences firm performance in both the short and long term, suggesting that capital structure decisions are critical for value creation.

However, several studies report a negative relationship between leverage and ROE, indicating that excessive debt may reduce equity profitability due to higher financial risk and interest burden. Achim and Lungu (2025) find that leverage negatively affects ROE, while Khan et al. (2024) report similar evidence for non-financial firms in Pakistan, where high debt levels increase default risk and weaken profitability. These findings imply that leverage can have differing effects on performance depending on how debt is managed and the firm's risk profile.

Overall, the results suggest that leverage plays a meaningful role in determining financial performance, but its impact depends on the effectiveness of debt management. In the context of Indonesian state-owned enterprises (SOEs), this finding highlights the importance of prudent capital structure policies, as inappropriate use of leverage may undermine profitability, whereas well-managed debt can support firm performance.

CONCLUSION

Based on the research results, this study examines the effects of board size, female board representation, board independence, audit committee, firm age, and leverage on the financial performance of Indonesian state-owned enterprises (SOEs) over the 2020–2024 period. The findings indicate that board size, female board representation, board independence, audit committee, and firm age do not have a statistically significant effect on return on equity (ROE). These results suggest that variations in governance structure and firm maturity alone are not sufficient to directly improve profitability in the SOE context. In contrast, leverage is found to have a significant negative effect on ROE, indicating that higher reliance on debt tends to reduce equity returns. From a managerial perspective, the results imply that SOEs should place greater emphasis on prudent capital structure management, particularly in controlling leverage levels, to safeguard profitability and financial sustainability. While governance mechanisms remain important for ensuring accountability, transparency, and oversight, their effectiveness in enhancing financial performance may depend more on qualitative factors such as board competence, decision-making authority, and institutional effectiveness rather than structural characteristics alone. For regulators, these findings highlight the importance of strengthening financial governance frameworks related to debt management, including clearer guidelines on optimal leverage, enhanced monitoring of debt exposure, and policies that promote sustainable financing practices. At the same time, regulatory efforts aimed at improving governance quality should focus not only on compliance and structural requirements but also on enhancing the substantive role and effectiveness of boards and committees within SOEs.

This study is subject to several limitations. The sample is restricted to SOEs, which may limit the generalizability of the findings to other types of firms. In addition, the observation period covers only five years, potentially constraining the analysis of long-term dynamics. The study also relies on a limited set of governance and financial variables and uses ROE as the sole indicator of financial performance. Future research may extend the analysis to non-SOE firms, apply longer time horizons, incorporate additional firm-level and macroeconomic variables, and employ alternative performance measures to provide a more comprehensive understanding of the determinants of financial performance.

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