Corporate Governance and Capital Structure : Evidence from Indonesian Banking

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Abstract

The present study aims to examine the influence of corporate governance on capital structure decisions within the Indonesian banking sector. The dataset utilized in this research comprises 264 firm-year observations from 24 banks that were publicly traded on the Indonesia Stock Exchange throughout the period spanning from 2011 to 2021. The data are analyzed utilizing descriptive statistics and the Generalized Method of Moments, specifically employing the dynamic panel model. The findings of this study indicate that the level of management ownership and the inclusion of foreign directors on a company's board of directors exert influence on leverage ratios. Specifically, the first variable has a positive effect, while the second variable demonstrates a negative effect. This study contributes to the existing literature on capital structure and corporate governance by presenting novel insights into the impact of both factors on capital structure within the financial industry. The aforementioned findings will aid policymakers in evaluating the adequacy of corporate governance changes in bolstering the management of capital structure, particularly within the context of Indonesia. The results demonstrate that management ownership and the presence of foreign directors on a company's board of directors have an impact on leverage ratios, with a positive effect for the first variable and a negative one for the second. This study adds to the body of knowledge on capital structure and corporate governance by providing fresh information on how these factors affect capital structure in the financial industry. These findings will help policymakers assess whether corporate governance reforms are sufficient to enhance capital structure management, especially in Indonesia.

Keywords
Corporate governance, Capital structure, Dynamic panel model, Indonesian banks, Leverage

1. Introduction
Conflicts pertaining to agency emerge due to the separation of ownership and control within an organization. According to Jensen and Meckling (1976), in the context of an agency relationship, the agent, who assumes the role of a manager, may exhibit a tendency to put their personal interests over those of the principal. The magnitude of resources under managerial control is a determinant factor in the impact of agency costs on the composition of capital structures. Jensen (1986) posits that managers may opt to acquire debt as a means of augmenting their control over resources, a decision that can potentially result in agency costs, including the possibility of bankruptcy expenses. In this context, corporate governance serves as the principal mechanism for fostering the congruence of interests between principals and agents.

Corporate governance encompasses the range of rules, procedures, and interpersonal relationships that regulate a business. It is widely recognized that shareholders, who possess ownership stakes in companies, typically strive to maximize their returns on investment. Nevertheless, it is common for stakeholders in conventional organizations to have varying levels of knowledge and ethical concerns, resulting in asymmetrical connections. Corporate governance is frequently regarded as a mechanism employed to ensure that firms act in the optimal interests of their shareholders. According to Miglo (2016), the term "government" pertains to a comprehensive framework of guidelines, regulations,

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policies, and resolutions that dictate and regulate the operations and behavior of an organization. This concept serves as a fundamental pillar of corporate governance. (Thakolwiroj and Sithipolvanichgul 2021) conducted the study.

Numerous prior investigations have examined the correlation between corporate governance and capital structures across diverse nations, including China, Europe, Thailand, Latin America, Jordan, Poland, Kuwait, Russia, and several more countries. The study conducted by Vijayakumaran (2019) in China examines the impact of corporate governance on the capital structure of publicly listed companies in the country. In their study, Feng et al. (2020) examined the impact of corporate governance and ownership structures on capital structures within the context of Chinese real estate enterprises. Berke-Berga and Dovladbekova (2019) conducted a study in Europe that examined the impact of corporate governance on capital structures. Thakolwiroj and Sithipolvanichgul (2021) conducted a study examining the correlation between the corporate governance exhibited through managerial characteristics and the capital structure of listed businesses in Thailand. In a study conducted by Grabinska et al. (2021) in Poland, the authors employed manipulation techniques to examine the association between corporate governance and the capital structure of energy businesses. The influence of ownership forms in corporate governance on capital structures in Jordanian industries was also examined by Shehadeh et al. (2022). The impact of corporate governance on capital structure decisions was examined by Borges (2022) in a study with a sample of 1,716 enterprises in Latin America. The results of this research yielded noteworthy discoveries that influenced the understanding of capital structure dynamics.

Previous studies have identified a range of variables within the realm of corporate governance that exhibit both significant and minor effects on the capital structure. The influence of the governance environment on the capital structure of companies in different countries aligns with the research conducted by Ezeani et al. (2022). The capital structure decisions of enterprises are likely to be influenced by a combination of policies and macro- and micro-conditions. In this particular context, there exists a scarcity of research pertaining to the correlation between corporate governance and capital structure decisions, specifically inside the financial sector. This dearth of study might potentially be attributed to the distinct characteristics exhibited by non-financial organizations. Hence, the objective of this study is to re-examine the correlation between corporate governance and the financial sector entities operating within the Indonesian context. In order to accomplish this, we used a dataset consisting of 264 yearly observations of companies affiliated with 24 banks that were publicly listed on the Indonesian Stock Exchange over a time frame spanning from 2011 to 2021. The research data underwent analysis through the utilization of descriptive statistics and linear regression models applied to dynamic data panels.

1.1 Objectives

This research aims to contribute a fresh perspective on the correlation between governance and capital structures, with a specific focus on financial sector entities, including businesses and sub-sector banking. This paper examines the corporate governance mechanisms that are pertinent to attaining the stated objective. Specifically, the mechanisms under consideration include management size, management ownership, institutional ownership, risk committee size, frequency of management meetings, and the inclusion of foreign directors on the board of directors. The findings of this study will provide empirical data regarding the impact of corporate governance on capital structures, with a specific focus on enterprises operating within the banking industry in Indonesia. These findings are expected to provide valuable insights for practitioners and researchers engaged in researching similar difficulties across other sectors.

2. Literature Review

This research is supported by three prominent theories. The trade-off theory posits that the capital structure of a company does not exert any influence on its overall performance. (Modigliani and Miller 1958) conducted a seminal study. This method posits that the valuation of a company remains unaffected by the specific mode of financing employed. However, if corporations prioritize individual tax obligations, they may utilize debt financing as a means to reduce their tax liabilities. Consequently, as corporations increasingly employ debt financing, there is a corresponding increase in the valuation of the company. Therefore, it is imperative to do a cost-benefit analysis when optimizing capital structures, as the costs associated with debt are typically lower than those associated with equity. Kraus and Litzenberger (1973) propose that a substantial reliance on debt financing would result in greater tax savings. Conversely, in the event of financial distress (bankruptcy), a company's worth will diminish.

The second concept under consideration is the theory of agency, which elucidates the circumstances in which ownership and control become distinct due to the existence of divergent principled interests and agents. According to

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this theoretical framework, individuals are compelled to prioritize their own interests. (Jensen and Meckling 1976). The crux of the dispute arises from the divergence in objectives between owners, who typically seek to enhance the value of a company, and management, who may prioritize their personal reputation, career advancement, and remuneration. Consequently, the diverse range of interests among individuals within the organization may lead to decision-making by management that is damaging to the overall business. This may manifest in the allocation of resources towards inefficient initiatives, among other potential outcomes. In this particular scenario, the proprietor assumes the responsibility of remunerating agent fees in order to retain authority over the day-to-day activities of the business. The funding system holds significant importance, as it plays a pivotal role in mitigating conflicts by facilitating informed decision-making. The acquisition of loan money can potentially affect the efficacy of corporate management due to the possibility of increased financial instability resulting from a significant debt burden (Federova et al. 2022).

The third hypothesis under consideration is the pecking order theory, which was introduced by Myers and Majluf in 1984. According to the concept, equity financing is considered the least favored alternative due to the perception held by investors that the company's stock price is overvalued when new equity is issued. Consequently, the management team capitalizes on this situation by selling their shares. However, within this theoretical framework, two theories have been proposed regarding the management team. One key observation is that the management team possesses a greater amount of information compared to an external investor. The second hypothesis posits that the management team is exerting maximum effort in order to optimize shareholder welfare. The aforementioned issue is the root cause of the information asymmetry dilemma. The management team is unable to provide investors with accurate and reliable information regarding prospective investments. Nevertheless, investors typically engage in purchasing stocks at undervalued prices, despite the fact that the present valuation remains favorable. Consequently, the organization is compelled to issue additional shares of stock in order to secure financial resources.

According to Myers and Majluf (1984), it is advisable for the corporation to consider utilizing internal funds as a means to tackle this issue. Subsequently, it is advisable for them to commence the search for external finance through debt financing in the event that the current resources are deemed inadequate. The issuance of additional equity should be considered a final option. When a firm opts to secure its funding through foreign debt, it conveys a lower level of risk, signaling to the market its intention to utilize future profits as a means of investment. Conversely, in the event that the company consistently engages in the issuance of more shares, it could perhaps suggest an overvaluation of the stock price.

2.1 Board Size

The function of management in mitigating business insolvency is of significant importance. According to the study conducted by Chancharat et al. (2012), The correlation between the size of the board of directors and agency theory is significant. The presence of a proficient board of directors is a crucial internal mechanism of governance that holds the potential to influence agency costs and business decisions, including capital structure. Large corporate boards frequently assume a prominent supervisory function and actively seek to leverage higher amounts of debt in order to enhance the overall worth of the organization. The effective implementation of good governance and protection of stakeholder interests can be facilitated by a board of directors that oversees management plans, decisions, and actions while also monitoring ethical behavior, financial reporting, and compliance with legal requirements. This study aims to create a positive hypothesis on the correlation between the size of the management team and its impact on decision-making inside the organization. The empirical evidence consistently demonstrates a positive correlation. The favorable impact of board size on capital structure has been demonstrated in the studies conducted by Siromi and Chandrapala (2017), Shehadeh et al. (2022), Feng et al. (2020), and Fedorova et al. (2022).

H_1 : The capital structure is positively impacted by significant board size.

2.2 Board Meeting

According to Yakob and Hasan (2021), a higher frequency of meetings promotes the engagement of participants in addressing organizational challenges, facilitates the interchange of ideas, and enhances transparency in performance evaluation. Regular management meetings are considered an integral component of a governance system aimed at enhancing organizational performance and facilitating effective communication among board members, as posited by Correia and Lucena (2020). Board meetings play a crucial role in enhancing organizational efficiency and performance by facilitating the clarification of uncertainties and fostering the development of shared expectations, attitudes, and values. Meetings frequently provide a platform for discussing the strengths and weaknesses that impact the financial

viability of organizations, aiding in the mitigation of information asymmetry (Nguyen et al. 2021; Correia and Lucena, 2020). This study posits a hypothesis regarding a positive correlation between the number of intersections. Similar to the investigation conducted by Shehadeh et al. (2022), Ezeaeni et al. (2022) demonstrated a positive correlation between the frequency of board meetings and the capital structure.

H_2 : The foreign director is positively impacted by significant board size.

2.3 Risk Committee

Typically, oversight of company risk management is conducted by the audit committee. Nevertheless, within the Indonesian financial sector, the audit committee's supervisory role in risk management encounters certain constraints. The regulator implements a system of role separation to ensure the absence of overlap. The risk committee and the audit committee both contribute to the oversight function. The risk committee is responsible for monitoring all risk management operations within the organization, whereas the audit committee is tasked with overseeing and evaluating audit activities as well as internal processes. Liu and Huang (2022) believe that organizations exhibiting effective risk management practices exert a favorable influence on the attainment of sustainable financing. A risk monitoring committee is a regulatory requirement that facilitates creditors' access to information pertaining to a company's risk profile and overall financial health. Acquiring such knowledge will result in a more rigorous debt selection process, hence impacting the probability of securing more loans. According to Chen et al. (2016), based on the available evidence, a hypothesis is formulated positing that the risk monitoring committee exerts a favorable impact on the capital structure.

H_3 : Risk committee is positively impacted by significant board size.

2.4 Foreign Director

According to Terjesen et al. (2009), the presence of diverse councils can contribute to the enrichment of the council's knowledge and skills, ultimately leading to improved efficacy in the areas of administration and oversight. Additionally, such variety can help mitigate conflicts that may arise between different agencies. Citizenship represents a particular manifestation of variety within a council. Foreign board members have the potential to offer novel perspectives and opportunities for addressing intricate organizational challenges. Consequently, this has the potential to mitigate the presence of information asymmetry. Corporations that exhibit a significant degree of information transparency tend to place greater reliance on external stocks and exhibit a lesser dependence on debt. This is attributed to the principle of pecking order theory, which suggests that a diminished amount of information asymmetry between corporations and markets leads to decreased costs associated with issuing equities. According to Yousef (2019), Based on the aforementioned information, the present study aims to formulate a hypothesis positing a substantial inverse correlation between the capital structure and the variables under investigation.

H_4 : Foreign director is negatively impacted by significant board size.

2.5 Institutional Ownership

The presence of institutional ownership has a substantial impact on mitigating agency costs through its supervisory function. In order to further their interests, the proprietors of the institution exercise their right to elect the board of directors, exert administrative oversight, and enhance the company's existing financial performance. According to Rashed et al. (2018), board members fulfill a crucial function by abstaining from making decisions that may pose a risk to the business's assets, as well as by participating in voting processes related to significant decisions that are advantageous to the organization. Institutional investors, in their capacity as important shareholders, possess a notable motivation to exercise oversight over the company, so assuming a heightened involvement in its administration. In a study conducted by Paul et al. (2020), it was observed that firms characterized by substantial institutional ownership tend to have relatively lower levels of indebtedness. There exists a positive correlation between a company's elevated level of debt and a substantial degree of institutional ownership. This association suggests that institutional owners are able to lower their monitoring expenses by utilizing debt monitoring, which explains why institutional investors exhibit a preference for companies with high levels of leverage. Based on the provided description, it may be posited that there exists a hypothesis suggesting a negative association between institutional ownership and the capital structure

H_5 : Institutional ownership is negatively impacted by significant board size.

2.6 Manajerial Ownership

The concept of agency theory, as proposed by Jensen and Meckling in 1976, characterizes the dynamic between managers and shareholders as that of an agent and principal. Managerial ownership has the potential to address agency issues that occur between managers and shareholders. This is due to the fact that managers, in their dual role as owners and managers of the company, possess decision-making authority that directly impacts the company's performance. Managerial ownership is a significant factor that exerts influence over corporate financial decisions. Prior empirical research conducted by Feng et al. (2020) and Thakolwiroj and Sithipolvanichgul (2021) has demonstrated a positive association between managerial ownership and leverage. These findings indicate that managers who possess shares in their respective firms exhibit a stronger alignment of interests with shareholders, thereby motivating them to pursue higher levels of leverage in order to enhance the company's value. Based on the aforementioned evidence, it may be posited that there exists a hypothesis suggesting a positive correlation between managerial ownership and the capital structure.

H_6 : Manajerial ownership is positively impacted by significant board size.

3. Methods

3.1 Model Specification

In order to evaluate our hypothesis, we initially formulate the subsequent equation approximation.

$$Lev_{it} = \alpha + \beta_1 Lev_{it-1} + \beta_2 BS_{it} - \beta_3 IO_{it} + \beta_4 MO_{it} - \beta_5 FD_{it} + \beta_6 RC_{it} + \beta_7 BM_{it} + e_{it} \quad (1)$$

In this context, the variable *i* represents the company, *t* represents the time, and e_{it} represents the term error. The leverage ratio of firm *i* in year *t* is employed as the dependent variable on the left-hand side of equation (1). The right side of the equation consists of six corporate governance mechanisms that serve as independent variables. These mechanisms include the size of the board, institutional ownership, managerial possession, the presence of foreign directors on the board of directors, the size of the risk committee, and the size of a board meeting. Table 1 presents a comprehensive overview of the variables included in this study, together with their respective definitions and predictive indicators.

Table 1. Defininition of Variables

Variables	Name	Measures	Expected sign
Leverage	Lev	$\frac{Total\ Debt}{Total\ Equity}$	
Board size	BS	number of board size	+(H_1)
Board meeting	BM	frequency of meetings held and attended by the directors (without the board of commissioners) during the 1 year period.	+(H_6)
Risk committee	RC	number of risk committee members	+(H_5)
Foreign director	FD	$\frac{Number\ of\ foreign\ director}{Total\ number\ of\ directors\ on\ the\ board}$	-(H_4)

Managerial institutional	IO	$\frac{Shares\ owned\ directly\ by\ institution}{Total\ number\ of\ outstanding\ shares}$	-(H_3)
Managerial ownership	MO	$\frac{Shares\ owned\ directly\ by\ management}{Total\ number\ of\ outstanding\ shares}$	+(H_2)

3.2 Estimation Methodology
The utilization of orthogonal conditions on the variance-covariance matrix allows for the consideration of several factors such as simultaneity, heteroscedasticity among firms, correlation of errors over time, and measurement mistakes. This is achieved by the implementation of a robust two-step standard error technique within the generalized method of moments (GMM) system methodology. According to Arellano and Bond (1991), in order to evaluate the reliability of our instruments and the accuracy of our model specifications, we conducted correlation tests on the residuals of various equations using the AR (1) and AR (2) series. The Sargan test, commonly known as the J test, is a method employed to evaluate the presence of over-identifying restrictions pertaining to the validity of instruments.

4. Data Collection
This study includes a sample of all publicly listed companies in the financial sector of the Indonesian stock exchange between the years 2011 and 2021. At present, the Indonesia Stock Exchange accommodates and lists a total of 47 operational banks. For the purpose of this study, companies that did not possess data supplies were excluded based on the research variable. The final sample for our study comprises 24 Indonesian banking organizations, encompassing a total of 264 company-year observations. These observations will be utilized for subsequent estimation utilizing the Generalized Method of Moments (GMM) framework. The data pertaining to capital structure and corporate governance on financial statements was obtained from the Indonesia Stock Exchange (IDX) database and the official website of the company.

5. Results and Discussion

5.1 Summary Statistics
Table 2 displays the descriptive statistical matrix for the variables that were incorporated in our regression analysis. The banking companies included in this study have an average leverage ratio (lev) of approximately 7.4%, with a median value of 6.8%. The average magnitude of direction is 7.2, with a median value of 7. The highest recorded value is 12. The average representation of foreign directors in the council is 8%, while the median stands at 0. On average, management meetings are conducted 36 times throughout a one-year period, with a median frequency of 33 times and a maximum occurrence of 281 times. The mean number of risk committees is 4.6, with a median of 4 and a maximum value of 10. The institution holds a majority shareholding percentage of 72%, with a median value of 75% and a maximum value of 99%. In the present context, it is seen that the mean percentage of management shares stands at 1.8%, while the median value is recorded at 0.001% and the highest number reaches 68%.

Table 2. Summary Statistics

	Leverage	**Board Size**	**Board Meeting**	**Risk Committee**	**Foreign Director**	**Institutional Ownership**	**Managerial Ownership**
Mean	7.48871	7.20455	36.94318	4.65909	0.08754	0.72891	0.01887
Median	6.87216	7.00000	33.00000	4.00000	0.00000	0.75000	0.00001
Maximum	18.20747	12.00000	281.00000	10.00000	0.60000	0.99997	0.68765
Minimum	2.87978	3.00000	4.00000	2.00000	0.00000	0.11032	0.00000
Std Dev	2.84538	2.54462	31.04995	1.66068	0.13864	0.20385	0.08208

5.2 Empirical Result

The empirical findings presented in this section are based on estimated results obtained using the dynamic system GMM estimator, as outlined in the methodology section. This enables the consideration of heterogeneity, endogeneity, and persistence factors that are not readily apparent in the determination of capital structure choices.

Table 3. The Effects of Corporate Governance on Capital Structure Decisions

Variables	Coefficient	Std. Error	t-Statistic	Prob
Log(Lev(-1))	0.756293	0.115638	6.540202	0.0000
Log(BS)	0.214535	0.263541	0.814047	0.4240
Log(BM)	0.037916	0.045126	0.840222	0.4094
Log(RC)	0.228901	0.179004	1.278746	0.2137
FD	-0.568151	0.163735	-3.469934	0.0021
Log(IO)	0.282525	0.259321	1.089479	0.2872
MO	2.445780	0.676771	3.613897	0.0015
Fixed effect				
LogLev	0.557658	0.093130	5.987952	0.0000
PLS				
LogLev	0.803754	0.053841	14.92817	0.0000
AB Test	**Z**	**P-Value**		
AR (1)	-0.596876	0.5506		
AR (2)	0.180289	0.8569		
Sargan test		0.340051		

Table 3 provides a comprehensive overview of the estimations derived from the equation model (1). According to the findings presented in Table 3, the results of the Sargan test indicate that the p-values obtained were greater than 0.05, specifically 0.340051 > 0.05. This suggests that the combined independent factors do not have a statistically significant impact on the variable Lev. Once the relevance of the parameter has been tested, the best model criteria can be measured. The efficacy of the dynamic panel technique employing the Arellano-Bond generalized method of moments (GMM) approach can be deemed favorable when it satisfies the conditions of instrumental validity, consistency, and imperfection. The test findings pertaining to the optimal model criteria are outlined in the Arellano-Bond (AB) test outcomes on the AR(2) of Table 3. The results indicate a p-value of 0.8569, which is above the significance level of 5% (0.8569 > 0.05). Based on the findings, it can be concluded that the first hypothesis is supported, indicating that the estimate is deemed consistent. Furthermore, there is no evidence of autocorrelation in the first difference error in the second order.

The subsequent step involves determining whether the dynamic model exhibits bias or not. The uncertainty test was conducted by evaluating the estimations through the utilization of the first difference generalized method of moments (GMM) technique, alongside the fixed effect and partial least squares (PLS) methodologies. According to the data presented in Table 3, the first difference GMM method yielded an estimate of 0.756293, the fixed effect technique resulted in an estimate of 0.557658, and the PLS approach produced an estimate of 0.803754. The aim is to reconcile the ambiguity by comparing the estimate obtained through the first difference generalized method of moments (GMM) with the estimates obtained through the fixed effect approach and the partial least squares (PLS) approach. The condition of non-compliance has been satisfied, as seen by the result 0.557658 < 0.756293 < 0.803754. This indicates that the dynamic panel model has been appropriately employed.

According to the findings presented in Table 3, the impact of corporate governance on decisions regarding capital structure reveals a noteworthy negative influence from foreign directors. This observation aligns with the formulated hypothesis. The user's text does not contain any information to rewrite in an academic manner. The aforementioned discovery aligns with the pecking order theory proposed by Myers and Majluf in 1984. According to this idea, organizations that have a higher proportion of foreign directors are more likely to raise corporate funding by increasing equity or issuing shares. The fall in the ratio of capital structure will be impacted. The presence of foreign directors inside the Indonesian banking industry can be attributed to regulatory policies aimed at enhancing core bank finance. In cases where internal funding becomes inadequate, organizations may resort to external sources of funding. Equity.

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In order to mitigate information asymmetry and maximize profitability, the principal may opt to appoint a senior manager (director) as their representative within the organization. The results align with the findings of Yousef et al. (2020), wherein it was observed that the presence of foreign directors exerts a notable and adverse impact on the capital structure.

The empirical analysis of management ownership yielded noteworthy positive outcomes in relation to capital structure, which aligns with the formulated hypothesis (H6). According to the hypothesis proposed by Jensen and Meckling (1976), a common occurrence in principal-agent relationships is the presence of information asymmetry, which arises from disparities in knowledge between the two parties involved. Investors exhibit a preference for agents due to the perceived possession of extensive and thorough knowledge pertaining to the company. Incorporating pertinent details in the provision of financing recommendations that may yield advantages for investors. One potential approach to addressing the issue of information asymmetry is the implementation of management share offerings within a corporation. The Principal expressed a need for the agents' assistance in disseminating information to investors in a more equitable manner. The company's profitability continues to be at an excellent level. The results of this study align with the findings of Feng et al. (2020) and Thakolwiroj and Sithipolvanichgul (2021), which demonstrate a favorable correlation between managerial ownership and capital structure.

Contrary to the formulated hypotheses (H1, H2, H3, and H5), this study did not find any significant influence on the size of management, the number of management meetings, the number of risk committees, or institutional ownership. This finding aligns with previous research undertaken by Vijayakumaran and Vijayacumaran (2019) as well as Al-Saidi (2020), which suggests that the size of the management team does not have a major impact on the capital structure. According to the studies conducted by Al-Saidi (2020) and Grabinska et al. (2021), it was determined that institutional ownership did not exhibit a statistically significant impact on capital structure. However, the findings of the study conducted by Shehadeh et al. present a contradictory perspective. According to the findings of Ezeani et al. (2022), it was demonstrated that the frequency of board meetings exhibited a statistically significant and favorable impact on the capital structure.

5.3 Proposed Improvements

Further research and analysis are required to gain a deeper understanding of the correlation between corporate governance variables and capital structure decisions. It is necessary to investigate the potential impact of various contextual elements that may contribute to divergent outcomes. For instance, future investigations may prioritize the identification of other forms of corporate governance that have not been considered as variables in the present study. There exists a necessity to do research that precisely establishes a connection between banking regulation and corporate governance mechanisms. The inclusion of macroeconomic information as a determinant in bank capital structure decisions was also proposed by the researchers. The authors of the report propose a further examination of the method employed to assess leverage in the banking sector, specifically recommending a reevaluation that distinguishes between short-term and long-term debt.

6. Conclusion

The present study focuses on the governance of Indonesian banking organizations, specifically examining the impact of foreign directors' composition on the capital structure. The presence of foreign management exerts a detrimental impact on the business capital structure. The results align with the pecking order theory, which posits that firms with a higher proportion of foreign directors are inclined to augment their corporate finance by means of heightened equity or share issuance. The presence of managerial ownership exerts a favorable and statistically significant impact on the composition of a firm's capital structure. According to Jensen and Meckling (1976), the agency theory posits that the possession of management shares might serve as a mechanism to mitigate the knowledge imbalance that exists between the principal and agent. Prior studies have also provided evidence in favor of a positive correlation between managerial ownership and capital structure. In contrast to our initial premise, the variables of management size, number of management meetings, and size of risk committees do not exhibit a statistically significant impact on the capital structure. The aforementioned findings will aid policymakers in evaluating the adequacy of corporate governance changes in bolstering the management of capital structure, particularly within the context of Indonesia.

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