



The influence of capital structure and operational performance on financial performance with governance and financial risk as mediation in Insurance Companies in Indonesia

Ahmad Sumarlan^a, Kamaluddin^b, Fachruzzaman^b and Robinson^b

^aUniversitas Muhammadiyah Bengkulu, Indonesia; ^bUniversitas Bengkulu

ARTICLE HISTORY

Received October 10, 2023. Accepted February 21, 2024. DOI:10.55942/jeb1.v4i1.305

ABSTRACT

This study examines the influence of capital structure and operational performance on financial performance, with governance and financial risk as mediators. The sample for this research comprises insurance companies listed on the Indonesia Stock Exchange in 2013-2021 with a total of 72 firm-year observations. The data used are secondary data obtained from annual and financial reports accessed via idx.co.id. The independent variables are capital structure, measured using the Debt Equity Ratio (DER), and operational performance, measured using liquidity. The mediating variable is the governance variable, measured by the independent board of directors (DKI), and financial risk is measured using Risk Based Capital (RBC). The dependent variable in this study uses financial performance as measured by Return On Assets (ROA). The results prove the following: (1) Capital structure has a positive and significant effect on financial performance. (2). Operational performance has a negative and significant effect on financial performance. (3). Capital structure had a positive and significant effect on DKI. (4) Operational performance has a significant negative effect on financial risk. (5) DKI does not mediate the influence of capital structure on financial performance. (6) Financial risk fully mediates the influence of operational performance on financial performance. (7). DKI has a negative and significant effect on financial performance. (8). Financial risk has a negative and significant effect on financial performance.

KEYWORDS

Capital structure; operational performance; governance; financial risk; financial performance

1. INTRODUCTION

Indonesia is a developing country with a large population and a relatively high level of economic growth; it has companies that perform well in various sectors, but still vary in each economic sector. Performance is measured by the profitability that the company will affect its condition. Large profits cannot be separated from companies' financial decisions. One of these is funding decision. The funds obtained can be sourced from debt and equity to form the company's capital structure; however, if the company's debt is too large, it will have a problematic impact because of the interest costs that must be paid every month (Noviani et al., 2019).

Capital structure influences financial performance, so maximizing financial performance is achieved by making decisions on determining the right capital structure. The optimal capital structure is determined by debt and capital, which have a minimum cost of capital, maximum financial performance (Makkulau et al., 2018), and increasing investor confidence (Dewi et al., 2014). Improving financial performance can help maintain a company's excellence and sustainability to increase shareholder prosperity (Ardiana & Chabachib, 2015).

Financial performance is the main indicator of whether a company is good or bad for the sustainability of its operational activities in the future and is a benchmark for planning goals. Performance evaluation functions to reduce errors related to all aspects of company performance, including financial performance (Asna, 2017). Financial performance refers to the effectiveness and efficiency of capital utilization from a company's operational activities (Kristianto, 2018). Profitability is a proxy for financial performance is profitability. Profitability is an important factor in financial management because one of its goals of financial management is to maximize shareholder welfare.

Charumathi (2012), one measure of profitability for investors is return on assets (ROA), which is in line with previous research indicating that ROA is the key indicator of profitability for insurance company is ROA (Mazviona et al., 2017). ROA can be influenced by capital structure and operational performance. Capital structure is very important for the insurance industry because funding permanently consists of long-term debt, preferred shares, and capital shareholders. If the composition of financing sources is used in the form of an equation, then the relationship between financial structure and capital structure is the financial structure minus short-term debt will be the same as capital structure.

Brigham and Houston (2019) state that if a company wants to grow, it needs capital for its operational activities. Funding decisions or decisions on capital structure, namely that companies need to consider and analyze the combination of economic sources of funds to cover investment needs. The capital structure of each entity, which describes the amount of owner's investment in the form of equity in the company, is an important factor that must be considered. Lukviarman (2016) states that capital structure is a pattern that describes how risk and control are allocated by various investors in a corporation.

structure is an important thing that must be done, this is because capital structure management has an impact on expected returns and risks that stockholders will accept in the future. Capital structure theory began with research by Modigliani and Miller (1958), who stated that under conditions of no taxes and transaction costs, capital structure has no effect on company performance. Modigliani & Miller (1963). Myer (1977) explains the trade off theory , namely that if the capital structure position is below the optimal point then any additional debt will increase the company's performance, but after passing the optimal point, additional debt can reduce the company's financial performance.

Insurance is a financial institution that operates in the financial sector, collects funds, and uses them to finance development, and the public can participate in the insurance business. The insurance business aims to protect against financial losses caused by unexpected events. According to the Financial Services Authority, the number of insurance owners in Indonesia is no more than 2% of the total population of around 250 million people; therefore, the potential for continued growth of insurance in Indonesia is very large.

Financial risk is often associated with loss; therefore, risk is assessed as a consequence of uncertainty that might give rise to losses or the opportunity for bad results

from planning. This reduces the certainty of the amount of reward for shareholders because the company must pay interest before deciding on the distribution of profits to shareholders. Financial Risk causes greater variability in net income (net income) is greater. Financial risk in this research is proxied by risk-based capital (RBC) or solvency level. A high RBC value indicates the solvency value the company meets the requirements set by the government; companies that have RBC that are high are said to be solvent or healthy, so that the company's RBC has high performance finances. Thus, RBC influence financial performance (Sumartono & Harianto, 2018).

The insurance sector in this research is because the insurance sector is a business sector with its own characteristics. According to Satria, (1994) there are differences between the financial reports of insurance companies and financial reports of other general companies. The first difference concerns the form, content, and structure of financial reports. The second difference is in the revenue and expense recognition systems. The next difference lies in the underwriting function (risk management) and claims handling function. Other companies can calculate the costs precisely before determining the cost price. So that's not the case with insurance companies

2. LITERATURE REVIEW

2.1. Trade Off Theory

The trade-off theory is a development of the theory of Modigliani and Miller (1958) carried out by Myers (1977). This theory illustrates that the optimal capital structure can be determined by balancing the benefits of using debt (the tax shield benefit of leverage) with the costs of financial distress and agency problems (Megginson 1997). According to the trade-off theory, if a company increases its debt (debt ratio), then the company will receive tax benefits because the tax paid is less due to interest payments on debt or the existence of an interest tax shield. However, with increasing debt, a company will face the risk of bankruptcy, which will lead to higher bankruptcy costs if the company adds debt to its long-term funding structure. Using debt means that the company pays a certain amount of interest. Interest is a tax deduction (tax deductible) because it will reduce the company's obligation to pay taxes, thereby increasing the value of cash flow after tax.

2.2. Agency Theory

Jensen and Meckling (1976) explain that agency theory is caused by agency relationships as contracts between principals involving other people (agents) to carry out activities and decision-making authority. The relationship between the principal and agent is based on the separation of ownership and control of the company, risk-bearing, and company functions. Agency theory can cause agency conflicts between controlling shareholders and minority shareholders, shareholders and creditors, and controlling shareholders and other stakeholders, including suppliers and employees.

Jensen and Meckling (1976) describe agency relationships as relationships between the company owner (principal) and agent, with delegation of decision-making authority to the agent. In an agency relationship, there may be a conflict of interest between the principal and agent. Shareholders demand increased company profitability and dividends, while managers are motivated to maximize the fulfillment of economic and psychological needs. Based on agency and principal relationships, management is

encouraged to carry out earnings management when presenting financial report statements (Maharani and Soewarno, 2018).

2.3. Signal Theory

Signal theory attempts to explain how a company's internal environment (management) is related to its external environment (investors) in relation to information about the actual state of a company. The policies of one company and another will be different; this difference means that not everyone will know the information or conditions that actually occur within a company, especially parties outside the company. The lack of information obtained by external parties from the company causes them to protect themselves and to be careful in assessing the quality of the company, which is realized in assessing share prices.

The role of this theory in the entity is to reduce the level of information asymmetry that occurs between management and shareholders because shareholders have a detailed understanding of the entity's strategy, which had been previously informed by company management (Van Zijl et al., 2017). Signaling theory is correlated with the independent variable of this research, namely, operational performance. Capital owners (insurance participants) can measure company performance independently using operational performance to minimize problems caused by information asymmetry.

2.4. Capital Structure

Capital structure is a pattern that describes how risk and control are allocated by various investors in a corporation. Based on this understanding, the capital structure of a company is not only related to, and limited to, the composition or structure of financing using debt and equity owned by the company (Lukviarman, 2016). The capital structure mechanism implemented by the company with the approach used to use financing sources generally aims to maximize company value and shareholder welfare through the ability to increase company value based on the costs generated by financing sources that will be received in the future.

Brealey et al. (2017) explain that capital structure is a combination of company funding originating from debt and equity. Brigham and Houston (2019) defined capital structure as a mixture or collection of debt, preferred shares, and own capital used to raise company funding. In addition, Copeland, Weston, and Shastri (2013) explained that capital structure is how a company meets its long-term funding needs through debt and equity. Therefore, capital structure is a combination of funding originating from debt, shares, and capital that can be used for company activities. The capital structure can provide benefits and costs for the company. Gitman and Zutter (2014) state that debt can lead to (1) an increase in the risk of bankruptcy due to debt obligations, (2) agency costs arising from monitoring costs, and (3) information asymmetry between managers and investors.

2.5. Operational Performance

According to Sobandi and Kosasih (2014), operational performance can be interpreted as the process suitability and performance evaluation of a company's internal operations in terms of costs, customer service, delivery of goods to customers, quality, flexibility, and process quality of goods or services. Performance is something produced by

a company in a certain period by referring to established standards (Prabowo & Jaya, 2015). Performance is also the implementation and plans prepared by the organization. This implementation is carried out by employees who have the ability, competence, motivation, and interests. Performance is the result of work that can be obtained by a person or company in accordance with their respective authority and responsibilities in an effort to achieve the organization illegally, does not violate the law, and does not conflict with morals and ethics.

2.6. Governance

The Indonesian Institute of Corporate Governance defines corporate governance as a tool for directing and controlling a company's operational activities to comply with the wishes of stakeholders. Good Corporate Governance (GCG) is also key to a company that can connect managers, the board of commissioners, shareholders, and other stakeholders. The corporate governance mechanism is the relationship between the decision maker and the party that supervises the decision (Hapsoro & Hartomo 2016). The governance structure referred to in this research is the company's organs, consisting of the Board of Commissioners, Directors, and committees under the Board of Commissioners. The corporate governance structure in this research is measured by the size of the Board of Commissioners, the percentage of independent commissioners, and the number of audit committees, and the choice of these measurements is based on several considerations. Several researchers such as Ahmad et al. (2013), Hassan and Halbouni (2013), Owusu and Weir (2016), Yasser et al. (2017) and Mardnly et al. (2018) .

2.7. Financial Risk

Financial risk is part of corporate risk that includes financial consequences, good and bad, managing corporate risks, and pursuing opportunities. (Hampton, 2011). The financial risk in this study uses Risk Based Capital (RBC).

According to the National Association of Insurance Commissioners (2019), risk-based capital (RBC) measures the minimum amount of capital appropriate for a reporting entity to support overall business operations by considering its size and risk profile. RBC is intended to be a minimum regulatory capital standard and not necessarily the entire amount of capital an insurance company wishes to hold to meet its safety and competitive objectives. In addition, RBC is a tool that provides regulators with legal authority to control insurance companies. (National Association of Insurance Commissioners, 2019)

2.8. Financial Performance

Performance is a complete display of the condition of a company over a certain period of time and is a result or achievement that is influenced by the company's operational activities in utilizing its resources. Several indicators are used to measure company performance, including Return On Assets (ROA) in this research. Financial performance measures a company's profit and market value. Performance is the work result that can be achieved by a person or group of people in an organization, in accordance with their respective authority and responsibilities in order to achieve the goals of the organization concerned legally, without violating the law, and in accordance with morals and ethics. Performance can be divided into financial and nonfinancial performance

(Sayed et al., 2022).

2.9. Research Hypothesis

2.9.1. Capital Structure on Financial Performance

An efficient capital structure is important for companies to increase their company value. Capital structure positively influences company performance (Abdullah & Tursoy, 2021; Ahn et al., 2006; Bei & Wijewardana, 2012; Berger & Bonaccorsi di Patti, 2006; Chandra et al., 2019; Fosu, 2013; O'Brien et al., 2014; Whiting & Gilkison, 2000). Afza & Ahmed's (2017) research shows that capital structure has a positive effect on company performance as measured using Tobin's Q. Vijayakumaran (2018) shows that capital structure has a positive effect on company performance as measured using ROA and ROE. Fosu's (2013) results show that capital structure has a positive effect on ROA and ROE. Thus, the hypotheses of this study are as follows:

H1: Capital structure influences financial performance

2.9.2. Operational Performance on Financial Performance

Operational performance is proxied by liquidity. Liquidity plays an important role in companies. Based on agency theory, managers have excess authority and information regarding policies and control systems for a company to create good liquidity by utilizing investments and accounts receivable. According to Kaya (2015), Gashaw (2012), and Hidayati and Baehaqi (2018), when liquidity increases, companies must reserve cash to meet the high levels of liquidity by reducing investment activities to decrease company performance. From this description, the hypotheses in this study can be formulated as follows:

H2: Operational performance influences financial performance

2.9.3. Capital Structure on Governance

Agency theory states the relationship between shareholders (principals) and management (agents) who have different interests. An independent commissioner is an outside party whose role is to evaluate the company's performance and make decisions regarding the company's progress, not for personal or group interests. Capital structures can be used to represent external control of governance. Debt holders are interested in protecting their investments in the company and always monitor the level of debt in the company. Novita and Ardini (2020) state that governance influences debt policies (Hestiningtyas & Widyawati, 2018; Hestiningtyas & Widyawati, 2019). Based on the above description, the hypotheses in this study are as follows:

H3: Capital structure influences governance

2.9.4. Operational Performance against Financial Risk

Agency theory reveals that managers have more authority and information to determine policies and control systems to produce good liquidity through investments and accounts payable. Operational performance measures an entity's ability to pay for short-term obligations. From the insurance participant's perspective, a high operational performance ratio (more than 120%) results in less good results because the level of profit from managing current assets tends to be smaller than that of fixed

assets. Therefore, management is considered unreliable in managing funds from insurance participants (Mujtahidah & Laily, 2016). On the other hand, if financial risk has a high value (more than 120%), it will produce good results because the level of profit from managing fixed assets is better than that of current assets. Awrasya and Kusumaningtias (2021) state that operational performance ratios influence financial risk (Utami et al., 2016; Ulfan et al., 2018; Rofiudin et al., 2019). Based on the above description, the hypotheses proposed in this study are as follows:

H4: Operational performance influences financial risk

2.9.5. Capital Structure on Financial Performance is mediated by Governance

Corporate governance refers to a company's ability to manage a company. The implementation of governance shows a company's ability to manage the company. Poor governance has the potential to fail to manage capital structures and cause bankruptcy (Noviani et al., 2019). Governance is a guideline for resolving conflicts that occur between managers and shareholders to ensure that managers can manage funds to maximize company value. Companies will have greater access to external funding when the proportion of independent commissioners as governance increases (Claessens & Yurtoglu, 2013). Greater access to external funding makes it easier for companies to manage and improve their capital structure. In addition, through governance, which is measured through managerial ownership, companies can adopt policies regarding debt (Yanti et al., 2021). Thus, the third hypothesis is as follows.

H5: The effect of capital structure on financial performance is mediated by governance

2.9.6. Operational Performance on Financial Performance is mediated by Financial Risk

Operational performance plays an important role in companies. According to agency theory, managers have excess authority and information regarding company policies and control systems to create good liquidity by utilizing investments and accounts receivable.

Sumartono and Harianto (2018), Shiu (2015), and Dube et al. (2017) Insurance companies with more liquid assets can use assets to finance their operational and investment activities when external financing is unavailable or too expensive to maintain company performance. According to Gashaw (2012) and Hidayati and Baehaqi (2018), when liquidity increases, companies must reserve cash to fulfill high levels of liquidity by reducing investment activities so that company performance decreases. Based on this description, the hypothesis in this research can be formulated as follows

H6: Operational performance influences financial performance mediated by financial risk

2.9.7. Governance on Financial Performance

The governance structure is a process that aims to protect stakeholders. Corporate governance structure plays an important role because it makes a company more competitive (Ehikioya, 2009), more trustworthy (Bravo et al., 2015), and safer (Bhatt & Bhatt, 2017). In addition, corporate governance structures maximize shareholder wealth and improve corporate performance (Shleifer & Vishny, 1997). Hassan and Halbouni (2013), Rodríguez-Fernández (2015), and Yasser et al. (2017) find that board size influences company performance. In addition, Yasser et al. (2017), Mishra and

Kapil (2018), and Singh et al. (2018) provide evidence that the percentage of independent commissioners influences a company's business performance. According to the signal theory, companies provide signals to investors. The results of the studies by Singh et al. (2018) and Mishra and Kapil (2018) provide empirical evidence that the number of board meetings influences a company's business performance. Hassan and Halbouni (2013) provide evidence that the number of audit committee meetings influences a company's business performance. Based on the above explanation, we propose the following hypothesis:

H7 : Governance influence on Financial Performance

2.9.8. Financial Risk on Financial Performance

Financial risk is proxied by risk-based capital (RBC). RBC is the solvency ratio of insurance companies that describes the health of a company's capital (Fadrul and Rahayu, 2020; Fadrul and Simorangkir, 2019). A company with a high RBC indicates that it has high capital security and is ready to face risks that arise in the future (Agustin et al., 2018). RBC is the capital adequacy ratio used to assess the health of an insurance company (Rahayu and Mubarak 2018). RBC are among the elements that influence company performance (Soniaty et al., 2020). High RBC are related to good management of company obligations, thus having the effect of increasing insurance customer confidence and company profits (Nurrosis & Rahayu, 2020). Increased trust in companies is caused by good performance management and corporate governance, thereby creating a positive signal to the market (Tsaur & Wang, 2009). Based on the above description, the sixth hypothesis is proposed as follows:

H8 : Financial risk influences financial performance

RESEARCH METHODS

3. Research design

This research is quantitative and tests the hypotheses (Sekaran, 2003). Quantitative research uses samples from a population, tests them using statistical tools, and draws conclusions (Sekaran 2003). Berete (2011) explained that the quantitative approach relies on the collection and analysis of numerical data. This study empirically proves the mediating role of governance and financial risk in the influence of capital structure and liquidity on financial performance. In this research, the research phenomenon was built based on trade-off theory, agency theory, signal theory, and stewardship theory. The use of theory aims to explain the relationship between the built variables. In addition, the relationship between the variables in this study was supported by the research results. Variance-based SEM-PLS was used for the data analysis. The use of SEM-PLS is recommended in financial management research (Hair et al., 2014).

4. METHODOLOGY

4.1. Sample

The population in this study comprised insurance companies listed on the Indonesia Stock Exchange in 2013–2021. Purposive sampling was used for sampling. This study uses insurance companies registered on the IDX from 2013 to 2021. Therefore,

in this study, 72 samples were used, considering the completeness of the data. based on considerations of the criteria.

4.2. Method of collecting data

The data used in this research are secondary data in the form of financial, annual, and sustainability reports of companies listed on the Indonesia Stock Exchange from 2013 to 2021. Data sources were obtained from: Indonesia Stock Exchange, Database at www.idx.co.id and website of the company under study.

4.3. Analysis Method

Research requires data analysis and interpretation to reveal specific facts. Data analysis is defined as a step to simplify data into a form that makes observation easier. Researchers use analytical tools such as

4.4. Direct Effect Testing

The confidence level used was 90%; therefore, the maximum level of precision or inaccurate limit (α) was 10%. So:

- (1) If the p-value $> \alpha$, H_0 is accepted and H_1 is rejected, or the relationship between the independent variable and the dependent variable has no significant influence.
- (2) If the p-value $< \alpha$, then H_0 is rejected and H_1 is accepted, or the relationship between the independent variable and the dependent variable has a significant influence.

4.5. Indirect Effect Testing

To determine the indirect influence of the independent variable on the dependent variable through the intervening variable, the requirements that must be met are that the relationship between the independent variable and the dependent variable has a path coefficient that has a significant effect, the independent variable to the intervening variable has a significant path coefficient, and the intervening variable to the dependent variable. has a significant path coefficient. According to Hair et al. (2014), the conclusions about mediation are as follows:

- (1) If the path coefficient from the independent variable to the dependent variable remains significant and does not change, then the mediation hypothesis is not proven
- (2) If the path coefficient from the independent variable to the dependent variable decreases and remains significant, then the form of mediation that occurs is partial .
- (3) If the path coefficient from the independent variable to the dependent variable decreases and is not significant, then the form of mediation that occurs is full .

5. RESEARCH RESULTS AND DISCUSSION

5.1. Data Description and Discussion

This study uses insurance companies registered on the IDX from to 2013-2021. A purposive sampling method was used in this study. There were 72 companies were sampled, considering the completeness of the data. A list of research samples based on insurance companies is presented in Table 4.1.

5.2. Sampling Criteria

Table 1. SamplingCriteria

No	Sample Criteria	Amount
1	Insurance Company listed on the Indonesian Stock Exchange 2013 – 2021	17
2	Insurance companies that do not have complete data according to research variables	(9)
	Research samples that meet the criteria	8
	Year of Research	9
	Total research sample used	72

Source: processed data (2023)

5.3. Hypothesis test

Hypothesis testing was conducted using two tests. The first test directly tests the influence of the independent variable on the dependent variable without involving mediating variables. The second test involved indirect testing of the mediating variables. Table 2 presents the results of the direct influence before and after entering the mediating variable.

Table 2. Direct Effect Hypothesis Test Results Before Entering the Mediating Variable and After Entering the Mediating Variable

Panel A. Direct Effects before Mediating Variables				
Hy-pothe-sis	Influence between variables	Value (path coefficient, p value)		Conclu-sion
H1	DER – ROA	0.380, p value < 0.01		Accepted
H2	KO – ROA	-0.203, p value < 0.03		Accepted
Panel B. Direct Effect after entering the Mediating Variable				
Hy-pothe-sis	Influence between variables	Value (path coefficient, p value)	Change in Value (path coefficient, p value)	Conclu-sion
H3	DER – GCG	0.420, p < 0.05	-	H1: Accepted
H4	KO – RBC	-0.540, p < 0.01	-	H2: Accepted
H5	DER – ROA GCG – ROA	0.220, p = 0.05 p < 0.05	0.420, DER – ROA Decreases and becomes Significant	H5: Do not mediate
H6	KO – ROA KO – RBC – ROA	-0.160, p = 0.120 -0.540, p < 0.01	KO – ROA decreases and becomes insignificant	H6: Full Mediation
H7	GCG – ROA	-0.330, p < 0.01		H7: Accepted
H8	RBC – ROA	-0.320, p < 0.01		H8: Accepted
3 Segment Indirect Effect Testing				
	Influence between variables	p-value of Indirect Effect With 2 Segments		Conclusion
	DER – GCG – ROA	0.415		Not Mediating
	KO – RBC – ROA	0.037		Mediate

Source: processed data (2023)

Hypothesis testing and discussion of the research results are based on Table 4, namely the results of data processing using the entire sample.

5.4. Discussion

5.4.1. The Effect of Capital Structure on Financial Performance

The results of empirical testing show that capital structure affects financial performance, meaning that capital structure can improve financial performance. The results of this study support trade-off theory. Trade-off theory states that the use of debt in a company's capital structure can improve company performance; however, if the use of debt exceeds the optimal point, increasing the use of debt can cause a decline in company performance. An efficient capital structure is important for companies to increase their company value. Wrong decisions regarding the mix of debt and equity can lead a business to financial difficulties and ultimately bankruptcy (Rani et al., 2019). Capital structure positively influences company performance (Abdullah & Tursoy, 2021; Ahn et al., 2006; Bei & Wijewardana, 2012; Berger & Bonaccorsi di Patti, 2006; Chandra et al., 2019; Fosu, 2013; O'Brien et al., 2014; Whiting & Gilkison, 2000).

The results of this research are in line with Afza & Ahmed (2017) showing that capital structure has a positive effect on company performance as measured using Tobin's Q. Vijayakumaran (2018) shows that capital structure has a positive effect on company performance as measured using ROA and ROE. Fosu's (2013) results show that capital structure has a positive effect on ROA and ROE. The acceptance of the first hypothesis shows that capital structure can improve financial performance.

5.4.2. The Effect of Operational Performance on Financial Performance

The empirical test results show that operational performance has a negative and significant effect on financial performance, meaning that operational performance can reduce financial performance. Performance is something produced by a company in a certain period by referring to established standards (Prabowo & Jaya, 2015). Performance refers to the implementation and plans prepared by the organization. This implementation is carried out by employees who have the ability, competence, motivation, and interests. Performance is the result of work that can be obtained by a person or company in accordance with their respective authority and responsibilities in an effort to achieve the organization illegally, does not violate the law, and does not conflict with morals and ethics. Liquidity is a company's ability to meet its current obligations.

The research results are in line with Kaya (2015), Gashaw (2012), and Hidayati and Baehaqi (2018): when liquidity increases, companies must reserve cash to fulfill high levels of liquidity by reducing investment activities so that company performance will decrease. Suwarno and Muthohar (2018) state that operational performance influences financial performance (Clara, 2013; Iskandar Laila, 2016). Acceptance of the second hypothesis shows that operational performance has a significant negative effect on financial performance.

5.4.3. Capital Structure on Governance

The results of empirical testing show that capital structure influences governance. This indicates that the capital structure requires the implementation of optimal governance

so that the company can minimize the use of debt. These results show that the implementation of governance is optimal and can influence the decision to use liabilities to increase capital (capital structure).

The results of this study are in line with those of Novita and Ardini (2020), who stated that governance influences debt policy (Rohmah et al. , 2018; Hestingtyas and Widyawati, 2019). Capital structure is a policy that can determine the amount of funds that need to be financed by company debt. Capital structure can be used to represent the external control of GCG. Debt holders are interested in protecting their investments in the company and always monitor the level of debt in the company.

5.4.4. The Effect of Operational Performance on Financial Risk

Empirical test results show that operational performance has a negative and significant effect on financial risk. This shows that the operational performance of insurance companies in Indonesia can reduce their financial risk if managed well. Operational performance plays an important role in companies. Agency theory reveals that managers have excess authority and information regarding policies and control systems for a company to create good liquidity by utilizing investments and accounts receivable.

The results of this research are in line with those of Sumartono and Harianto (2018), who stated that operational performance influences financial risk (Dube et al., 2015; Dube, et al. , 2017). Insurance companies with more liquid assets can use assets to finance their operational and investment activities when external financing is unavailable or too expensive to maintain company performance. Kaya (2015) states that when liquidity increases, companies must reserve cash to fulfill high levels of liquidity by reducing investment activities to decrease company performance (Gashaw, 2012; Hidayati & Baehaqi, 2018).

5.4.5. The influence of capital structure on financial performance is mediated by governance

The results of empirical testing show that governance, as measured using an independent board of commissioners, cannot mediate the influence of capital structure on financial performance. This is possibly because some insurance companies have less than 50% independent boards of commissioners or do not meet the ideal requirements; thus, they have not been successful in carrying out one of their duties to ensure the implementation of good governance in every insurance business activity at all levels of the organization.

Implementation of governance shows a company's ability to manage the company, and poor governance has the potential to fail capital structure management and lead to bankruptcy (Noviani et al., 2019). Governance serves as a guideline for resolving conflicts that occur between managers and shareholders to ensure that managers can manage funds to maximize company value. Companies have greater access to external funding when the proportion of independent commissioners involved in corporate governance increases (Claessens and Yurtoglu, 2013).

5.4.6. The influence of operational performance on financial performance is mediated by financial risk

The results of empirical testing show that financial risk measured using RBC can mediate the influence of operational performance on financial performance. This shows that operational performance can improve through financial risk. Operational perfor-

mance plays an important role in companies. According to agency theory, managers have excess authority and information regarding company policies and control systems to create good liquidity by utilizing investments and accounts receivable.

The results of this research support Sumarto and Harianto (2018), who reveal that RBC mediate the influence of operational and financial performance (Shiu, 2012; Dube, et al. 2017). Insurance companies with more liquid assets can use assets to finance their operational and investment activities when external financing is unavailable or too expensive to maintain company performance. Kaya (2015), when liquidity increases companies must reserve cash to fulfill high levels of liquidity by reducing investment activities so that company performance will decrease (Gashaw, 2012; Hidayati & Baehaqi, 2018)

5.4.7. The Influence of Governance on Financial Performance

The results of empirical testing show that governance has a positive and significant effect on financial performance. This shows that the implementation of governance in insurance companies in Indonesia can be used to increase company assets, or that insurance companies in Indonesia in general will use governance as an effort to increase their assets. This condition shows that the better the implementation of governance, the more company assets will increase, so that the company has the opportunity to increase profits.

The application of governance in a company's financial performance is the key to success for companies to gain long-term profits and be able to compete well in global business because investors tend to avoid companies with bad reputations in terms of corporate governance. Governance is developed based on agency theory, in which company management must be supervised and controlled to ensure that it is carried out in full compliance with applicable rules and regulations (Jensen & Meckling, 1976).

5.4.8. Financial Risk on Financial Performance

The empirical test results show that financial risk has a significantly positive effect on financial performance. This shows that financial risk reduces companies' financial performance. Financial risk is proxied by risk-based capital (RBC). RBC is an insurance company's solvency ratio that describes the health of its capital (Nurrosis & Rahayu, 2020; Fadrul & Simorangkir, 2019). A company with a high RBC indicates that it has high capital security and is ready to face risks that arise in the future (Agustin et al., 2018).

The results of this research are in line with Hidayat and Yusniar (2021), who showed that risk-based capital has an influence on financial performance (Utami & Werastuti, 2020; Fadrul & Simorangkir, 2019; Sumartono & Harianto, 2018; Meka & Handayani, 2018; Sastri et al., 2017). Companies with a high level of health have an impact on achieving good company performance. The greater the RBC ratio value obtained by the company, the better its financial condition.

6. CONCLUSION

Based on the analysis and discussion, the conclusions of this study are as follows.

- (1) Capital structure has a positive and significant effect on financial performance

- (2) Operational performance has a negative and significant effect on financial performance
- (3) Capital structure has a positive and significant effect on governance
- (4) Operational performance has a negative and significant effect on financial risk
- (5) Governance has not mediated the influence of capital structure on financial performance
- (6) Full financial risk mediates the influence of operational performance on financial performance
- (7) Governance negative and significant effect on Financial Performance
- (8) Financial Risk has a negative and significant effect on financial performance

7. LIMITATIONS AND RESEARCH SUGGESTIONS

A limitation of this study is that it uses one financial performance proxy, ROA. Future research can use other proxies for financial performance and can use more than one proxy to explain financial performance from the market base and accounting base (Haryono et al., 2017).

REFERENCES

- Abdullah, H., & Tursoy, T. (2021). Capital structure and firm performance: evidence of Germany under IFRS adoption. *Review of Managerial Science*, 379-398
- Afza, T., & Ahmed, N. (2017). Capital Structure , Business Strategy and firm's performance : Evidence from. *European Online Journal of Natural and Social Sciences*, 6(2), 302– 328.
- Ahmad, A., M. T . Anjum & M. Azeem. (2014). Investigating The Impact Of Corporate Governance On Earning Management In The Presence Of Firm Size: Evidence From Paksitan. *Vidyabharati International Interdisciplinary Research Journal*. 3 (2): 84-90.
- Albastian, F. A., & Isnaen, F. (2021). Analisa Pengaruh Struktur Modal, Premi Netto dan Profitabilitas terhadap Solvabilitas Perusahaan Asuransi di Indonesia. *Al-Amal: Jurnal Akuntansi dan Keuangan Islam*, (2)2, hal:144-166
- Ardiana, E., & Chabachib, M. C. (2015). Analisis Pengaruh Struktur Modal, Ukuran Perusahaan dan Likuiditas Terhadap Nilai Perusahaan Dengan Profitabilitas Sebagai Variabel Intervening (Studi pada Perusahaan Consumer Goods yang terdaftar di BEI pada Tahun 2012-2016). *Diponegoro Journal of Management*, 7(2), 1–14. <https://doi.org/10.1115/IMECE2012-8571>
- Asna, Hardiyanti Adi. (2017). *Pengaruh Dewan Komisaris, Independen, Kepemilikan Manajerial, dan Kepemilikan Institusional Terhadap Kinerja Perusahaan Pada Perusahaan Manufaktur*. STIE Perbanas Surabaya
- Awrasya, J.F., & Kusumaningtias, R. (2021). Pengaruh Rasio Earlu Warning System dan Good Corporate Governance Terhadap Tingkat Solvabilitas pada Asuransi Jiwa Syariah. *JAE: Jurnal Akuntansi dan Ekonomi*, 6(2), 13-26. DOI: 10.29407/jae. v6i2.15830
- Bei, Z., & Wijewardana, W. P. (2012). Financial leverage, firm growth and financial strength in the listed companies in Sri Lanka. *Procedia - Social and Behavioral Sciences*, 40, 709– 715. <https://doi.org/10.1016/j.sbspro.2012.03.253>
- Berete, Moussa. 2011. Relationships between Corporate Social Responsibility and Financial

Performance in the Pharmaceutical Industry, Copyright 2011 by Proquest LLC.

- Brealey, Richard A., Myers dan Marcus, 2017, Dasar-Dasar Manajemen Keuangan Perusahaan, Edisi Kelima, Jilid 2, Alih Bahasa Bob Sabran, Erlangga, Jakarta.
- Brigham, E. F., & Houston, J. F. (2019). *Fundamentals of Financial Management* (15th ed.). Cengage
- Chandra, T., Junaedi, A. T., Wijaya, E., Suharti, S., Mimelientesa, I., & Ng, M. (2019). The effect of capital structure on profitability and stock returns: Empirical analysis of firms listed in Kompas 100. *Journal of Chinese Economic and Foreign Trade Studies*, 12(2), 74–89. <https://doi.org/10.1108/JCEFTS-11-2018-0042>
- Charumathi, B. (2012). Determinants of Profitability of Indian Life Insurers - An Empirical Study. *Proceedings of the World Congress on Engineering*, 11, WCE, July 4-6.
- Dewi, I. (2014). Pengaruh Struktur Modal Terhadap Nilai Perusahaan (Studi Pada Sektor Pertambangan Yang Terdaftar Di Bei Periode 2009-2012). *Jurnal Administrasi Bisnis S1 Universitas Brawijaya*, 17(1), 85090
- Ehikioya, Benjamin I. 2009. "Corporate governance structure and firm performance in developing economies: evidence from Nigeria". *Corporate Governance*, Vol. 9 Iss: 3 pp. 231 – 243.
- Fosu, S. (2013). Capital structure, product market competition and firm performance: Evidence from South Africa. *The Quarterly Review of Economics and Finance*, 53(2), 140–151. <https://doi.org/10.1016/j.qref.2013.02.004>
- Gitman, L.J., & Zutter, C.J. (2014). *Principles of Managerial Finance*. South Africa, Pearson.
- Hair, et al, 2014, *Multivariate Data Analysis*, New International Edition., New Jersey : Pearson.
- Hapsoro, D., & Hartomo, A. B. (2016). Keberadaan Corporate Governance Sebagai Variabel Moderasi Pengaruh Financial Distress Terhadap Earnings Management. *Jurnal Ekonomi Dan Bisnis*, 19(1), 91.
- Hassan, M. K., & Halbouni, S. S. (2013). Corporate governance, economic turbulence and financial performance of UAE listed firms. *Studies in Economics and Finance*, 30(2), 118–138. <https://doi.org/10.1108/10867371311325435>
- Hestiningtyas, W., & Widyawati, N. (2019). Pengaruh Kebijakan Dividen, Kepemilikan Institusional Dan Kepemilikan Manajerial Terhadap Kebijakan Hutang Perusahaan Manufaktur. *Jurnal Ilmu dan Riset Manajemen (JIRM)*, 8(6).
- Jensen, Michael C. and W.H. Meckling. 1976. Theory Of The Firm: Manajerial Behavior, Agency Cost And Ownership Structure. *Journal Of Financial Economics*, 3, 305-360.
- Kristanto, J. C. (2018). Kinerja Perusahaan Terhadap Kompensasi Eksekutif pada perusahaan yang Terdaftar di Indeks LQ45 Periode 2012-2016. *Jurnal Ilmiah Mahasiswa Universitas Surabaya Vol 7 No.1*.
- Lukviarman, N., 2016. *Corporate Governance*. 1st ed. Solo: PT Era Adicitra Intermedia
- Mahrani, M., & Soewarno, N. (2018). The effect of good corporate governance mechanism and corporate social responsibility on financial performance with earnings management as mediating variable. *Asian Journal of Accounting Research*.
- Mardnly, Z., Mouselli, S., & Abdulraouf, R. (2018). Corporate governance and firm performance: an empirical evidence from Syria. *International Journal Of Islamic And Middle Eastern Finance And Management*, 11(4), 591-607.

- Megginson, W.L. (1997). *Corporate finance*. Singapore: Addison Wesley.
- Mishra, R. K., & Kapil, S. (2018). Board Characteristics and Firm Value for Indian Companies. *Journal of Indian Business Research*, 10(1), 2–32. <https://doi.org/10.1108/JIBR-07-2016-0074>
- Modigliani, F. And M. Miller. 1958. The Cost Of Capital, Corporation Finance And Theory Of Investment. *American Economic Review*, 48, 261-297.
- Modigliani, F. and M. Miller. 1963. Corporate Income Taxes And The Cost Of Capital: A Correction. *American Economic Review*, 53, 433–443.
- Mujtahidah, I., & Laily, N. (2016). Pengaruh Rasio Likuiditas, Rasio Aktivitas dan Rasio Solvabilitas Terhadap Profitabilitas. *Jurnal Ilmu Dan Riset Manajemen*, 5 (11), 1–18
- Myers, S. C. 1977. The Determinants Of Corporate Borrowing. *Journal Of Financial Economics*, 5, 147–175.
- Nasution, M., dan Doddy Setiawan, 2007, “Pengaruh Corporate Governance Terhadap Manajemen Laba Di Industri Perbankan Indonesia”, Simposium Nasional Akuntansi X.
- Noviani, A. V., Atahau, A. D. R., & Robiyanto, R. (2019). Struktur Modal, Profitabilitas, dan Nilai Perusahaan: Efek Moderasi Good Corporate Governance. *Jurnal Ekonomi dan Bisnis*, 22(2), 391–415. <https://doi.org/10.24914/jeb.v22i2.2601>
- Novita, I. dan L. Ardini. (2020). Pengaruh Kinerja Keuangan, Good Corporate Governance, dan Struktur Aset Terhadap Kebijakan Hutang. *Jurnal Ilmu dan Riset Akuntansi*, 9(2).
- Nurrosis, D. S., & Rahayu, S. (2020). Pengaruh Risk Based Capital, Premium Growth Dan Beban Klaim Terhadap Profitabilitas (studi Kasus Pada Perusahaan Asuransi Jiwa Yang Terdaftar Di Otoritas Jasa Keuangan Tahun 2013-2018). *EProceedings of Management*, 7(1).
- O'Brien, J. P., David, P., Yoshikawa, T., & Delios, A. (2014). How capital structure influences diversification performance: A transaction cost perspective. *Strategic Management Journal*, 35(7), 1013–1031. <https://doi.org/10.1002/smj.2144>
- Prabowo, Harry. dan Jaya, Tresno E. 2015. Pengaruh Sistem Informasi Akuntansi Manajemen, Strategi, dan Inovasi Terhadap Kinerja Operasional Perusahaan Manufaktur Dalam Memasuki Era Perdagangan Bebas.
- Sastri, I. A. I. P. (2017). Pengaruh Pendapatan Premi, Hasil Underwriting, Hasil Investasi Dan Risk Based Capital Terhadap Laba Perusahaan Asuransi (Studi Empiris pada Perusahaan Asuransi yang Terdaftar di Bursa Efek Indonesia periode 2011-2015). *E-Journal SI Ak Universitas Pendidikan Ganesha*, 7(1), 1–11. <https://doi.org/10.23887/JIMAT.V7I1.9409>
- Satria, Salustra. 1994. *Pengukuran Kinerja Keuangan Perusahaan Asuransi Kerugian Di Indonesia dengan Analisis Rasio Keuangan Early Warning System*. Jakarta : FE UI
- Sekaran, Uma dan Bougie, Roger. 2016. *Research Methods For Business: A Skill Building Approach*, 7th Edition. New Jersey: Wiley
- Sekaran, Uma (2003), *Research Methods For Business: A Skill Building Approach*, New York- USA: John Wiley and Sons, Inc
- Shiu, Y. (2015). Determinants of United Kingdom General Insurance Company. *British Actuarial Journal*, 10(5), 1079–1110.

<https://doi.org/10.1017/S1357321700002968>

- Singh, P., & Kumar, B. (2012). Trade-off Theory vs Pecking Order Theory Revisited: Evidence from India. *Journal of Emerging Market Finance*. <https://doi.org/10.1177/0972652712454514>
- Sumartono., & Harianto, K.A. (2018). Kinerja Keuangan Perusahaan Asuransi di Indonesia dan Faktor-faktor yang Mempengaruhinya. *Future Jurnal Manajemen dan Akuntansi*, 6(1), 1-14
- Sobandi, K.A. dan Kosasih, S. (2014), *Manajemen Operasi*, Jakarta: Mitra Wacana Media.
- Tsaur, S.-H., & Wang, C.-H. (2009). Tip-collection strategies, service guarantees, and consumer evaluations of group package tours. *Journal of Travel Research*, 47(4), 523– 534.
- Utami, E. P., & Khoiruddin, M. (2016). Pengaruh rasio keuangan early warning system terhadap tingkat solvabilitas Perusahaan Asuransi Jiwa Syariah periode 2010-2013. *Management Analysis Journal*, 5(1).
- Van Zijl, W., Wöstmann, C., & Maroun, W. (2017). Strategy disclosures by listed financial services companies: Signalling theory, legitimacy theory and South African integrated reporting practices. *South African Journal of Business Management*, 48 (3), 73 –85. <https://doi.org/10.4102/sajbm.v48i3.37>
- Whiting, R. H., & Gilkison, S. J. (2000). Financial leverage and firm response to poor performance. *Pacific Accounting Review*, 12(2), 1–35. <https://doi.org/10.1108/eb037951>
- Wijayanti, S., & Mutmainah, S. (2012). Pengaruh Penerapan Corporate Governance Perbankan Yang Terdaftar Di Bursa Efek Indonesia. *Diponegoro Journal of Accounting*, 1(2), 1–15.
- Yanti, N., Sarwani, & Rosari, N. (2021). Karakteristik Perusahaan dan Pengungkapan Corporate Social Responsibility Dimoderasi Good Corporate Governance terhadap Nilai Perusahaan. *Organum: Jurnal Sainifik Manajemen dan Akuntansi*, 04(01), 55–71. Retrieved from <http://ejournal.winayamukti.ac.id/index.php/Organum/article/view/129/40>
- Yasser, Rafique., et al. 2017. Impact of Board Structure on Firm Performance: Evidence From an Emerging Economy. *Journal of Asia Business Studies*, Vol. 11 No. 2, 2017, pp. 210- 228, ISSN 1558-7894