The Influence of Corporate Governance, Dividend Policy, and Capital Structure Policy on Company Performance

(Study on Insurance Companies Listed on the Indonesia Stock Exchange 2015–2019)

Lusi Kurnia[1](✉), Anggito Abimanyu[1], and Asri Nur Aina[2]

[1] Faculty of Administrative Science, Brawijaya University, Malang, Indonesia
lkurnia@student.ub.ac.id

[2] Faculty of Social Science and Law, State University of Makassar, Makassar, Indonesia

Abstract. This study aims to (1) find out and explain the effect of corporate governance on the performance of insurance companies listed on the BEI in 2015–2019 (2) find out and explain the effect of corporate governance on the dividend policy of insurance companies listed on the BEI in 2015–2019 (3) Knowing and explaining the effect of corporate governance on the capital structure policies of insurance companies listed on the IDX in 2015–2019 (4) Knowing and explaining the effect of dividend policies on the performance of insurance companies listed on the IDX in 2015–2019 (5) Knowing and explain the effect of capital structure policies on the performance of insurance companies listed on the IDX in 2015–2019. The type of research used is explanatory research with a quantitative approach. The population in this study amounted to 80 insurance companies listed on the Indonesia Stock Exchange in 2015–2019. The sample of this study amounted to 55 insurance companies obtained by purposive sampling by taking insurance companies that meet the criteria. The data collection method used is the documentation method by taking secondary data from the Indonesia Stock Exchange website. The data analysis used is descriptive and inferential statistical analysis using path analysis assisted by the Smart Partial Least Square (PLS) 3.0 program. The results of the research analysis show that corporate governance has no significant negative effect on company performance. Corporate governance has a significant negative effect on dividend policy. Corporate governance has a significant positive effect on capital structure policies. Dividend policy has a significant negative effect on company performance. Capital structure policy has no significant negative effect on company performance.

Keywords: Corporate Governance · Dividend Policy · Capital Structure Policy · Company Performance · Insurance Company

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1 Introduction

The business world in Indonesia is increasingly showing tighter competition at the individual or organizational level. Encouraging companies to be able to see market opportunities so that they can compete and survive in the circle of business competition. Companies are required to be able to create innovation, creativity, and strategies so that the profits obtained will increase. The company was built with the aim of getting maximum profit in order to improve the welfare of shareholders. One of the measuring tools for the company's success in the welfare of shareholders is by increasing the company's performance. According to Jahanshahi [1] company performance is the actual result or output produced by a company which is then measured and compared with the expected results or output.

Good company performance increases investor confidence so that they are willing to invest more of their funds in the company. At the end of 1997, there was an economic crisis in Indonesia which was identified as due to the poor performance of the company. This was marked by the lack of transparency of information on the implementation of company management to investors, the lack of adequate law enforcement from the central bank, and the poor financial system at that time [2]. This situation made investor control of the company weak and many companies went bankrupt because they did not have good governance, several insurance companies that went bankrupt at that time included PT Asuransi Jiwa Manulife Indonesia (PT AJMI) and PT Dharmala Sakti Sejahtera (PT DSS). In 1999, the government paid attention to companies in Indonesia by establishing the National Committee on Corporate Governance Policy (KNKCG) and ordering companies to improve the implementation of good corporate governance practices by issuing general guidelines for Indonesian corporate governance. This improvement effort is carried out so that the company's performance becomes better financially and operationally so that investors are able to trust the company again [3].

Good corporate governance is a set of processes that ensure investors get a fair return on their investment [4]. Basically, GCG is motivated by agency theory which states that agency conflicts will arise in a company. Agency conflict arises when there is a transfer of authority to manage the company from the principal to the agent. The principal is the owner of the company or shareholder and the agent is the management of the company. The agent is the party who knows the internal condition of the company while the shareholders only know the condition of the company based on the report provided by the agent. So that managers are expected to be able to provide correct information about the state of the company, but in practice sometimes the information provided is different. This arises because managers have the authority to use the resources of the company and want concessions to commit fraud so as to make corporate governance weak [5]. Forms of fraud that occur such as manipulation of financial statements, embezzlement of company funds and acceptance of bribes. Companies with weak governance will perform poorly because the company's management position is more advantageous.

The corporate board has the power to make, or at least, issue all important corporate decisions including decisions regarding investment policies, management compensation policies or corporate governance itself [4]. Therefore, supervision is also needed in the implementation of GCG, there are two groups of mechanisms, namely the internal control monitoring mechanism which includes the size of the board of commissioners,

independent commissioners, and the size of the board of directors, then the ownership monitoring mechanism which includes managerial and institutional ownership. This study examines both mechanisms by selecting the size of the board of commissioners, independent commissioners, and institutional ownership as indicators of GCG in the study. Researchers chose the three GCG indicators because they reflect the company's supervision of management and on previous studies that have been proven to have an influence on company performance.

Companies that implement good corporate governance will be accompanied by an increase in corporate profits and the possibility that the company will distribute dividends. Dividend policy is important because it relates to company performance and provides information about the company's development prospects [6].Dividend policy relates to how much profit is paid as dividends to shareholders and which will be allocated to retained earnings by the company for the development of the company. According to Jiraporn et al. [7] companies with weak governance will have cash flow problems because management tends to spend company funds for personal consumption, company development or poor investment. A good company will be able to show good capital structure management as well. The capital structure is a combination of funds from debt and capital. Companies that form good governance organs will make management more careful in deciding policies related to the use of company capital funds, either internal funds or sourced from debt, which is called capital structure policy.

Deviations in the form of management disobedience, embezzlement of company funds, and even data manipulation can still arise because there is no integrity from the company's management [8]. The success of implementing good corporate governance and policies in a company does not only depend on the existing regulations but the integrity and quality of human resources who occupy the company's management positions. Many companies have implemented good corporate governance and have been able to improve company performance so that they have received various awards both nationally and internationally. Some of these companies include:

From the Table 1, it can be seen that the presence of companies that received awards indicates that the implementation of corporate governance in Indonesia has been carried out properly and correctly. Corporate governance is not only applied to manufacturing, food and banking companies, but also insurance companies. Based on Law No. 40 of 2014 Article 11, insurance companies are required to implement good corporate governance. Based on the 2016 Insurance Outlook seminar, Indonesia has an insurance industry that is growing rapidly along with public awareness of insurance and investment. However, in 2019 a problem arose related to the implementation of corporate governance and decision making, resulting in a policy default (www.kompas.com, 2019). The company is an insurance company PT Asuransi Jiwasraya (Persero).

Companies that fail to pay policies to customers are PT Asuransi Jiwasraya (Persero) which is one of the largest insurance companies in Indonesia with total assets in 2019 reaching IDR 18.15 trillion (Financial report of PT Jiwasraya, 2019). PT Asuransi Jiwasraya (Persero) was unable to pay the policy in 2019 amounting to Rp 12.4 trillion. The company from year to year experienced a de-crease in total assets in 2019 down by 21.22% compared to 2018, the largest de-cline was seen from a decrease in investment assets such as mutual funds, shares, time deposits, land and buildings. Another problem

Table 1. Companies awarded for good corporate governance.

No	Company	Year	Award
1	PT Asuransi Bintang Tbk	2018	The best in profitable investment Islamic general insurance sharia unit (Asset < 200 Bn)
2	Kresna Mitra Tbk Asuransi Insurance	2019	The big 10 – Indonesia GCG Implementation 2019 in the Public Company Category (Assets < Rp 5 trillion) from Economic Review
3	Bina Arta Insurance	2019	Top 50 public companies with Medium capitalization value in 2019 from Indonesia Institute for corporate directorship (IICD)
4	PT Lippo General Insurance Tbk	2019	Top governance, risk, & compliance from GRC summit 2019

experienced by PT Asuransi Jiwasraya (Persero) regarding liquidity pressures which issued an investment policy on most high-risk assets in pursuit of high profits, but did not pay attention to whether the shares purchased were underperforming stocks or not. PT Asuransi Jiwasraya (Persero) also frequently conducts stock buying and selling transactions that are suspected of price manipulation so that the published financial reports do not match the actual performance of the company, this makes the company's condition worse and has a bad image in the community.

Another thing that makes insurance companies interesting to study is that the insurance business in Indonesia is a very prospective business because the market potential is still wide enough so that it is possible to obtain large profit mar-gins in the long term [9]. The total gross claims of the insurance industry in 2019 increased by 12% compared to the previous year, which was Rp324.88 trillion in 2018 to Rp364.26 trillion in 2019. Furthermore, insurance companies have differences in characteristics and characteristics with financial companies that other. This is because insurance companies take a lot of risk from other parties, making insurance companies a risk-intensive company if they are not managed properly. For this reason, insurance companies must be managed properly and professionally, so that if they are not carried out properly and correctly, the company's situation will worsen and have a bad image in the community [10].

2 Methods

The type of research used in this study is an explanatory research using a quantitative approach. *Explanatory research* is a research method that intends to explain the position of the variables studied and their influence between one variable and another [11]. According to Sugiyono [11], quantitative research methods are research methods based on the philosophy of positivism, used to examine certain populations or samples, as well as statistical data analysis with the aim of testing predetermined hypotheses.

2.1 Location

The location of this research was conducted in Indonesia, precisely on the Indonesia Stock Exchange. The location provides general access to find out the data that will be used in the research. The Indonesia Stock Exchange is a website that contains data on the company's financial statements, both monthly and yearly. The Indonesia Stock Exchange also provides data on the financial statements of listed companies, so that researchers can collect secondary data on insurance companies in Indonesia. The research period is carried out in a span of 5 years, starting from 2015 to 2019 using annual data for each variable.

2.2 Population and Sample

Population is a group of people, events, or everything that has certain characteristics. In this study, the population used were all insurance sector companies listed on the Indonesia Stock Exchange in 2015 - 2019. The total population in this study were 33 companies listed on the IDX for the period 2015 to 2019.

According to Sugiyono [11] the sample is part of the number of characteristics possessed by the population. In this study, the sample was determined using purposive sampling, which is a sampling technique with certain considerations [11]. The criteria considered by the author in determining the sample in this study are:

1. Companies that are included in the category of insurance companies.
2. The company was listed on the Indonesia Stock Exchange (IDX) in 2015 – 2019.
3. Companies that publish financial reports for 5 consecutive years in 2015 – 2019 in rupiah currency.
4. The company has complete data related to the variables used in the study.
5. Every year the company always earns profit.

Based on the sample criteria described in the table above, the researcher decided to use a sample of 11 insurance companies that have met the criteria, the following are the names of the companies that became the research samples: PT Asuransi Bina Dana Arta Tbk, PT Asuransi Multi Artha Guna Tbk, PT Asuransi Bintang Tbk, PT Asuransi Dayin Mitra Tbk, PT Asuransi Jasa Tania Tbk, PT Asuransi Kresna Mitra Tbk, PT Asuransi Ramayana Tbk, PT Airline Reinsurance Indonesia Tbk, PT Lippo General Insurance Tbk, PT Victoria Insurance Tbk, PT Paninvest Tbk. The number of samples for this research is 55, which is the total number of companies that meet the sample criteria multiplied by the total period of the year (2015–2019).

2.3 Data Collection Method

The data collection method used in this research is the documentation method. The documentation method is carried out by obtaining documents which are re-cords of events that have passed and are related to research [11]. The documentation method is used in this study because the data used are secondary data. This method was chosen because researchers can download secondary data directly through the official website of PT. Indonesia Stock Exchange at www.idx.co.id.

2.4 Analysis Techniques

The data analysis used is descriptive statistical analysis, namely data analysis techniques how to describe, describe, and describe data so that it is easily under-stood by readers. In this analysis the descriptive standards used are the average, maximum, minimum, and standard deviation values to describe the data in the research for each variable of corporate governance, dividend policy, capital structure policy, and company performance.

And the Inferential Statistical Analysis Technique which is used in this study is to use Partial Least Square (PLS) through the application of statistical software Smart PLS. The reason for choosing Smart PLS is because the sample size is relatively small, namely there are 55 data on insurance companies listed on the Indonesia Stock Exchange in 2015 – 2019 and other reasons to avoid missing data or missing values. In addition, this study was used to test the correlation between the relationship between one variable and another variable. In PLS, there are two kinds of relationship constructs between indicators and their latent variables, namely reflective and formative constructs. The reflective construct reflects that each indicator is a measurement of the error imposed on the latent variable. The direction of cause and effect from latent variables to indicators thus indicators are a reflection of variation to latent variables. While the formative construct is a causal relationship from the indicator to the latent variable. This can happen when a latent variable is defined as a combination of its indicators. So that changes that occur in indicators will be reflected in changes in latent variables [12]. The indicator model in this study is a construct model with formative indicators. Formative indicators are indicators that form or cause a creation or change in a variable [13].

Based on the purpose of this study which aims to determine and explain the relationship between research variables and based on the research indicator model in analyzing the data obtained, thus strengthening researchers to use the PLS analysis method. PLS analysis also analyzes the direct or indirect effect of a set of independent variables (exogenous) on the dependent variable (endogenous) where both variables are in the form of unobserved variables (latent variables). In the PLS analysis, it will be known how much the indicator's ability to represent the latent variable.

3 Results and Discussion

3.1 Results

Hypothesis testing in the Smart PLS version 3.0 analysis using the original sample and p-value data. The decision rules for hypothesis testing are as follows: When the significance value is less than 0.05 or (p-value < 0.05), the null hypothesis is rejected and the alternative hypothesis is accepted [14] and if the Original Sample value is positive, it is said to have a positive effect and if the Original Sample result is negative. Then it is said to have a negative effect [14].

The Table 2 shows that of the 5 hypotheses proposed, there are 3 accept-ed hypotheses. The following hypotheses are accepted: Good Corporate Governance a significant negative effect on Dividend Policy (H2), Good Corporate Governance has a significant positive effect on Capital Structure Policy (H3), Dividend Policy has a significant negative effect on Company Performance (H4). Based on the results of the Warp Pls analysis

Table 2. Direct effect hypothesis testing results.

No	Relationship between variables		Original sample	P value	Relationship between variables
1	GCG	KP	-0.210	0.418	Not significant
2	GCG	KD	-0.372	0.001	Significant
3	GCG	KSM	0.610	0.000	Significant
4	KD	KP	-0.244	0.025	Significant
5	KSM	KP	-0.111	0.614	Not significant

using the theory that when the significance value is less than 0.05 (pvalue < 0.05), the null hypothesis is rejected and the alternative hypothesis is accepted, which is presented in Table 4.18, the results of hypothesis testing can be explained US follows:

Hypothesis Test 1. Based on the results of PLS testing, the third hypothesis of corporate governance has a negative and insignificant effect on company performance, so hypothesis 1 is rejected. The magnitude of the influence of corporate governance on company performance can be seen in Table 2 which shows the path coefficient value of 0.210 with a t value of 0.817. This value is smaller than t table (1.960). In a direct relationship, it can be interpreted that the influence of corporate governance is inversely proportional so that it tends to reduce company performance.

Hypothesis Test 2. Based on the Results of Data Processing Using PLS Above, It Can Be Concluded that Corporate Governance Has a Negative and Significant Influence on Dividend Poli-Cy, so Hypothesis 2 is Accepted. This is Because the Test Results in Table 2 Show that the Path Coefficient Value is -0.372 with a t-value of 3.689. The Value of the t Table is Greater Than the Specified t Table, Namely 1.960. The Negative Path Coefficient Value Indicates that the Effect of Corporate Governance on Dividend Policy is Inversely and Significant.

Hypothesis Test 3. PLS results show that the relationship between corporate governance variables has a positive and significant influence on capital structure policies, so hypothesis 3 is accepted. The significant influence of corporate governance on capital structure policies can be seen in Table 2 with the estimated path coefficient value of 0.610 with a t-value of 9.625. The value of the t table is greater than the specified t table, namely 1.960. In a direct relationship, this positive effect indicates that the influence of corporate governance on capital structure policy is directly proportional and significant.

Hypothesis Test 4. Based on the results of PLS testing, the fourth hypothesis of dividend policy variables has a negative and significant effect on company performance, so hypothesis 4 is accepted. The PLS results show that the relationship between the two variables produces a path coefficient value of -0.224 with a t-value of 2.307. This value is greater than t table (1.960). In a direct relationship, it can be interpreted that an increase

in the practice of company policy to dis-tribute dividends will significantly reduce the company's performance.

Hypothesis Test 5. Based on the results of PLS testing, the fifth hypothesis of the capital structure policy variable has a negative and insignificant effect on company performance, so hypothesis 5 is rejected. The PLS results show that the relationship between the two variables produces a path coefficient value of -0.111 with a t value of 0.507. This value is smaller than t table (1.960). In a direct relationship, it can be interpreted that the increase in the practice of the company's capital structure policy tends to decrease the company's performance.

3.2 Discussion

Findings Hypothesis 1. Based on the results of the PLS test, the third hypothesis of the corporate governance variable has a negative and insignificant effect on the company's performance, so that hypothesis 1 is rejected. The magnitude of the influence of corporate governance on company performance can be seen in Table 2 which shows the path coefficient value of 0.210 with a t value of 0.817. This value is smaller than t table (1.960). This confirms previous research [15, 16] which stated that corporate governance has a negative and insignificant effect on company performance. The effect of corporate governance on company performance has been explained in agency theory.

Findings of Hypothesis 2. Based on the results of data processing using PLS above, it can be concluded that corporate governance has a negative and significant influence on dividend policy, so hypothesis 2 is accepted. This is because the test results in Table 2 show that the path coefficient value is -0.372 with a t-value of 3.689. The value of the t table is greater than the specified t table, namely 1.960. The negative path coefficient value indicates that the effect of corporate governance on dividend policy is inversely and significant. These results support the substitution theory, namely when a company implements bad corporate governance practices, it will try to improve the company's image by distributing dividends so that shareholders stay and invest in the company. These results also strengthen the results of research [2, 4, 17, 18] which state that corporate governance has a negative and significant effect on dividend policy.

Findings of Hypothesis 3. PLS results show that the relationship of corporate governance variables has a positive and significant influence on capital structure policies, so hypothesis 3 is accepted. The significant influence of corporate governance on capital structure policies can be seen in table 2 with the estimated path coefficient value of 0.610 with a t-value of 9.625. The value of the t table is greater than the specified t table, namely 1.960. In a direct relationship, this positive effect indicates that the influence of corporate governance on capital structure policy is directly proportional and significant. The results of this study are in line with research [10–21] which states that the variable of corporate governance has a positive and significant effect on the company's capital structure. Corporate governance based on agency theory is designed to minimize and resolve agency conflicts that arise from the use of funding sources from debt. Companies

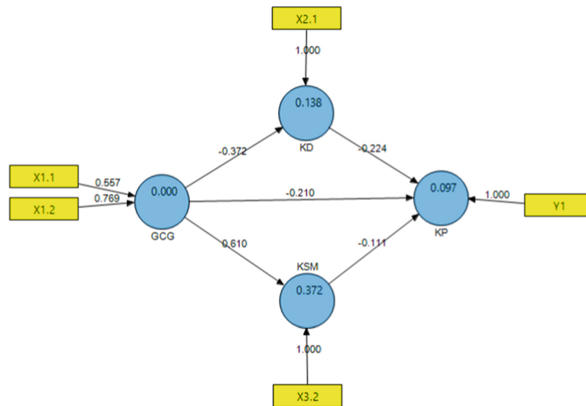

Fig. 1. Research model results.

with good corporate governance quality should bear fewer agency conflicts, so that managers as the party in charge of the company's operational activities have the flexibility to determine the proportion of debt used properly to finance company operations.

Findings of Hypothesis 4. Based on the results of PLS testing, the fourth hypothesis of dividend policy variables has a negative and significant effect on company performance, so hypothesis 4 is accepted. The PLS results show that the relationship between the two variables produces a path coefficient value of -0.224 with a t-value of 2.307. This value is greater than t table (1.960). In a direct relationship, it can be interpreted that an increase in the practice of company policy to distribute dividends will significantly reduce the company's performance. This confirms the research conducted by Cristiawan [16] and Sheikh and Wang [19] which showed a negative and significant effect of dividend policy on company performance. The effect of dividend policy on company performance has been explained in signaling theory and information content theory in dividend policy. The company's policy of distributing dividends with an increase above the normal increase is usually a signal to investors that the company's management predicts a good income in the future.

Findings of Hypothesis 5. Based on the results of PLS testing, the fifth hypothesis of the capital structure policy variable has a negative and insignificant effect on company performance, so hypothesis 5 is rejected. The PLS results show that the relationship between the two variables produces a path coefficient value of -0.111 with a t value of 0.507. This value is smaller than t table (1.960). In a direct relationship, it can be interpreted that the increase in the practice of the company's capital structure policy tends to decrease the company's performance. This strengthens research [2, 16] which explains that capital structure has no significant effect on company performance. The effect of capital structure policies on company performance can be explained using pecking order theory where companies with low debt levels have high profits.

3.3 Overall Model Discussion

There are three criteria in the use of analytical techniques in PLS software to assess the outer model, namely Convergent Validity, Discriminant Validity, and Composite Reliability. The explanation of each assessment is as follows: Convergent validity is needed to find out whether or not there is a close relationship between an indicator and its latent variable. If the relationship is not close, it can be considered to remove the indicator. The criteria for determining the closeness of the relationship between the indicator and its latent variables can be seen through the value of loadings. According to Ghozali [14] for research in the early stages of the development of the measurement scale, the loadings value of 0.5 to 0.6 is sufficient. In this study, a close relationship is met (the indicator is worthy of being included in the model) if the ladings value is greater than 0.5. The larger the loadings value, the closer the relationship between the indicator and its latent variables and is feasible to enter the model (Fig. 1).

4 Conclusion

The conclusions from the results and discussion in the previous sections, as well as their relevance to the research objectives are as follows: 1) Corporate governance as proxied by institutional ownership and the size of the board of directors has a negative and significant effect on the dividend policy of 55 companies in the insurance sub-sector listed on the Indonesia Stock Exchange (IDX or IDX) for the 2015–2019 period, 2) Corporate governance as proxied by institutional ownership and the size of the board of directors has a positive and significant effect on the capital structure policy of 55 companies in the insurance sub-sector listed on the Indonesia Stock Exchange (IDX or IDX) for the 2015–2019 period., 3) Corporate governance as proxied by institutional ownership and the size of the board of directors has a negative and insignificant effect on the company's performance of 55 companies in the insurance sub-sector listed on the Indonesia Stock Exchange (IDX or IDX) for the 2015–2019 period, 4) Dividend policy which is proxied by dividend per share of directors has a negative and significant effect on the performance of 55 companies in the insurance sub-sector listed on the Indonesia Stock Exchange (IDX or IDX) for the 2015–2019 period. 5) The capital structure policy as proxied by the ratio of total debt to total market value of equity (NPUE) has a negative and insignificant effect on the performance of 55 companies in the insurance sub-sector listed on the Indonesia Stock Exchange (IDX or IDX) for the 2015–2019 period.

This study has several limitations in its preparation, namely: 1) There are invalid indicators in the variables of corporate governance, dividend policy, and capital structure policy that can be taken into consideration and it is necessary to review the use of these indicators in their function to measure corporate governance, dividend policy, and capital structure policy, 2) The research sample did not cover the entire population because there were 5 companies that did not meet the criteria (in the research year, namely 5 years, there were 25 companies that did not meet the criteria), so this study only used 11 companies (in the research year, which was 5 years, there were 55 companies used as research sample).

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