“Dynamic panel data analysis of the impact of governance on bank capital structure in Indonesia”

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DYNAMIC PANEL DATA ANALYSIS OF THE IMPACT OF GOVERNANCE ON BANK CAPITAL STRUCTURE IN INDONESIA

Abstract

The banking industry plays a crucial role in driving the Indonesian economy. Therefore, any financial upheaval within this sector would have a significant influence on the overall economy. Hence, this study examines the capital composition of banking institutions in Indonesia to assess the financial soundness of the banks. A bank's susceptibility to default will adversely affect client confidence in the bank. This study investigates the influence of governance attributes, such as board size, board meeting frequency, risk committee presence, institutional ownership, and independent committee existence, on the capital structure of Indonesian banks. 31 samples were intentionally chosen using purposeful sampling. Data estimation was performed using a two-step Arellano-Bond Generalized Method of Moments (GMM) estimator. The findings suggest that the bank risk committee, institutional ownership, and independent committee exert a notable and favorable influence on the capital structure of banks in Indonesia. Nevertheless, the size of the board and the frequency of board meetings do not exert a substantial impact. The size of the board and the use of leverage have no substantial impact. Developing efficient corporate governance procedures is essential for ensuring the bank's financial stability. This involves maximizing the effectiveness of the risk committee, institutional ownership, and independent committee.

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INTRODUCTION

Indonesia's financial services sector for the period of 2021–2025 proposes the adoption of three frameworks to enhance resilience and competitiveness. The government is making a concerted effort to acquire the required capital for banks, as mandated in POJK No. 12/POJK.03/2020. The law outlines a comprehensive plan for overseeing the capitalization of banks, setting a minimum capital requirement of USD 1 trillion by 2020 and mandating an annual rise of USD 1 trillion until the conclusion of 2022. As of April 2022, the OJK has declared that 26 commercial banks have not yet fulfilled the stipulated criteria.

Debt equity (DER) is a dependable indicator of the makeup of a company's capital structure. Organizations usually choose their capital structure primarily based on financial factors. The mentioned names are Orlava, Harper, and Sun, and the year is 2000. However, corporate governance has a significant impact (Ezeani et al., 2022a). An extensive examination has been conducted on the capital structures in numerous countries, revealing persistent contradictions in the findings. Most of the existing literature employs bivariate regression analysis (Borges Jr, 2022; Ezeani et al., 2022b) to examine their research questions. When examining challenges related to capital structure, it

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is more suitable to employ sophisticated methodologies such as dynamic panel data and generalized methods of moments (GMM). Furthermore, there is limited discourse around the topic of governance and capital structure in Indonesia employing a dynamic data panel technique.

The objective of this study is to develop a model representing a benchmark firm that impacts the capital structure of banking companies in Indonesia. The anticipated outcomes of this study are likely to contribute valuable insights to the existing body of knowledge in the domain of corporate financial management, particularly in relation to capital structure. Furthermore, it is anticipated that the findings of this study will offer valuable perspectives for businesses, investors, and governmental authorities in effectively overseeing their transportation systems.

1. LITERATURE REVIEW AND HYPOTHESES

Conflicts typically arise from disagreements between firm management and owners who have divergent interests that are not aligned with each other. Agency theory addresses several of these concerns. Messier et al. (2006) argue that the presence of agency links can lead to the following issues. Information asymmetry arises when there is a disparity in understanding between the management and stakeholders on a company's present state and true financial position.

Corporate governance is commonly recognized as a system used to ensure that organizations operate in the best interest of their shareholders. Miglo's (2016) study classifies the corporate governance system into two primary elements: external and internal procedures. These components work together in a way that enhances operational efficiency in a company. In their study, Mahrani and Soewarno (2018) found that auditors, creditors, and legality assurance groups exerted a substantial influence on enterprises. A study by Hatane et al. (2019) provides a means of assessing internal issues that may impact the capital structure.

The board of directors plays a vital role in corporate governance by supervising and ensuring that management practices are in line with the organization's stated objectives. The board of directors is tasked with the role of supervising a multitude of crucial tasks and granting approval for strategic decisions in the organization. Kajola's (2008) study indicates that a company's performance has improved due to the expansion of its board of directors. The studies by Shehadeh et al. (2022), Feng et al. (2020) hold substantial importance. Siromi and Chandrapala (2017) found a direct and immediate relationship between the capital structure and the size of the board of directors. In their study, Yakob and Hasan (2021) found that a higher frequency of meetings promotes conversations that prioritize resolving agency problems, ease the sharing of ideas, and improve transparency in performance. Regular meetings serve as a forum for discussing many variables that influence the financial stability of organizations, hence facilitating the gathering of relevant information (Nguyen et al., 2022). Shehadeh et al. (2022) and Ezaaeni et al. (2022b) conducted a study that established a clear correlation between a higher frequency of board meetings and a positive influence on capital structure.

The primary objective of risk monitoring committees is to offer advice to company stakeholders, supervise management actions, and enhance the correctness, dependability, and exactness of financial reporting. A risk monitoring committee is an obligatory regulatory entity that allows creditors to acquire information regarding a company's risk profile and overall financial health. Acquiring this expertise will improve the thoroughness of future debt selection procedures, hence affecting the probability of securing subsequent loans. Chung and Zhang (2011) hypothesized that the risk monitoring committee has a favorable impact on the capital structure, supported by the previously reported evidence.

Institutional ownership in enterprises, such as insurance firms and banks, pertains to the possession of shares by organizations at the conclusion of a specific fiscal year. According to agency theory, institutional shareholders can reduce agency costs by actively monitoring and evaluating management's self-interested activities. Investors have the

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requisite motives and abilities to assume the job of supervising the administration of a company in which they have significant ownership shares. This is mostly attributed to their favorable position in supervising financial activities and their access to comprehensive information and resources.

A study conducted in Indonesia revealed a substantial unfavorable correlation between the capital structure of banks and institutional investors (Umar Mai et al., 2021). This discovery suggests that institutional investors play a vital and significant role in the governance of banks in Indonesia. Therefore, the existence of institutional ownership in Indonesian banks does not need the use of debt financing as a replacement for their role. The presence of institutional ownership significantly influences the supervision of management. To achieve improved optimization, the introduction of institutional ownership will strengthen supervision.

Independent commissioners are external individuals who evaluate a company's performance and make decisions that emphasize the company's progress over personal or group interests. The magnitude of the capital fund directly influences the extent of authority possessed by an autonomous commissioner. Companies frequently choose to utilize debt as a method of funding their operations because it carries a relatively low level of risk and has the potential to reduce moral hazards. Moreover, the autonomous commissioner is presently considering the possibility of issuing shares, a decision that is anticipated to generate increased enthusiasm among shareholders. The autonomous commissioner will offer optimal guidance and develop effective strategies for the company, including choices related to capital allocation. Rahadian and Hadiprajitno (2014) found a significant and beneficial association between independent commissioners and capital structures in their research.

H1: Board size negatively influences the leverage of banks.

H2: Board meetings negatively influence the leverage of banks.

H3: Risk committee positively influences the leverage of banks.

H4: Institutional ownership positively influences the leverage of banks.

H5: Independent committee positively influences the leverage of banks.

2. METHODOLOGY

This study examines many determinants that can influence the capital structure of Indonesian banks. As part of this study, a total of 47 banks will be examined, with each bank satisfying the research criteria. Purposive sampling requires obtaining 31 samples and collecting a substantial amount of data throughout the study time, according to particular criteria established by the firm.

The purpose of conducting descriptive statistical analysis is to comprehensively understand the data utilized in the study. This involves organizing the data in a manner that facilitates comprehension of its essential characteristics. Utilizing Generalized Methods of Moments (GMM) to validate the analysis in this study would provide empirical evidence to support the idea of a connection between residues. Panel data is a dataset that combines information from cross-sectional and time-series data. Panel data can be classified into two main categories: static panel data and dynamic panel data. This study suggests that the utilization of lag variable dependency is associated with issues over endogeneity. Introducing lag variable dependence in the static data panel model results in skewed and inconsistent estimates.

The equation's model is depicted in the following manner:

$$Lev_{it} = \alpha + \beta 1BS_{it} + \beta 2BM_{it} + \beta 3RC_{it} + \beta 4IO_{it} + \beta 5IC_{it} + \varepsilon_{it}, \quad (1)$$

where Lev = Leverage; BS = Board Size; BM = Board Meetings; RC = Risk Committee; IO = Institutional Ownership; IC = Independent Commissioner; α = Constanta; $\beta 1$, ..., $\beta 5$ = Regression coefficient; t = time series; i = cross section; ε = error.

The Sargan test is utilized to evaluate the overall soundness of instrumental variables when the number of instruments exceeds the expected number of parameters (known as overidentifying circumstances). The instrument's consistency was assessed through the application of the Arellano-Bond test. The Arellanj-Bond test is employed to verify that the error component does not exhibit serial correlation in the AR (2) model, hence ensuring that the estimated values align with the null hypothesis of no autocorrelation. The anticipated result is the non-rejection of the null hypothesis at a significance level of 5% in both tests. Therefore, it may be inferred from the outcomes of the model specifications that a sound conclusion can be reached.

3. RESULT

Descriptive statistics indicate that the capital structure variable DER, which quantifies the proportion of total debt to total equity, has an average value of 6.3208. The observed result exceeds the standard deviation value, which is 2.8165. This suggests that the disclosure variable associated with capital structure has seen variability in its data. In 2015, PT Bank of Development of the Banten Tbk Region (BEKS) achieved a debt-to-equity ratio (DER) value of 18.2100, marking the highest level ever attained. The significant increase in DER was mostly attributable to a reduction in the bank's debt and equity levels. The value must be more than or equal to 0.87978.

3.1. Generalized Method of Moments (GMM)

The present study utilizes the dynamic panel technique employing the generalized technique of moments (GMM) approach, which satisfies the requirements of being a statistically optimal valid, consistent, and unbiased model. This study employs a 1-year lag on the dependent variable to enhance the data quality and more effectively meet the statistical criteria. The leverage coefficient obtained by the Generalized Method of Moments (GMM) estimation is 0.7343, as indi-

Table 1. Descriptive statistical results

Source: Author's calculations.

Description	Leverage	Board Size	Board Meeting	Risk Committee	Institutional Ownership	Independent Commissioner
Mean	6.3208	7.1254	35.6810	4.64157	0.7526	0.5666
Median	5.7200	7.0000	32.0000	4.0000	0.8000	0.5000
Maximum	18.2100	12.0000	281.0000	10.0000	1.0000	1.0000
Minimum	0.87978	2.0000	4.00000	2.0000	0.1700	0.3300
Std. Dev	2.8165	2.5478	30.9270	1.6228	0.1802	0.0981

Table 2. Results of statistical testing

Source: Author's calculations.

Description	P-Value			
Sargan test	0.4005			
AB Test	**Z**		**P-value**	
AR (1)	–0.9159		0.3597	
AR (2)	0.6127		0.5400	
Variables	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob**
Log(Lev(-1))	0.7343	0.6527	11.2495	0.0000
Log(BS)	–0.0866	0.0779	–1.1115	0.2752
Log(BM)	–0.0798	0.4495	–1.7743	0.0862
Log(RC)	0.3208	0.1392	2.3048	0.0283
Log(IO)	0.9851	0.1410	6.9852	0.000
Log(IC)	0.2259	0.1027	2.1986	0.0358
Fixed effect				
LogLev	0.5849	0.0947	6.1733	0.0000
PLS				
LogLev	0.8824	0.0537	16.4276	0.0000

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cated by the data in Table 2. The discrepancy arises between the estimated value obtained from the fixed effect model, which is 0.58490, and the value derived from the pooling least squares approach, which is 0.8824. This suggests that the instrument lacks any inclination towards either a negative or a positive bias. The GMM model created in the study exhibited no indication of bias.

The Sargan specification test applies when the instrument's value rating exceeds the expected number of parameters. The decision-making in this inquiry was carried out with a significance level of 0.05. If the probability value is greater than 0.05, it signifies that the necessary conditions for moments have been met, indicating the use of valid instruments. If the probability value is less than 0.05, the instrument used is considered invalid and does not meet the criteria for minutes. Based on the information presented in Table 2, the instrument validity test indicated moment conditions of 0.4005. This indicates that the value surpasses the probability threshold of 0.05. Thus, it may be confidently stated that the instrument used is accurate.

Autocorrelation tests are employed to ascertain whether the residues exhibit a connection or independence from one observation to the subsequent one. The study employed the Arellano-Bond test to conduct the autocorrelation test. The Arellano-Bond test was used to confirm the lack of serial correlation between the term error and AR (2). An autocorrelation test is conducted using Arellano-Bond's m1 and m2 statistics to assess the accuracy of the estimates and facilitate interpretation. The Arellano-Bond test results are obtained by assessing if the probability value of AR(2) exceeds 0.05. If the autocorrelation coefficient AR(2) is greater than 0.05, then the null hypothesis *H0* is accepted, indicating the absence of autocorrelation and confirming the accuracy of the estimate. Both probability values are more than 0.005, which suggests that there is no autocorrelation problem in the study sample and confirms the consistent character of the GMM calculations.

Based on the GMM test in Table 2, the estimated model is:

$$\begin{aligned} Lev_{it} &= 0.734300 - 0.0866\,BS_{it} \\ &-0.0798\,BM_{it} + 0.3208\,RC_{it} \\ &+0.9851\,IO_{it} + 0.2259\,IC_{it} + \varepsilon_{it}. \end{aligned} \tag{2}$$

The collected data indicate that the probability level of 0.2752 represents the relationship between the board of directors and capital structure. This value suggests that there is no statistically significant connection. The initial hypothesis of this study has been refuted. The coefficient of the board size variable is –0.086586. The negative coefficient indicates a reverse relationship between the board size variable and the capital variable structure. Hence, a rise in the number of boards of directors leads to a decline in the DER value. This situation is consistent with an agent theory that emphasizes a divergence of interests between the principal (the company owner) and the agent.

The statistical analysis reveals a noteworthy association between the number of directions and the capital structure (LEV), with a probability value of 0.0862. The observed result exceeds the specified significance threshold of 0.10, suggesting that there is no statistically significant link between the number of management meetings (BMs) and the capital structure. Thus, Hypothesis 2 of this study is refuted.

The study demonstrates a strong association between risk measure and capital structure, as evidenced by the P-value of 0.283 between the Risk Committee (RC) and capital structure. The observed value is lower than the predetermined significance level of 0.05, indicating a statistically significant impact. Therefore, Hypothesis 3 of this investigation is confirmed. The efficacy of a corporation's corporate governance directly impacts its capacity to make strategic decisions, including establishing its organizational structure. The efficacy of the risk committee is contingent upon its composition, encompassing factors such as the committee's size and the distinct responsibilities undertaken by its members. In Indonesia, a risk monitoring committee is an authorized organizational entity that acts under the supervision of the Board of Commissioners, with a particular focus.

The statistical investigation shows a substantial association between the institutional ownership variable (*IO*) and the capital structure variable (*LEV*), as indicated by a p-value of 0.0000. The measured results in this study are determined to be lower than the predetermined threshold of significance, which is set at 0.05. The results suggest

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that the level of institutional ownership (*IO*) has a statistically significant impact on the capital structure. Thus, Hypothesis 4 of this inquiry has been verified. The presence of institutional ownership has a substantial influence on the efficiency of corporate governance in a company's strategic decision-making, particularly in determining its capital structure. The research findings indicate that most organizations, precisely 67%, possess institutional stakes in Indonesian banking businesses. Furthermore, these companies demonstrate a higher proportion of institutional ownership than the average value, namely 0.752616. The results indicate that banking shares are predominantly owned by institutional investors.

The statistical analysis shows a significant correlation between the independent commissioner variable (*IC*) and the capital structure variable (*LEV*) with a p-value of 0.0358, which is below the preset significance level of 0.05. This finding indicates that the independent commissioner (*IC*) has a statistically significant impact on capital structures. Thus, Hypothesis 6 of this inquiry has been verified. Implementing an autonomous commissioner can enhance the supervisory role, which is the main responsibility of the board of commissioners. Implementing more stringent rules on business operations would undeniably impact the framework of its policies. Therefore, a company's capital structure will be determined based on the number of autonomous commissioners. The enduring and deeply ingrained nature of institutional inertia, along with the intricacies involved in reorganizing established formal organizations, suggest that the ongoing effort to establish an independent commissioner will face several hurdles.

Implementing the new economic law and the delegation of authority for the direct nomination of commissioners will significantly influence a nation's budgetary strategy and have a big effect on society. The degree of confidence, especially from the general public, is essential for successfully executing the method. Implementing rigorous administrative conduct standards, such as autonomy, proficiency, and openness, can promote firm trust (Schout & Mijs, 2015).

The outcomes of this inquiry predominantly confirm the discoveries of previous research, suggesting that corporate governance impacts leverage. An investigation carried out in China revealed a robust inverse correlation between financial leverage and the quality of corporate governance. This correlation was observed in both the entire sample and subgroups that were categorized based on criteria such as company ownership, industry, size, etc. A corporation's internal and equity investments help to alleviate the negative consequences. Furthermore, the findings suggest that the use of financial leverage has a substantial negative impact on the financial performance of companies, particularly during periods of economic downturn. However, improving corporate governance standards can mitigate the impacts (Zhou et al., 2021). This is consistent with the results of another study conducted in Australia.

4. DISCUSSION

There is no discernible relationship between the size of a company's board and its capital structure in Indonesia. To refute the findings of prior studies, which assert the reverse, it is important to note that an augmentation in the number of boards of directors will also lead to an augmentation in the capital structure. Expanding the dimensions of the board will improve the capital structure. Siromi and Chandrapala (2017), Shehadeh et al. (2022), Feng et al. (2020) have shown that the size of the board of directors significantly and positively affects the capital structure. Altering the frequency of board meetings does not impact the capital structure of Indonesian banks. This assertion contradicts the accepted research premise that affirms the significant and positive influence of the board of directors meeting on the capital structure. Augmenting the frequency of board meetings will bolster the capital structure. The research conducted by Shehadeh et al. (2022) and Ezaaeni et al. (2022b) suggests that the frequency of board of directors' meetings significantly and positively influences the capital structure.

In their study, Bukair and Rahman (2015) discovered that the board dimensions negatively impact the performance of Islamic banks in the GCC. A supplementary preliminary investigation conducted in Portugal corroborates the findings of this study. The previous study found that the impact of board size on financial decisions is uncertain since larger boards have different levels of effectiveness, which depend on the complexity of the organization. The findings significantly contribute to the continuing

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discourse on the concept of capital structure. If the trade-off theory and the pecking order theory can coexist, then the relationship between the composition of the board of directors and the utilization of different financing sources should be relatively unimportant. Managers should consider the level of knowledge asymmetry when selecting finance sources, as suggested by the findings of the recent study conducted by Alves et al. (2015). The results of this study also have implications for future research. The dimensions of the board and the distribution of genders enable the formation of a logical conclusion.

The association between the size of a company's board of directors and its level of indebtedness in the Middle East and North Africa (MENA) area shows diverse results. Considering the negative relationship between the size of the board and the amount of debt, it is reasonable to deduce that companies in the MENA region implement strict corporate governance measures to safeguard their financial performance and enhance shareholder value. Mertzanis et al. (2023) propose that high-income governments in the MENA area exhibit greater execution of corporate governance in comparison to low-income countries. Underprivileged countries may consider implementing corporate governance initiatives, such as expanding the size of their boards, to safeguard investor interests and acquire additional resources for improved operational effectiveness.

The risk committee variable substantially influences the capital structure of publicly listed banks in Indonesia. This is consistent with the current research hypothesis, suggesting that the risk committee has a significant and positive influence on the capital structure. There is a direct correlation between the size of the risk committee and the strength of the capital structure. In Indonesia, establishing a risk monitoring and supervisory committee is a mandatory requirement for management, which falls under the jurisdiction of the Board of Commissioners. The objective of this activity is to assess and confirm that the company's risk management practices have met the criteria for efficient risk management procedures and methodologies. This guarantees that the company's activities may be maintained within acceptable levels of risk while also providing benefits for the business. Agency theory suggests that the presence of a risk committee is expected to mitigate the information asymmetry between owners and agents. This discovery confirms the findings of prior research that indicate that risk has a major impact on the capital of banks (Ghosh & Chatterjee, 2018). The findings of this study are consistent with the study conducted by Hamid and Purbawangsa (2022) in Indonesia. The study demonstrated that the implementation of risk management has a significant and advantageous impact on the organization's capital. In their 2022 study, Hamid and Purbawangsa highlight the pivotal significance of risk management in mitigating the adverse impact of CEO duality and board size on financial performance.

Between 2011 and 2021, the level of institutional ownership did not have a significant impact on the capital structure of banking companies listed on the Indonesian Stock Exchange. Institutional ownership does not significantly affect a company's ability to make strategic decisions, such as choosing its capital structure, in terms of corporate governance effectiveness. The findings corroborate the findings of Al-Saidi's (2020) study, which shows that institutional ownership does not exert a statistically significant influence on capital structure. Based on the pecking order theory concept, corporations prioritize utilizing their own finances above raising capital through share sales, as borrowing money is more cost-effective than issuing equity.

In corporations with substantial financial entities, institutional ownership is crucial for mutual funds, pension funds, and insurance companies. It is a strategy for obtaining funds for a firm by offering shares to institutional investors. Employing significant levels of equity financing will lead to an increase in the cost of equity. This scenario can lead to a shortfall of cash for the principal while generating a financial profit for the investor. In specific cases, institutional ownership might result in a scenario where a single firm obtains a majority share, hence centralizing the origin of equity costs inside one entity. This discovery is in direct opposition to a previous inquiry. Given the previous examination, institutions thoroughly examine a company's capital structure. If they are not satisfied with it, they may also choose to passively divest their shares.

Studies have demonstrated that when institutional investors have limited business connections with a company or when there are significant disparities in the information available to market participants, it becomes more apparent that the company's debt levels and management of bad debt are being closely monitored (Chung & Wang, 2014). Furthermore, a distinct investigation carried out in Taiwan revealed that overseas investors exert a significant influence in diminishing the expenses linked to modifying leverage, hence accelerating the achievement of the targeted leverage level. To summarize, this study emphasizes the substantial impact of foreign investors in determining a company's optimal capital structure and improving shareholder value. Hence, it furnishes substantiation that bolsters a favorable perspective on foreign ownership in emerging economies (Do et al., 2020).

The study found a strong and negative association between the quality of corporate governance (CGQ) and leverage. This means that organizations with a high CGQ experience a significant reduction in their level of leverage. Upon further analysis, it was shown that a notable inverse relationship exists between CGQ (Corporate Governance Quality) and leverage in companies with high stock liquidity. However, no such association was found in companies with low stock liquidity. The study initially investigated the relationship between stock liquidity, corporate governance, and leverage. The results, which demonstrate coherence when compared to other indicators and undergo further examination, provide us with a novel comprehension of the components that influence leverage (Nadarajah et al., 2018). Corporate governance is a system used to establish a fair interaction between individuals in positions of power (principals) and others who act on their behalf (agents). Examining the impact of corporate governance policies on agency conflicts and their relationship with a company's funding sources will allow you to determine the connection between corporate governance and capital structure (Junior, 2022).

The illustration of leverage exemplifies the substantial impact of company governance on financial decisions regarding capital structure. A French empirical investigation has shown that the quality of corporate governance significantly affects the makeup of a company's capital structure. When comparing a company with strong governance to one with weak governance, the company with robust governance will exhibit a narrower deviation from the optimal capital structure and a greater degree of adaptability. Essentially, there is a correlation between the efficacy of corporate governance and both the divergence from the intended capital structure and the degree of rectification. Companies that have strong governance mechanisms are usually linked to shorter-term deviations from their stated objectives. Moreover, it has been discovered that the businesses in the two subsamples with the most significant differences in leverage levels also demonstrated the least effective governance systems. The data confirm the swift alignment with the stated objective. Moreover, as stated by Miloud (2022), companies that possess excellent governance are better equipped to handle substantial levels of debt with flexibility.

CONCLUSION

The GMM test indicates that the number of directors on the board has no statistically significant impact on the capital structure of banking in Indonesia. Conversely, the quantity of risk committees has a substantial influence on the makeup of capital. Furthermore, the ownership of institutions exerts a substantial impact on the composition of capital. Autonomous commissioners have been noted to exert a substantial impact on the financial framework. The hypothesis was validated. Evidence suggests that specific elements of corporate governance have a negligible influence on the capital structure in the Indonesian banking sector. The size of the board of directors and the frequency of board meetings have minimal impact on the capital structure. However, empirical data have shown that foreign directors have an impact on the formation of capital structures.

The findings have substantial ramifications for future studies, indicating that the board of directors plays a pivotal role in corporate governance. Nevertheless, it is advisable to enhance the comprehensiveness of the indicators utilized to depict the board of directors. This entails considering not just the magnitude and regularity of gatherings, but also the distinct attributes, composition, and inclusivity of board members. These criteria may encompass variables such as gender, demographics, and origin.

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Risk management is a vital element of corporate governance. The risk committee, which is accountable for risk management, plays a vital role in determining the capital structure of a company in relation to leverage. The utilization of borrowed cash to fund a company is intricately linked to the degree of risk entailed, necessitating the committee to appropriately modify the capital structure. The study's findings suggest that company ownership exerts a substantial impact on corporate governance and can alter the capital structure of the banking sector in Indonesia. The ownership structure of banking companies, which includes institutional and managerial ownership, significantly influences their financing decisions, especially with regard to leverage. The findings indicate that the banking industry in Indonesia can effectively resolve any problems related to the relationship between principals and agents by implementing efficient corporate governance measures, such as integrating institutional and management ownership of the company.

An indispensable element of corporate governance is the integration of an independent commissioner. The study's findings indicate that the degree of leverage significantly impacts a company's capital structure. The evidence indicates that the banking industry in Indonesia has successfully incorporated control mechanisms into its funding decisions. These study findings suggest that banking institutions should prioritize the implementation of robust corporate governance processes and enhance the efficacy of their governance frameworks when making decisions regarding their capital structures. Evaluating risk committees, institutional ownership, and the incorporation of independent commissioners is crucial. The present study possesses distinct constraints that may influence forthcoming research endeavors.

To ascertain the determinants of a company's capital structure decisions, future research should incorporate supplementary independent variables pertaining to the governance framework. These attributes may encompass the involvement of international boards of directors, audit committees, and managerial ownership. Furthermore, it is crucial to recognize that future studies may incorporate control variables, such as business size, and moderation variables, such as the dividend payout ratio (DPR). This study employed the debt-to-equity ratio (DER) as a leverage metric, which also functions as an indicator of the capital structure. To enhance future study, it is advisable to analyze various leverage ratios, including the debt-to-assets ratio (DAR), the debt-to-equity ratio, and the debt-to-EBITDA ratio.

AUTHOR CONTRIBUTIONS

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Formal analysis: Farida Titik Kristanti, Hikmah Fitriyani.
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