

## Corporate governance and debt policy: Mining sector evidence in Indonesia

Andi Nasywarana Syawalia, Andri Prastiwi\*

Department of Accounting, Faculty of Economics and Business, Diponegoro University, Indonesia

Corresponding author: Andri Prastiwi

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### Abstract

Debt policy plays a critical role in ensuring the sustainability of a company's operations and investment activities. While debt can serve as a strategic financing instrument to support business expansion and enhance firm value, inappropriate debt management may expose companies to substantial financial risks, including the possibility of financial distress and bankruptcy. Therefore, this study aims to examine the effect of corporate governance mechanisms on corporate debt policy.

This study employs secondary data obtained from Bloomberg and the annual reports of mining companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period. The sample was selected using a purposive sampling technique, resulting in 117 firm-year observations. The data were analysed using multiple linear regression to investigate the influence of corporate governance variables on debt policy.

The findings indicate that the audit committee has a positive and statistically significant effect on debt policy. Similarly, institutional ownership is found to have a positive and significant influence on debt policy. In contrast, the proportion of independent commissioners does not have a significant effect on debt policy.

**Keywords:** Debt Policy, independence commissioners, audit committee, institutional ownership.

### Introduction

Debt policy represents a critical financial decision because it is closely related to the fulfilment of a company's funding requirements for both operational and investment activities. To meet these financing needs, companies may utilize internal and external sources of funds, including debt financing. According to Nurwani (2020) <sup>[28]</sup>, debt policy contributes to the continuity of a company's operations; however, its implementation must be carefully optimized to maximize firm value. Similarly, Brigham and Houston (2018) <sup>[5]</sup> argue that an appropriate debt policy enables companies to achieve an optimal capital structure while minimizing excessive financial risk.

Despite its potential benefits, the use of debt also exposes firms to significant financial risks. Nurjanah and Purnama (2021) <sup>[27]</sup> contend that increasing debt levels result in higher interest expenses and repayment obligations, thereby increasing the financial burden borne by the company. As a consequence, firms may experience financial distress or even bankruptcy if they are unable to fulfil these obligations. Therefore, effective debt management is essential for maintaining a company's financial stability and long-term sustainability.

The risks associated with debt policy are reflected in the case of PT SMR Utama Tbk, which experienced a debt default in 2022. Gautama *et al.* (2022) <sup>[11]</sup> suggest that elevated financial risk, when not accompanied by effective management practices, can impair a company's ability to meet its debt obligations. This case highlights the importance of effective corporate management and oversight in ensuring the successful implementation of debt policies and sustaining business operations.

To mitigate such risks, companies are required to implement sound corporate governance practices. Shleifer and Vishny (1997) <sup>[33]</sup> define corporate governance as a mechanism for monitoring managerial actions and reducing agency

conflicts between management and stakeholders. Moreover, effective corporate governance promotes transparency, accountability, and efficiency in corporate decision-making processes, including decisions related to debt policy (Yazid *et al.*, 2024) <sup>[42]</sup>.

A growing body of empirical evidence suggests that corporate governance mechanisms significantly influence corporate debt policy. Yazid *et al.* (2024) <sup>[42]</sup> found that independent directors and audit committees exert a significant effect on debt policy. Likewise, Utami *et al.* (2022) <sup>[38]</sup> reported that institutional ownership significantly affects debt policy by strengthening managerial monitoring and oversight functions.

In addition to corporate governance mechanisms, several firm-specific characteristics have been identified as important determinants of debt policy. Previous studies have demonstrated that firm size significantly influences debt policy (Gautama *et al.*, 2022; Yazid *et al.*, 2024) <sup>[11, 42]</sup>. Similarly, firm growth (Syavia *et al.*, 2022) <sup>[35]</sup>, profitability (Margaretha & Viriany, 2023; Yazid *et al.*, 2024), and liquidity (Gautama *et al.*, 2022) <sup>[11, 23, 42]</sup> have been found to affect corporate debt decisions. Consequently, these variables should be included as control variables to enable a more accurate assessment of the relationship between corporate governance and debt policy.

Although debt policy has received considerable scholarly attention, several research gaps remain. Existing studies have primarily focused on companies operating in the manufacturing, property, and metals industries, as well as firms included in the Jakarta Islamic Index. In contrast, empirical evidence from the mining sector remains relatively limited. Furthermore, to the best of the author's knowledge, no prior study has simultaneously examined the effects of independent directors, audit committees, and institutional ownership on debt policy among mining companies listed on the Indonesia Stock Exchange during

the 2021–2023 period while controlling for firm size, firm growth, profitability, and liquidity. Therefore, this study seeks to address this gap by providing updated empirical evidence on the influence of corporate governance mechanisms on debt policy in Indonesian mining companies.

### Theory and Hypothesis Development

Agency Theory explains the contractual relationship between principals (shareholders) and agents (management), in which agency conflicts arise due to the separation of ownership and control within firms, as well as information asymmetry that results in managers possessing superior information compared to shareholders (Jensen & Meckling, 1976; Uzliawati *et al.*, 2023) <sup>[17, 39]</sup>. These conflicts generate agency costs, which consist of monitoring costs, bonding (incentive) costs, and residual losses arising from managerial decisions that are not fully aligned with shareholder interests (Jensen & Meckling, 1976) <sup>[17]</sup>. To mitigate these agency problems, effective corporate governance mechanisms are required, including enhanced transparency, strengthened monitoring systems, and incentive structures that align managerial objectives with those of shareholders (Kalbuana *et al.*, 2022) <sup>[21]</sup>.

In addition, debt policy can function as a governance mechanism that disciplines managerial behaviour. The obligation to make periodic interest and principal payments reduces the availability of free cash flow under managerial control, thereby limiting opportunistic behaviour and encouraging greater financial discipline (Jensen & Meckling, 1976). Risyad *et al.* (2017) <sup>[17, 24]</sup> further emphasize that agency conflicts are not only present between shareholders and management but also between shareholders and creditors, who may have differing interests regarding the firm's capital structure decisions. Accordingly, the appropriate use of debt can help reduce agency costs and improve corporate efficiency (Eisenhardt, 1989) <sup>[8]</sup>. However, debt must be managed prudently, as excessive leverage may increase liquidity risk and the likelihood of financial distress or bankruptcy (Kalbuana *et al.*, 2022) <sup>[21]</sup>.

### The Influence of Independent Directors on Debt Policy

Independent commissioners are members of the commissioners' board who do not have direct relationships with a company's ownership structure or management, thereby enabling them to exercise their oversight function objectively in relation to strategic corporate decisions, including debt policy (Wahyuni, 2019) <sup>[40]</sup>. From an Agency Theory perspective, independent commissioners play a critical role in mitigating conflicts of interest between management (agents) and shareholders (principals) that arise due to divergent objectives and information asymmetry (Jensen & Meckling, 1976). Junus *et al.* (2022) <sup>[17, 20]</sup> argue that independent commissioners help ensure that debt financing decisions are based on rational and objective considerations rather than managerial self-interest. Accordingly, the presence of independent commissioners is expected to enhance the quality of financial decision-making and promote the implementation of more effective and accountable debt policies.

The monitoring function performed by independent commissioners enables firms to better manage risks associated with debt usage and improve the transparency of

financial reporting (Ahmad & Mahmood, 2023; Harmono *et al.*, 2023) <sup>[1]</sup>. Through their oversight role, independent commissioners can identify potential financial risks, provide strategic guidance, and reduce information asymmetry between management and shareholders. In line with Jensen's (1986) <sup>[15]</sup> concept of debt discipline, effective monitoring of debt utilization can enhance operational efficiency and limit opportunistic managerial behaviour. Empirical evidence from Yazid *et al.* (2024) <sup>[42]</sup> indicates that independent directors have a positive and significant effect on debt policy, proxied by the Debt-to-Equity Ratio (DER). These findings suggest that a higher proportion of independent directors strengthens a firm's ability to implement controlled and optimal debt policies, thereby contributing to a healthier capital structure and increased firm value. Based on this argument, the following hypothesis is formulated:

**H1:** Independent commissioners have a positive and significant effect on debt policy.

### The Impact of Audit Committees on Debt Policy.

The audit committee is a corporate governance mechanism that plays an important role in overseeing financial reporting quality and risk management processes, including decisions related to debt policy (Bacha, 2019) <sup>[4]</sup>. From the perspective of Agency Theory, the audit committee functions as a monitoring instrument that mitigates agency conflicts between management and shareholders by ensuring that financing decisions are conducted in a transparent manner and aligned with the best interests of the firm (Yazid *et al.*, 2024) <sup>[42]</sup>. Effective oversight by the audit committee enhances the firm's ability to identify, assess, and manage financial risks, thereby supporting the formulation of optimal debt policies (Farooque *et al.*, 2020) <sup>[10]</sup>.

In addition, a well-functioning audit committee contributes to improved credibility of financial reporting and increases creditor confidence in the firm. This enhanced credibility facilitates greater access to external financing and may enable firms to obtain debt on more favourable terms (Alodat *et al.*, 2023) <sup>[2]</sup>. Empirical evidence from Yazid *et al.* (2024) <sup>[42]</sup> demonstrates that the audit committee has a positive and significant effect on debt policy, proxied by the Debt-to-Equity Ratio (DER). These findings suggest that more effective audit committee oversight strengthens firms' ability to manage debt strategically in order to support operational growth and financial stability. Based on this argument, the following hypothesis is proposed:

**H2:** The audit committee has a positive and significant effect on debt policy.

### The Impact of Institutional Ownership on Debt Policy

Institutional ownership refers to the proportion of a company's shares held by financial institutions, such as banks, insurance companies, pension funds, and mutual funds, which generally possess greater monitoring capacity, resources, and expertise compared to individual investors (Shleifer & Vishny, 1997; Gillan & Starks, 2003) <sup>[12, 33]</sup>. From an Agency Theory perspective, institutional ownership functions as an effective monitoring mechanism that helps mitigate agency conflicts between management as agents and shareholders as principals (Julianti & Retnani, 2020) <sup>[19]</sup>. The presence of institutional investors is expected to enhance managerial transparency, accountability, and alignment with shareholder interests, particularly in relation to financing decisions such as debt policy.

Stronger institutional oversight can reduce managerial opportunism, alleviate information asymmetry, and improve the efficiency of debt utilization as a governance mechanism. Accordingly, a higher level of institutional ownership is associated with more intensive monitoring of managerial actions, which in turn is expected to lead to more optimal debt policies that support firm performance. Empirically, Julianti and Retnani (2020) <sup>[19]</sup> find that institutional ownership has a positive and significant effect on debt policy, indicating that increased institutional ownership encourages firms to adopt more effective financing decisions. Based on this argument, the following hypothesis is formulated:

**H3:** Institutional ownership has a positive and significant effect on debt policy.

### Research Methods

This study employs a quantitative approach using secondary data obtained from the Bloomberg Terminal for financial

data and annual reports for corporate governance. Data analysis was performed using multiple regression analysis, with equation (1).

$$(1) Y = \alpha + \beta_1 IC + \beta_2 AC + \beta_3 IO + \beta_4 SIZE + \beta_5 GR + \beta_6 PROF + \beta_7 CR + \varepsilon$$

Notes: Y=Debt Policy (Debt to Equity Ratio (DER)), IC = Independence Commissioners, AC= Audit Committee, IO=: Institutional Ownership, SIZE=Firm size, GR=Growth Assets, PROF=Profitability, CR=Current Ratio, (DER),  $\alpha$ =Constanta,  $\beta_1-7$ =Regression Coefficients,  $\varepsilon$ =Standard Error

The research model consists of one dependent variable, namely debt policy; three independent variables, namely independent commissioners, audit committee, and institutional ownership; and four control variables, namely firm size, asset growth, profitability, and liquidity. The operational definitions and measurement of each variable are presented in Table 1.

**Table 1:** Operational Definitions of Variables

Variables	Definitions	Measurements
<b>Dependent Variable</b>		
Debt Policy	The strategy established by the company to manage its financial obligations to third parties, where the funding comes from creditors (Jombrik, 2020)	Debt to Equity Ratio (DER) = Liability Total/Equity Total (Syavia <i>et al.</i> , 2022) <sup>[35]</sup>
<b>Independent Variables</b>		
Independence commissioners	Members of the board of commissioners who have no affiliation with the board of directors, major shareholders, or any other parties that could compromise their independence in performing their supervisory duties.	The proportion of independent commissioners relative to the total number of directors (Putri & Muid, 2017) <sup>[30]</sup>
Audit committee	A committee established by the board of commissioners to assist in overseeing financial statements, internal control systems, external audits, and compliance with applicable regulations.	Number of audit committees (Debby <i>et al.</i> , 2014) <sup>[6]</sup>
Institutional ownership	Shareholdings held by institutional investors	Institutional ownership = total number of shares held by institutions divided by the total number of shares outstanding in the company (Syavia <i>et al.</i> , 2022) <sup>[35]</sup>
<b>Control Variables</b>		
Firm size	Company size is often associated with its asset capacity, revenue, and available resources (Brigham & Houston, 2019)	Total Assets
Growth assets	An increase in a company's economic size or capacity over a specific period, reflecting business expansion and improved financial performance	Growth Assets = Total Assets <sub>t</sub> minus Total Assets <sub>t-1</sub> divided by Total Assets <sub>t-1</sub> (Penman, 2020) <sup>[29]</sup>
Profitability	A financial performance metric that reflects a company's ability to generate profits from its resources.	Return on assets (ROA) = Net income/Total Assets
Liquidity	A company's ability to meet its short-term obligations using its current assets (Brigham & Houston, 2019)	Current Ratio (CR) = Current Assets/Current Liabilities (Gautama <i>et al.</i> , 2022) <sup>[11]</sup>

### Descriptive Statistics

Table 3 presents the descriptive statistics for the 117 firm-year observations included in this study during the 2021–2023 period. The debt policy variable, measured by the Debt-to-Equity Ratio (DER), has a mean value of 0.69, which exceeds the median value of 0.59. This finding suggests that mining companies tend to rely on debt financing as part of their capital structure. Overall, the corporate governance variables exhibit relatively favorable characteristics. The proportion of independent commissioners has a mean value of 0.44, while the audit committee variable has a mean value of 3, which is equal to its median value.

The average proportion of independent commissioners exceeds the minimum requirement established under

Financial Services Authority Regulation (POJK) No. 33/POJK.04/2014, which mandates that at least 30% of the members of the board of commissioners must be independent commissioners. This result indicates that, on average, the sample companies have complied with the applicable corporate governance regulations. Similarly, the average audit committee size satisfies the requirements set forth in POJK No. 55/POJK.04/2015 concerning the Establishment and Implementation Guidelines of Audit Committees. The regulation stipulates that an audit committee must consist of at least three members, including one independent commissioner and two external members possessing expertise in accounting or finance. In contrast, institutional ownership exhibits a mean value substantially higher than its median value (24.04% compared to 7.81%), suggesting that a limited number of firms possess

exceptionally high levels of institutional ownership, thereby increasing the overall sample average.

With respect to data dispersion, the debt policy, independent commissioner, and audit committee variables exhibit standard deviation values that are lower than their respective means. This pattern indicates a relatively homogeneous distribution of observations and suggests that the values of these variables are concentrated around their central tendencies.

The descriptive statistics for the control variables indicate that the mean values of firm size (Rp1.845 billion), firm growth (0.20), profitability (0.10), and liquidity (4.04)

all exceed their respective median values. This finding suggests the presence of several firms with exceptionally high values, which contribute to increasing the overall sample mean.

However, the standard deviation values for these control variables exceed their corresponding mean values, indicating a relatively high degree of variability and a less uniform distribution across the sample firms. Such variation should be taken into consideration when interpreting the empirical results, as substantial heterogeneity among observations may influence the outcomes of the hypothesis testing process.

**Table 3:** Descriptive Statistics

	N	Minimum	Maximum	Median	Mean	Std. Deviation
Debt Policy	117	0.01	2.06	0.59	0.69	0.47
Independence Board	117	0.30	1.00	0.40	0.44	0.15
Audit Committee	117	1	5	3	3	1
Institutional Ownership	117	0.00	135.74	7.81	24.04	29.22
Company size	117	692*	50.937**	1.674**	6.087**	10.410**
Company Growth	117	-0.53	5.46	0.09	0.20	0.59
Profitability	117	-0.26	0.58	0.07	0.10	0.15
Liquidity	117	0.15	170.76	1.70	4.05	15.83

#### Data Quality and Model Goodness-of-Fit Tests

Data quality tests were conducted to ensure that the regression model satisfied the assumptions required to produce Best Linear Unbiased Estimators (BLUE). The diagnostic tests included assessments of normality, multicollinearity, heteroscedasticity, and autocorrelation. The results indicate that all classical assumption tests were successfully met, suggesting that the data are suitable for further regression analysis.

The normality assumption was examined using the Kolmogorov–Smirnov (K–S) test. The test produced a statistic of 0.067 with a significance value of 0.200,

which exceeds the conventional threshold of 0.05. Therefore, the null hypothesis of normality cannot be rejected, indicating that the residuals are normally distributed.

Furthermore, the multicollinearity test results demonstrate that no multicollinearity problems exist among the independent variables. Specifically, all variables exhibited tolerance values greater than 0.10 and Variance Inflation Factor (VIF) values below 10. These results indicate that the independent variables are not highly correlated with one another, thereby satisfying the multicollinearity assumption and supporting the reliability of the regression estimates.

**Table 4:** Quality Data Test and Regression Result

A. Multicoliniarity			B. Heteroscedasticity Test		F. Hypotheses Test	
	Tolerance	VIF	t	Sig.	t	Sig.
Independence Board	0.842	1.188	-1.600	0.112	1.591	0.115
Audit Committee	0.971	1.030	1.671	0.098	2.528	0.013
Institutional Ownership	0.975	1.026	-1.024	0.308	2.806	0.006
Company size	0.726	1.378	-0.474	0.637	0.903	0.369
Company Growth	0.964	1.037	-0.859	0.392	-0.587	0.558
Profitability	0.816	1.225	-0.880	0.381	-1.601	0.112
Liquidity	0.918	1.089	1.140	0.257	-2.119	0.036
C. Autocorrelation Test			E. Goodness of Fit Model			
Durbin Watson	1.835		Adjusted R-Square			0.122
D. Normality Test			F Test		F	4.797
Kolmogorov-Smirnov	Test Stat.	0.067			Sig.	0.000
	Sig.	0.200				

The goodness of fit of the research model is presented in Table 4, Panel E. The results indicate that the model has an adjusted coefficient of determination (Adjusted R<sup>2</sup>) of 0.122, suggesting that the independent and control variables included in the model explain 12.2% of the variation in debt policy. The remaining 87.8% of the variation is attributable to other factors not incorporated into the model. Although the explanatory power of the model is relatively modest, it suggests that debt policy is influenced by a broad range of determinants beyond the variables examined in this study.

Furthermore, the results of the F-test indicate a significance level below 0.05, demonstrating that the independent and control variables jointly have a statistically significant effect on debt policy. This finding confirms that the model possesses overall explanatory validity and is appropriate for analysing the relationship between corporate governance mechanisms, firm-specific characteristics, and debt policy. Therefore, the regression model can be considered sufficiently robust for hypothesis testing and interpretation of the empirical results.

## Results and Discussion

### The Effect of Independent Directors on Debt Policy

The results of the hypothesis testing, as presented in Table 4, Panel F, indicate that independent directors do not have a statistically significant effect on debt policy. The t-test results show that the independent director variable has a coefficient of 0.115 with a significance level exceeding 0.05. Consequently, Hypothesis 1 (H1) is not supported. This finding is inconsistent with Agency Theory, which suggests that independent directors serve as an important governance mechanism for mitigating agency conflicts between management and shareholders through effective monitoring and oversight. Although the descriptive statistics reveal that the average proportion of independent directors is relatively high at 40%, their presence does not appear to significantly influence debt policy decisions within the mining industry.

Several factors may explain the limited influence of independent directors on debt policy. In capital-intensive industries such as mining, financing decisions are often driven by strategic considerations, substantial investment requirements, and the interests of controlling shareholders. As a result, debt policy may be determined primarily by the need to secure long-term funding and optimize capital efficiency rather than by the monitoring activities of independent directors. This condition may reduce the ability of independent directors to exert meaningful influence over financing decisions. Furthermore, the corporate governance literature suggests that board effectiveness depends not only on formal independence but also on factors such as expertise, experience, level of involvement, and actual authority within the decision-making process (Fama & Jensen, 1983; Jensen, 1993) <sup>[9, 16]</sup>. Therefore, the mere presence of independent directors may not be sufficient to affect debt policy unless they possess the capacity and influence necessary to shape strategic corporate decisions.

The findings of this study are consistent with previous empirical evidence reported in Indonesia. For example, Ustariningsih (2010) <sup>[37]</sup> found that independent commissioners do not significantly influence debt policy among property and real estate companies. These results suggest that the role of independent directors may, in some cases, be largely symbolic rather than substantive. Although independent directors fulfill regulatory and governance requirements, their involvement may not always translate into a meaningful impact on capital structure decisions. Consequently, the effectiveness of independent directors in influencing debt policy may depend on the broader governance environment, the concentration of ownership, and the extent to which they are actively engaged in strategic decision-making processes within the firm.

### The Effect of Audit Committees on Debt Policy

The results of the t-test demonstrate that the audit committee has a positive and statistically significant effect on debt policy, as indicated by a coefficient of 0.013 at the 5% significance level. Therefore, Hypothesis 2 (H2) is supported. The descriptive statistics reveal a mean audit committee value of 3, suggesting that the audit committees of the sampled mining companies are adequately structured to perform their monitoring and oversight functions effectively. This finding is consistent with Agency Theory, which posits that governance mechanisms such as audit committees can mitigate agency conflicts by enhancing the

monitoring of managerial activities and reducing information asymmetry between management and shareholders.

From a theoretical perspective, the audit committee contributes positively to debt policy by strengthening internal control and oversight mechanisms, particularly in relation to the quality and reliability of financial reporting. An effective audit committee enhances the transparency and credibility of financial information, thereby increasing stakeholder confidence in the company's governance practices. Improved financial transparency reduces information asymmetry and enables creditors to assess corporate risk more accurately. Consequently, firms with effective audit committees are more likely to gain access to external financing and secure debt under more favourable terms (Dechow *et al.*, 1996; Klein, 2002) <sup>[7, 22]</sup>.

Furthermore, the audit committee plays a crucial role in promoting financial discipline through the oversight of risk management processes, regulatory compliance, and internal control systems. Effective monitoring encourages management to utilize debt more prudently and strategically, ensuring that financing decisions support the company's long-term objectives while maintaining an acceptable level of financial risk. In this regard, the audit committee functions not only as an internal governance mechanism but also as a positive signal to external stakeholders, including creditors and investors, regarding the quality of the company's governance practices. Such signalling effects enhance the company's credibility and may increase its capacity to employ debt financing as part of an optimal capital structure strategy (Fama & Jensen, 1983; Jensen, 1993) <sup>[9, 16]</sup>.

The findings of this study are consistent with those reported by Novianti and Purwaningsih (2023) <sup>[26]</sup>, who found that the audit committee significantly influences debt policy. However, their study identified a negative relationship between the audit committee and debt policy among firms in the food and beverage sector during the 2018–2020 period. The difference in the direction of the relationship suggests that the effectiveness of audit committees in influencing debt policy may vary across industries. Factors such as industry characteristics, governance structures, regulatory environments, and the extent of corporate governance implementation may influence how audit committees affect financing decisions. In the mining sector, where operations are highly capital-intensive and require substantial long-term financing, effective audit committee oversight may facilitate more strategic and disciplined debt utilization, thereby contributing positively to debt policy.

### The Effect of Institutional Ownership on Debt Policy

The results of the analysis indicate that institutional ownership has a positive and statistically significant effect on debt policy, as evidenced by a coefficient of 0.006 at the 5% significance level. This finding supports Hypothesis 3 (H3) and is consistent with Agency Theory, which posits that institutional ownership can mitigate agency conflicts through more effective monitoring of managerial actions and corporate policies. The descriptive statistics further reveal that the mean level of institutional ownership is relatively high at 24.04%, substantially exceeding the median value of 7.81%. This result suggests that institutional investors play a prominent role in influencing corporate financing decisions and promoting the

optimization of capital structure through the strategic utilization of debt. Higher levels of institutional ownership appear to encourage firms to employ debt financing to support business expansion, exploration activities, and long-term investment projects.

Institutional investors generally possess greater resources, expertise, and incentives to monitor management compared to individual shareholders. Consequently, their presence can reduce agency problems arising from the separation of ownership and control. Enhanced monitoring by institutional investors, including pension funds, insurance companies, and mutual funds, increases managerial accountability and discipline in making financial decisions, particularly those related to capital structure and debt utilization. Under such monitoring mechanisms, management is more likely to employ debt strategically to enhance firm value while maintaining an acceptable level of financial risk (Shleifer & Vishny, 1986; Jensen, 1986)<sup>[32]</sup>.

The findings of this study are consistent with those reported by Aziz *et al.* (2019)<sup>[3]</sup>, who examined property and real estate companies listed on the Indonesia Stock Exchange and found that institutional ownership has a positive and significant effect on debt policy. Their study suggests that institutional investors possess superior monitoring capabilities, enabling them to influence management in utilizing debt more effectively to maximize shareholder value. Therefore, a higher level of institutional ownership is associated with a greater tendency for firms to optimize debt financing as part of an efficient capital structure strategy. This, in turn, supports corporate growth and enhances the company's ability to achieve its long-term strategic objectives.

### **The Effect of Control Variables on Debt Policy**

The results of this study indicate that, among the control variables examined, only liquidity has a significant effect on debt policy. In contrast, firm size, firm growth, and profitability do not significantly influence debt policy. The liquidity variable exhibits a coefficient of  $-2.119$  with a significance level of  $0.036$ , indicating a statistically significant negative relationship with debt policy. Descriptive statistics further reveal that the mean liquidity value is  $4.05$ , substantially higher than the median value of  $1.70$ . These findings are consistent with the study conducted by Nam and Tuyen (2024)<sup>[25]</sup>, which reported a significant relationship between liquidity and capital structure among non-financial firms in Vietnam. Their findings suggest that a firm's ability to meet short-term obligations and maintain financial flexibility plays an important role in determining financing decisions. The present study supports this argument, indicating that firms with higher liquidity tend to rely less on debt financing because they possess sufficient internal resources to support operational and investment activities. However, these findings differ from those of Hidayat *et al.* (2024)<sup>[14]</sup>, who found that liquidity does not significantly affect debt policy among companies in Indonesia's basic materials subsector during the 2019–2023 period. They argue that financing decisions are more strongly influenced by investment requirements and long-term expansion strategies than by short-term liquidity conditions.

In contrast to liquidity, firm size was not found to have a significant effect on debt policy, as reflected by a coefficient of  $0.903$  and a significance level of  $0.369$ . The descriptive

statistics indicate that the mean firm size, amounting to Rp6.087 billion, exceeds the median value of Rp1.674 billion. These findings are consistent with the results reported by Santioso and Daryatno (2024)<sup>[31]</sup>, who concluded that firm size is not necessarily the primary determinant of capital structure decisions. Instead, financing choices may be influenced by factors such as business prospects, project risk, and industry-specific characteristics. Within the mining industry, which is characterized by high capital intensity and substantial exposure to commodity price fluctuations, investment requirements and market conditions may play a more prominent role in determining debt utilization than the overall size of the firm's assets. Nevertheless, this finding contrasts with the study by Tursina (2024)<sup>[36]</sup>, which reported a positive relationship between firm size and capital structure. According to that study, larger firms generally benefit from stronger reputations, lower bankruptcy risk, and greater access to external financing, thereby increasing their capacity to obtain debt funding. These contrasting findings suggest that the effect of firm size on debt policy may vary across industries and depend on the specific characteristics of the firms being examined.

Similarly, firm growth was not found to significantly influence debt policy, as evidenced by a coefficient of  $-0.587$  and a significance level of  $0.558$ . The descriptive statistics show that the average growth rate of  $0.20$  exceeds the median value of  $0.09$ . These results support the findings of Wahyuningsih and Maryanti (2024)<sup>[41]</sup>, who reported that firm growth does not directly affect capital structure decisions. This finding implies that increases in firm growth do not necessarily lead to greater debt utilization, as firms may finance expansion through retained earnings, equity financing, or support from existing shareholders. However, the results differ from those reported by Tursina (2024)<sup>[36]</sup>, who found a positive relationship between firm growth and capital structure. According to that study, firms experiencing rapid growth generally require additional financial resources to support expansion and investment activities, thereby increasing their reliance on debt financing. The inconsistency between these findings suggests that the relationship between firm growth and debt policy may depend on the availability of internal financing sources and the strategic preferences of management regarding financing decisions.

The final control variable, profitability, was also found to have no significant effect on debt policy. This result is reflected in a coefficient of  $-1.601$  with a significance level of  $0.112$ . Descriptive statistics indicate that the mean profitability value of  $0.10$  exceeds the median value of  $0.07$ . These findings are consistent with the study by Wahyuningsih and Maryanti (2024)<sup>[41]</sup>, which concluded that profitability is not a primary determinant of capital structure. In the context of mining companies, debt financing decisions appear to be driven more by long-term investment requirements and exposure to commodity price volatility than by the level of profits generated. However, these findings differ from those reported by Hidayat *et al.* (2024)<sup>[14]</sup>, who found a negative relationship between profitability and debt policy, as well as from the findings of Sunandy and Sha (2024)<sup>[34]</sup>, who documented a positive relationship. The divergence of results across studies indicates that the relationship between profitability and debt policy remains inconclusive and may be influenced by firm-

specific characteristics, industry conditions, and the theoretical perspectives used to explain corporate financing behaviour.

### Conclusion, Limitations, and Future Research

This study aims to examine the influence of corporate governance mechanisms on debt policy among mining companies listed on the Indonesia Stock Exchange during the 2021–2023 period. The findings reveal that the audit committee and institutional ownership have a positive and statistically significant effect on debt policy. These results suggest that a larger audit committee and a higher level of institutional ownership contribute to more effective oversight and monitoring, thereby encouraging more optimal and disciplined debt management practices. In contrast, independent commissioners were not found to have a significant effect on debt policy, indicating that their monitoring role may not be sufficiently influential in shaping financing decisions within mining companies.

With respect to the control variables, only liquidity was found to have a significant influence on debt policy. Companies with higher liquidity levels tend to rely more heavily on internal sources of financing to support their operational and investment activities, thereby reducing their dependence on external debt financing. Conversely, firm size, firm growth, and profitability were not found to significantly affect debt policy, suggesting that these factors were not the primary determinants of financing decisions among mining companies during the period under investigation.

Despite providing valuable empirical evidence, this study has several limitations. The relatively low coefficient of determination indicates that a substantial proportion of the variation in debt policy remains unexplained by the variables included in the research model. In addition, not all independent and control variables examined were found to have a significant effect on debt policy. Therefore, future studies are encouraged to expand the research model by incorporating additional variables that may influence debt policy, such as alternative ownership structures, business risk, managerial characteristics, and other non-financial factors. The inclusion of these variables may provide a more comprehensive understanding of the determinants of corporate debt policy and enhance the explanatory power of future research.

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