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Power Management in Controlling Stakeholder Pressure and Improving Financial Performance

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ABSTRACT: This research aims to understand corporate governance as a control of external pressure in improving financial performance. The analysis method used to describe the relationship in this study is Eviews software 10. The sample used was 720 observation data of 144 financial sector companies over five years (2018-2022). The findings show that the board of directors significantly negatively affects external pressure. Independent directors and commissioners have a significant positive effect on external pressure. The Board of Directors has a significant positive impact on financial performance. The independent board of directors does not affect financial performance. The board of commissioners and external pressure significantly negatively affect financial performance. Originality: The concept of stakeholder pressure in all existing studies has not been researched into a dependent variable so that stakeholder pressure becomes a novelty in this study.

Keywords: board of directors, independent board of directors, board of commissioners, external pressure, financial performance.

I. INTRODUCTION

Corporate governance has become a well-known concept among companies, investors, and stakeholders. The importance of corporate governance has been demonstrated in the 21st century due to the increasing globalization, fierce commercial competition, and disasters that occur in the Company [1]. The 19th century witnessed the formation of institutions to support existing groups and marked the era of entrepreneurship. The 20th century emerged as an era of control as time passed [2]. These problems arise due to structural elements that highlight the importance of corporate governance [3]. This illustrates that with the increasing focus on the effectiveness and credibility of corporate governance, the 21st century is expected to be marked as an era of governance [4, 5]. Corporate governance includes a set of concepts and rules that assist organizations in guiding, managing, and regulating corporate operations. Some governance structures that govern companies to optimize shareholder wealth (owners) have been the subject of substantial investigation [6]. Research conducted by Jensen and Meckling [7] and Shahzad et al. [8] investigate the various governance systems used in the company's management to optimize shareholder value. Corporate governance includes a set of concepts and rules that assist organizations in guiding, managing, and regulating corporate operations. Some governance structures that govern companies to optimize shareholder wealth (owners) have been the subject of substantial investigation [6]. Research conducted by Jensen and Meckling [7] and Shahzad et al. [8] investigated various governance systems used in corporate management to optimize shareholder value.

In addition, the company's governance structure will face debts owned by the company. This is important; a company's bankruptcy is due to accumulated debt, and the company cannot pay it [9]. Although there is an excellent side to debt with tax avoidance on the interest paid, many companies rely more on debt [10]. Debt in a particular portion is considered good, while an excessive portion will increase the company's burden [11]. As an example of the Sritek Company, the company that can be known as a class is multinational and has had the company's glory for about 50 years with employees + 50,000 employees. The national giant company 2023 is considered almost bankrupt because large debts swallow it up with a total IDR 23.8 trillion, while its assets are only IDR 10.75 trillion. The amount of debt that is not proportional to the company's assets, which is twice the company's assets, makes the company considered bankrupt. One of Sritek's first ways to overcome this problem is by overhauling the company's governance structure at an extraordinary general meeting of shareholders. It is hoped that with this overhaul, there will be a change in work systems, policies, and work programs that are innovative in improving the company's performance. This proves that debt is not always reliable, but debt needs to be measured according to the financing ability that can be done [12]. Because large debt has a wrong signal for the market [13], from the investor's point of view, large debt will reduce the rate of return generated so that investors will ignore companies whose debts are considered significant [14]. This illustrates that organizations with a highly effective corporate governance structure capable of managing debt well are considered an attractive force in the market. Therefore, it is a valuable tool to improve the company's performance.

As an approach used in the corporate performance model, it is built starting with management theory, which puts forward managers who focus on the main interests of the desired target company [15-18]. However, both the management and the principal party have different interests. Then, with other interests in the principle and management of the Company, a conflict commonly called agency theory occurred [19-23]. The Management needs to realize that in the perspective of stakeholder theory, the company is not an entity for its interests but to benefit stakeholders [24-28]. And also on The pecking order theory, Prioritizing internal financiers over external lenders [29-33]. This is contrary to the trade-off theory that prioritizes balancing debt with agency costs incurred [29-31, 34], This shows that it is based on the trade-off theory with the concept of balancing debt with agency costs by combining the fraud triangle theory, where three conditions cause financial fraud, and this research focuses on external pressure [35-43]. This is a new concept; in substance, external pressure shows that the debt owned by the company will have implications for the target that stakeholders want from management. Also, debt will give a signal to investors in looking at the company's prospects, which is commonly called Signaling Theory [44-46]. In this study, the fraud triangle approach focuses on external pressure as a factor influencing corporate governance and company performance.

The concept of this research model provides investors and management with an opportunity to generate external pressure to meet the Company's debt burden. The most potent theory used is the fraud triangle with the criterion of external pressure, where fraud occurs based on three criteria [47, 48], one of which is pressure. Self-pressure can be generated by external pressure [49]. Where management has pressure that provides reasons to commit financial fraud [50, 51]. The reason for doing so is due to the debt burden owned by the Company [52]. So, substantially large debt from stakeholders will provide power to produce high company performance. The fraud triangle approach to external pressure in the model in the study is more on the leverage model [53-59], Funding decisions [60] and capital structure [61, 62]. This uses a multidisciplinary approach because many researchers have not widely used this model. This is what makes this researcher research with this approach.

Thus, this model is very suitable for providing views and implementation in analyzing corporate governance to control external pressure and optimize the Company's performance. In external pressure, the basic concept of the fraud triangle consists of three criteria, namely rationalization, opportunity, and pressure [37, 39, 63]. Where the concept used is pressure in external pressure that uses the debt to total asset (DART) proxy and also uses three factors in corporate governance with the Board of Directors, independent directors, and board of commissioners who are following this model because it is related to the management of the Company. External pressure is considered very important to the Company because it is pressured to fulfill its obligations on debts. Thus, a good understanding of corporate governance and external pressure provides a sustainable process to improve the Company's performance. A research study shows that good corporate governance can have an impact on external pressure [64] and financial performance [1, 65, 66].

Some studies say that companies operating at a high level of agency conflict will outperform companies operating at a low level of agency conflict only if the company improves the quality of corporate governance

[55]. Another study says that capital structure can function as a disciplinary mechanism by limiting managers' freedom of action in the face of free cash flow. Capital structure also replaces corporate governance in mitigating agency conflicts, and this means that an optimal capital structure is the same as corporate governance in terms of its ability to reduce agency costs [62]. Therefore, the capital structure is expected to exert pressure to improve the company's performance [62]. These results show that the capital structure will pressure the company regarding the targets produced, so the pressure must be minimized with a good form of management. Governance can be a substitute mechanism to protect investors [67]. Overall, this research has contributed to the development of models and theoretical views that are different from previous research studies that use external pressure as a source of debt owned by the company. In substance, this study does not look at the fraud committed, but the reason for financial fraud is because external pressure is caused. External pressure here is proxied by debt to total assets (DART). Good corporate governance will have an impact on the management of external pressure control and the improvement of financial performance produced.

From the researcher's point of view, this concept is a new thing. It needs to be researched because most existing research examines leverage, which is part of the risk of return on stakeholders, funding decisions related to the selection of external or internal funding sources, and capital structure, which is associated with balancing long-term debt with own capital. At the same time, this study uses external pressure as a dependent variable, and this concept has yet to be used in existing research. External pressure prioritizes management having the pressure to meet expectations, so the higher the external pressure, the more management will work extra to meet stakeholders' expectations. The management position needs to control external pressure so that the internal and external balance of the Company is maintained. This concept has yet to be discovered and has become a new novelty in building good corporate literature. Conducting a comprehensive study and providing in-depth insights into corporate governance in controlling external pressures and financial performance is essential. This study develops the formulation of the research problem as follows:

1) Does the board of directors have a significant effect on external pressures and financial performance?
2) Does the independent board of directors have a significant effect on external pressures and financial performance?
3) Does the board of commissioners have a significant effect on external pressures and financial performance?
4) Do external pressures have a significant effect on financial performance?

II. LITERATURE REVIEW

1. STEWARSHIP THEORY

According to management theory, managerial behavior is collective because managers strive to achieve organizational goals (such as sales growth and profitability) [68]. This action not only benefits the company's controlling holders, such as external stakeholders (through the positive impact of profits on dividends and stock prices) but also, because the goals are driven by management, the company's controlling holders, such as senior management, also benefit the stakeholders [69]. Management theorists assume a strong relationship exists between organizational success and critical stakeholder satisfaction [70]. Managers can protect and maximize shareholder wealth through the company's performance [71]. This is because the utility function of the manager is maximized.

2. STAKHOLDERS THEORY

Stakeholder theory argues that organizations should focus on broader goals rather than increasing shareholder wealth [72]. The theory is that organizations must continue to operate profitably, or they cannot meet the needs of others. However, organizations must strive to respond to the needs of shareholders and stakeholders to improve the financial and social performance of the company [73, 74].

3. TRADE-OFF THEORY

Trade-off theory, which focuses on the analysis of the costs and benefits of debt, estimates that there is an optimal debt ratio that helps maximize the value of the company [29]. The optimal point can be reached when the benefit of debt exceeds the increase in the present value of the costs associated with subsequent debt [75].

4. *AGENCY THEORY*

Agency theory studies the relationship between two parties where a principal (usually the company owner) delegates a task to an agent (usually the company manager). According to Jansen dan Mackling [7], Agency conflict occurs after this delegation if two conditions are met: First, a conflict of interest arises because the principal and the agent have different desires. Interests may differ because both parties act in their interests, i.e., seek to maximize their utility without caring about the impact on the other party's utility. This is based on the assumption that each party plays the role of a homo economicus. Second, principal intervention to limit the deviation of the agent's behavior from its goals has a specific cost. According to Jansen dan Mackling [7], This condition implies the existence of information asymmetry between the principal and the agent. Since the principal cannot observe the agent's simple actions, the agent can harm the principal without the principal's knowledge. This problem is called moral hazard.

5. *FRAUD TRIANGLE*

The fraud triangle explains the reasons why people commit fraud. The reason for the sucking was revealed by Cressey[36, 37, 63] that three factors support someone to commit fraud, namely financial problems that must be kept secret (pressure), opportunities to commit fraud (opportunity), and rationalization of the perpetrator (rationalization).

1) Pressure has various meanings, namely, a state in which a person feels pressured/depressed and a problematic condition when facing difficulties. These two meanings show that pressure can motivate a person to take action. These conditions are financial stability, external pressure, personal financial need, and financial targets.
2) Stability is a state that describes the company's financial condition as stable. The company's financial condition is said to be stable if the company can meet current routine needs, upcoming needs, and even sudden/sudden needs. When a company is in a stable condition, the value of the company will increase in the eyes of investors, creditors, and the public.
3) Rationalization occurs because a person seeks justification for their activities that contain fraud. The perpetrators believe or feel that their actions are not fraud but something that is their right. Sometimes, even the perpetrators feel meritorious for doing much for the organization.

Thus, in his study, the concept of pressure with an external pressure proxy is used as a dependent variable in the research and is a novelty in developing this model.

6. *CORPORATE GOVERNANCE*

A system in which the company is directed and controlled [76]. It provides a structure through which the company's goals are set, how to achieve the goals are determined, and performance is monitored [77]. Better corporate governance increases the likelihood of a company's success, which includes higher shareholder returns, employee well-being, and good corporate citizenship [78]. From a shareholder's point of view, corporate governance is a mechanism that encourages managers to make decisions to maximize the company's value [79]. In this case, corporate governance aims to promote the dominant agent/shareholder to act in the best interests of all shareholders/principals, including minority shareholders [80]. The implementation of corporate governance is carried out by all parties in the company, with the leading actor being the company's top management, who is authorized to set and implement company policies[81]. So, the concept of this research uses the board of directors, independent directors, and board of commissioners because, at this level, it is the supervision and policy-making of the company.

7. *FINANCIAL PERFORMANCE*

Financial performance can be characterized as the level of performance of a business over some time in reporting general profits and losses during this period [82]. Financial performance is measured relative to an organization's assets, value, and liabilities [83]. Assessing a company's financial performance allows management to determine the impact of business practices and activities on financial goals [84]. Several indicators are used in predicting financial performance, but this study uses return on assets (ROA) as a measure of financial performance variables.

III. MATERIAL AND METHOD

This research concept differs from other studies, where most discuss debt, funding decisions, and capital structures. However, this concept explains external pressure as a new concept introduced in this study. This concept combines the theory of the trade-off theory and the fraud triangle theory, which is broken down and focuses on external pressure. This theory is based on the management factor and stakeholders in managing the company. Corporate Governance is the key to determining the management position in the company's management to balance the debt with the capital costs to be incurred. Unbalanced debt will put tremendous pressure on management to meet the expectations of these stakeholders.

The framework of the model in this study is shown in Figure 2, where corporate governance includes the board of directors, independent board of directors, and board of commissioners, which can control external pressure and financial performance. Here, external pressure is a dependent variable in measuring corporate governance.

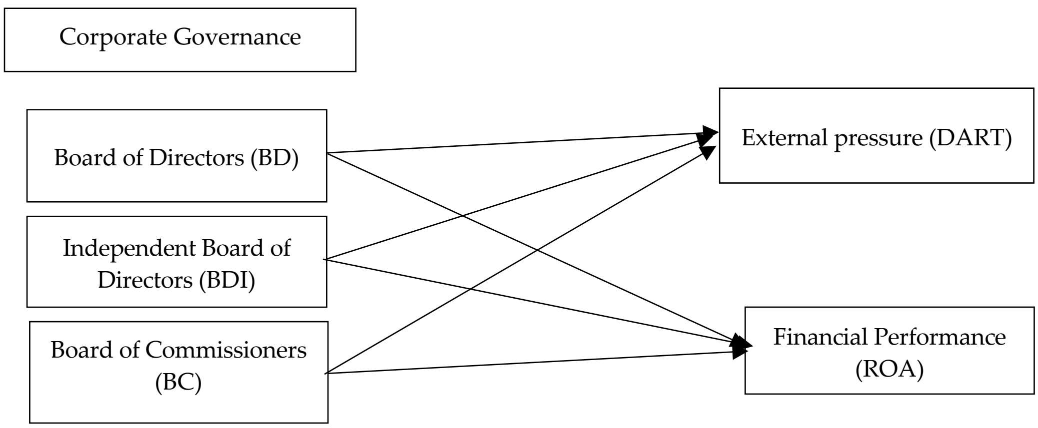

FIGURE 4. Conceptual framework.

1. *HYPOTHESIS DEVELOPMENT*

1.1 *Relationship of the Board of Directors to Financial Performance and External Pressures*

The relationship between the board of directors and external pressure is essential in the company's governance system. The board of directors is responsible for overseeing the company's management and ensuring that the company runs by the goals and interests of the shareholders [85]. This is done to prevent managers from acting in their interests. If the manager acts in his interests, it will harm the shareholders like a theoretical agency that raises conflicts between the principal and management, which has its own goals, so there needs to be strict monitoring and supervision to control the pressure from the outside. Because the position of the board of directors is more robust and able to make decisions, management will provide power in managing pressure that arises from the outside so that the more significant number of the board of directors will lead to broader monitoring. Also, the board of directors has the authority to make decisions [86], especially in managing debt funding, which is a source of pressure from outside the company. This will have a significant impact on improving the company's financial performance.

Several empirical studies say that the board of directors significantly affects leverage and ROA, and leverage mediates between corporate governance and ROA [87]. There is a significant negative relationship between the board of directors and the resulting leverage [88]. According to Pham & Nguyen [89], there is a positive relationship between the board of directors and the relationship between financial leverage and profitability. According to Kyere & Ausloos [90], the board of directors positively affects ROA. The board of directors is the dominant factor in leverage decision-making [91]. The number of boards of directors affects the bank's performance [92]. On the other hand, if it does not have an effect, the board of directors cannot coordinate correctly and take the proper mandate in carrying out the control function. This is because many board members have different interests, so there are more conflicts between management and principals.

H1: Board of Directors Significantly Affects External Pressure

H2: The Board of Directors has a significant influence on financial performance

1.2 *Relationship of Independent Directors to Financial Performance and External Pressures*

In a company, the size of the board of directors can reflect the concept of good corporate governance that can be implemented in the company [93]. because a significant role is held by the board of directors as a decision-maker in terms of company funding. Companies with a large board of directors will have more robust oversight of the company's management and will force the management to reduce the company's financial distress level by lowering the company's debt level [94]. A large number of board of directors will provide power in managing the company's external pressure sourced from funding, and long-term impact will provide optimization of the company's financial performance.

Several empirical studies say that independent directors significantly affect leverage and ROA, and leverage mediates between corporate governance and ROA [87]. . Independent directors significantly negatively affect the company's leverage level [88, 95]. Other research says board independence will reduce the company's leverage [96]. According to Pham & Nguyen [89], There is a positive relationship between the Independent Board of Directors and the relationship between financial leverage and profitability. On the other hand, if it does not have an effect, independent directors are caused because the proportion of independent directors cannot contribute to ensuring good business processes. Independent directors are considered less able to make decisions because any party in the company does not bind them and are more dominant in the number of board members than independent directors, so the consequences of the decision of the board of directors are more robust than those of independent directors. According to Kyere & Ausloos [90], the independent board of directors positively affects ROA.

H3: Independent Board of Directors Significantly Affects External Pressure

H4: Independent Board of Directors Has a Significant Effect on Financial Performance

1.3 *The Relationship of the Board of Commissioners to Financial Performance and External Pressures*

Executives are not allowed to sit on the board of commissioners in a dual board structure; the board of commissioners can carry out its supervisory functions more independently than as directors [97]. Commissioners significantly influence a company's performance because they are independent, impartial, and free from conflicts of interest. This Board of Commissioners has the authority to provide strategic direction for the business and participate in decision-making that improves the company's performance [79]. As a result, in the case of a company, decisions and plans will be implemented more effectively if the number of commissioners is more significant. This follows the agency theory, which states that the board of commissioners supervises the company's directors [98]. In addition, it also follows the stewardship theory, which states that the board of commissioners can give good advice to the company if the company is in a lousy state to regain better performance [99]. External parties are expected to increase managerial independence and improve the company's performance [100]. The responsibility of the board of commissioners is to oversee the operational duties of the directors when making decisions, especially in terms of investment funding [101]. Therefore, compared to supervision carried out by one commissioner, the effectiveness of supervision will increase along with the increase in the number of commissioners.

Several empirical studies say that the board of commissioners significantly affects the Company's leverage [95, 102]. Independent commissioners have proven effective in protecting against the destructive impact of crises, thereby lowering ROA [92]. On the other hand, the board of commissioners has no effect because it has not been able to properly supervise the company's situation due to higher management positions that feel that they hold the key to the management of the company and are not able to be controlled by the board of commissioners. The Board of Commissioners has a significant negative effect on financial performance [103].

H5: Board of Commissioners Significantly Affects External Pressure

H6: The Board of Commissioners has a significant effect on financial performance

1.4 Relationship of External Pressure to Financial Performance

External pressure is integral to corporate debt policy management in the relationship between shareholders and managers. Debt financing can minimize agency by reducing free cash flow and the risk of bankruptcy. This encourages managers to work optimally and make better investment decisions. Top shareholders can also help minimize agency issues by gathering information and monitoring management. Successful corporate governance and substantial shareholder rights can be fulfilled, increasing investor confidence and access to external capital. On the other hand, there needs to be consideration in the external model because the increased external capital will provide tremendous pressure to achieve high targets within the Company, in the trad off theory that prioritizes the balance of debt with agency costs incurred so as not to have a significant impact on the Company's performance.

Several empirical studies say that capital structure significantly negatively affects profitability [104]. Utomo & Mawardi [74] noted that leverage significantly negatively impacts the Company's financial performance. Debt Financing significantly and positively affects the Company's Performance [105]. The Malaysian sample has a positive and significant correlation between corporate leverage and financial performance [61]. The decision to fund the capital structure positively contributes to economic performance. Debt to total assets has a significant positive effect on ROA and ROE [103].

H7: External Pressure Affects Financial Performance

2. RESEARCH METHODOLOGY

This research uses the company's quantitative approach. Sampling uses purposive sampling with several criteria as an invitation to sampling [106]. The data source uses secondary data whose data has been published on the Indonesia Stock Exchange through www.idx.go.id website and the website of each company. Thus, in data collection, the researcher is only a taker and reads the information that the related company has provided.

The Indonesia Stock Exchange classifies manufacturing companies into four categories: acceleration, special monitoring, development, and primary. Category acceleration is a new small-scale company that still needs funding in the capital market to grow. A particular category of monitoring is companies with low liquidity and negative equity, which allow bankruptcy conditions or peace agreements with the supervision of financial services authorities. The development category has yet to be able to generate profits but has more significant prospects. Then, the main category is large companies with a long track record and good fundamental health. The data used is the data of manufacturing companies recorded in the main category because they are large and have a long track record in their business activities. Moreover, the business processes studied between 2018 – 2022 are geographical conditions that affect the economy, namely natural disasters due to the COVID-19 pandemic. In 2018-2022, all economic activities were automatically paralyzed, including business activities, and many companies experienced a drastic decline in profits. So many companies that are not big enough go bankrupt. This makes researchers use large companies with good track records and at least good financial fundamentals.

Table 1. Classification of companies based on the Indonesia stock exchange.

Information	Number of companies
Categories Manufacturing Company Acceleration	24
Special Monitoring Category Manufacturing Company	109
Categories Manufacturing Company Development	189
Main categories Manufacturing companies	203
Number of Manufacturers Listed on Indonesia Stock Exchange 2018-2022	525

From the data, the researcher conducted a breakdown again to specify the data used as a form of purposive sampling method, namely:

Table 2. Sample data criteria.

Information	Number of companies	Period	Observation
Population of Manufacturing Companies Main Categories	203		
A company that has only been listed on the Indonesia Stock Exchange since 2017	(59)		
Sample Manufacturing Companies for the Period 2018 – 2022	144		
Data outlier	(46)		
Final Sample Analysis	98	5	490

Then, this study used three measurement variables: the Company's performance, the board of directors, the Independent Board of Directors, the board of commissioners, and external pressure. For a detailed understanding of the Measurement Indicators of Each Variable are:

Table 3. Variable measurement indicators.

Variable	Description	Measurement	Reference
Financial Performance	The Company's ability to generate profits on its assets	ROA = EAT / Total Asset	[1], [55], [57], [58], [62], [66], [67], [107]–[112]
Board of Directors (BD)	Measurement of the number of boards of directors owned by the company	$\sum \textit{Board of Directors}$	[1], [56], [58], [67], [92], [109], [113], [114]
Independent Board of Directors (BDI)	Measurement of the number of independent directors owned by the company	$\sum \textit{Independent Board of Director}$	[1], [57], [58], [107], [111]
Board of Commissioners (BC)	Measurement of the number of Board of Commissioners owned by the company	$\sum \textit{Board of Commissioners}$	[112], [115]–[118]
External Pressure (DART)	Management is under financial pressure to generate profits	Total debt / Total Asset	[119]–[122]

Thus, the data used is used to understand and analyze corporate governance to control external pressure and improve the Company's performance. This data was processed using Eviews 10. with a mediation model and several stages of the best model test (Chow Test, Hausman Test), classical assumption test, and regression analysis [123-125]. Statistical testing with Eviews 10 is because Eviews can process panel data that can select the best model by processing time series and cross-section compared to other statistical tools such as SPSS when faced with data that is time series less relevant. After all, the test cannot test the best model. This software is most commonly used to analyze time series data. The best model test consists of three stages, namely the Chow test, the Hausman test, and the Lagrange multiplier (ML) test, and this test is carried out gradually and sequentially to produce which model is selected as the best model.

Table 4. Comparative criteria for common effect, fixed effect, and random effect

Testing	Definition	Criteria	Best Model Conclusion
Chow Test	Comparing the Common Effect Model (CEM) and the Fixed effect model (FEM)	P value > level of.sig 5%	Common Effect Model (CEM)
		P value < level of.sig 5%	Fixed Effect Model (FEM)
		P value > level of.sig 5%	Random Effect Model (REM)

Hausmant Test	Comparing Fixed Effect Model (FEM) and Random Effect Model (REM)	P value < level of.sig 5%	Fixed Effect Model (FEM)
langrange multiplier test (ML)	Comparing the common effect model (CEM) and the random effect model (REM)	P value > level of.sig 5%	Common Effect Model (CEM)
		P value < level of.sig 5%	Random Effect Model (REM)

From the results of this test, it can be seen that two out of three must produce tests that meet the model criteria between CEM, FEM, and REM so that the best model will be selected. The basis of this model is then classical assumption testing and regression analysis.

IV. DATA ANALYSIS

This section explains the results of the overall analysis by comparing whether the hypothesis made is acceptable or not. To demonstrate the results of the analysis that has been carried out. First, a statistical description analysis is presented in Table 4 below. The results show that financial performance (ROA) has an average value of 5.38%, a maximum value of 116.70%, a minimum value of -122.058%, and a standard deviation of 14,413%.

Table 5. Statistical analysis of variable descriptions.

Value	ROA	BD	BDI	BC	DART
Mean	5.384608	5.440816	0.336735	4.500000	47.78633
Median	4.323000	5.000000	0.000000	4.000000	47.95300
Maximum	116.7000	13.00000	5.000000	12.00000	129.0000
Minimum	-122.0580	2.000000	0.000000	2.000000	7.623000
Std. Dev.	14.41335	1.946516	0.533995	1.738826	19.56469

The board of directors (BD) variable shows an average value of 5,441, a maximum value of 13, a minimum value of 2, and a standard deviation of 1,946. The variable board of directors Independent (BDI) shows the data distribution with an average value of 0.337, a maximum value of 5, a minimum value of 0, and a standard deviation of 0.534. The board of commissioner variable shows an average value of 4.5, a maximum value of 12, a minimum value of 2, and a standard deviation of 1,739. The external pressure variable with the DART proxy showed an average value data distribution of 47.786%, a maximum value of 129%, a minimum value of 7.623%, and a standard deviation of 19.565%. After conducting statistical description analysis, tests were carried out to determine the best model that can be used between the common effect model (CEM), fixed effect model (FEM), and random effect model (REM). The results of the analysis are presented in the form of Table 6 below.

Table 6. Comparative analysis of common effect, fixed effect and random effect models.

Analysis	**Model 1 (Prob.)**	**Conclusion Model**	**Model 2 (Prob.)**	**Conclusion Model**
Chow Test	0.9530	Common Effect Model	0.1264	Common Effect Model
Hausmant Test	0.5042	Random Effect Model	0.8706	Random Effect Model
Langrange Multiplier (LM) Test	0.1457	Common Effect Model	0.1520	Common Effect Model

Note: Model 1: External Pressure Dependent Variables, *Model 2:* Financial Performance Dependent Variables

The results of the analysis that have been carried out show that the Chow test comparing CEM with FEM shows that models one and two are produced. The model used is CEM, which is seen from the probability value of model one and model two > from the level of sig 5%. Meanwhile, in the Hausman test to compare the FEM model with REM, the analysis produced the probability values of models one and two > level of sig. 5%, then it can be stated that the model used in the hypothesis test uses REM, both model one and model two.

Finally, the Lagrange Multiplier (LM) test determines the model used between CEM and REM, and an analysis is generated that the probability of testing models one and two > level of sig. 5%, then it can be stated that LM testing using the CEM model. It can be concluded that the best model produced to test the hypothesis uses the common effect model (CEM).

The best model was produced using the common effect model (CEM) and then carried out to test whether the data produced met the requirements of the classical assumption test or not. This test is to make a BLUE model (best, linear, unbiased, estimator). Best is meant to produce the best data with the most minor errors. Linear means that the predictor variable is parallel or only has a power of one. Unbiased means the value of each concrete variable and accurate data. Estimators are intended to be unknown population parameters with unbiased properties and minor variants to provide better and more accurate results. The results of the analysis are briefly presented in the form of Table 7 below.

Table 7. Results of classical assumption test analysis.

Model	Model 1		Model 2	
	Glejser Test	VIF	Glejser Test (Prob.)	VIF
Board of Directors (BD)	-0.469049 (0.6392)	5.270101	0.924295 (0.3558)	7.586671
Independent Board of Directors (BDI)	0.198481 (0.8428)	1.417424	-0.976409 (0.3294)	1.421798
Board of Commissioners (BC)	-1.964472 (0.0786)	5.076388	-1.472425 (0.1416)	6.191211
External Pressure (DART)			1.222636 (0.2221)	4.228041
Jarque-Bera	1.37760 (0.345513)		3.513357 (0.172617)	
Durbisn Waston Stat.	1.824831		1.76587	

Note: Model 1: External Pressure Dependent Variables, *Model 2:* Financial Performance Dependent Variables

The results of the analysis of the classical assumption test using four tests and the table above shows that in the normality test using jarque-bera, the probability values of 0.3456 > 0.05 in model one and 0.173 > 0.05 in model two are stated to be normally distributed model one and model two data. In the multicollinearity test, the VIF values of model one and model two < 10 are produced, then it can be stated that model one and model two meet the requirements of multicollinearity testing. In the heteroscedasticity test with the glacier test, the probability of each independent variable of model one and model two is> 0.05, so the heteroscedasticity test meets the condition of the absence of this test symptom. And the Durbin Watson test shows that with n (490), k (4), and Alpha 5% seen DW values between -2 to +2, it can be seen that both model one DW 1.825 and model two DW 1.766 are located between -2 to +2, so it can be stated that no autocorrelation occurs.

After the classical assumption test, the model estimation test is carried out to prove whether the analysis results are in accordance with the hypothesis built or not. There are two test models in the estimation test, and the analysis results show that the board of directors has a significant negative effect on external pressure by looking at the prob. 0.000 < 0.01 and the negative direction of the coefficient -1.709. This indicates that the more the board of directors, the stronger the monitoring of the Company's activities, which leads to having strong power in controlling the Company's external pressure. This result is in line with the research. There is a significant negative relationship between the board of directors and the resulting leverage [88]. The board of directors is the dominant factor in leverage decision-making [91], so the first hypothesis was accepted. The findings illustrate that the larger the board of directors, the more effective it will be in exclusive monitoring and executing pressure on management to control the Company's funding activities. Based on the agency theory, this negative relationship is because companies with larger boards of directors can closely monitor and control the management team to reduce agency problems that impact lowering funding with debt as an external supervisory mechanism.

The second hypothesis shows that the board of directors positively affects financial performance (ROA). This is evidenced by the analysis of probability values of 0.0004 < 0.01 with a positive direction seen from a coefficient of 0.437. This indicates that the more the number of the board of directors, the higher the financial performance generated by the company. This result aligns with research that states that the number of board directors affects the bank's performance [92]. According to Kyere & Ausloos [90], the board of directors positively affects ROA. According to Pham & Nguyen [89], There is a positive relationship between the Board of Directors and the relationship between financial leverage and profitability. According to PeiZhi & Ramzan [126], The board of directors can accelerate the company's performance, so the second hypothesis was declared accepted. The results of this finding illustrate that the number of members of the board of directors in a company allows the board of directors to coordinate in making appropriate policies and focusing on improving financial performance. The Board of Directors has the authority to establish and implement policies imposed by the company so that by increasing the number of members of the Board of Directors of a company, the company's financial performance will improve.

Table 8. Results of model estimation analysis.

Model	Model 1		Model 2	
	Coefficient	t-Statistic	Coefficient	t-Statistic
Direct Effect				
Board of Directors (BD)	-1.709534	-6.321919 (0.0000)***	0.436749	3.538155 (0.0004)***
Independent Board of Directors (BDI)	2.226564	2.523900 (0.0119)**	0.235861	0.533953 (0.5936)
Board of Commissioners (BC)	1.725859	5.872535 (0.0000)***	-0.246330	-1.846654 (0.0654)*
External Pressure (DART)			-0.100705	-8.359943 (0.0000)***

Note: Model 1: External Pressure Dependent Variables, *Model 2:* Financial Performance Dependent Variables, *Level of Sig. 10%, **Level of Sig.5%, *** Level of Sig. 1%)

The third hypothesis from the analysis results shows that the independent Board of Directors has a significant positive effect on external pressure. This is evidenced by the study of probability values of 0.0119 < 0.05, with a positive direction seen from the coefficient of 2.227. This means that the more independent the board of directors, the stronger the external pressure. These results are based on the research of Pham & Nguyen [89], A positive relationship exists between financial leverage and profitability from the Independent Board of Directors. According to Zaid et al. [127], The Independent Board of Directors has a significant positive effect on the decision of the capital structure. So, the fourth hypothesis was declared accepted. The results of these findings illustrate that the existence of independent directors is expected to minimize the conflict of interest that has been explained in the agency theory in decision-making and suggestions that refer to the interests of several parties in controlling external pressure so that it can be concluded that the stronger the independent directors, the more supportive it will be in controlling capital when to make optimal funding decisions. In addition, independent directors can make decisions on the company's funding and will prefer debt as a source of financing because it is less risky than other sources of funding and can be controlled by management.

The fourth hypothesis of this analysis shows that the independent board of directors does not significantly affect financial performance. This illustrates that many or few independent directors need to have a meaningful impact on their financial performance. This result is evidenced by a probability value of 0.594 > 0.05 and a positive coefficient of 0.236. This result differs from the research; the higher the proportion of independent directors, the stronger the company's performance [128]. According to Shan [129] , Independent directors significantly affect the Company's performance. According to PeiZhi & Ramzan [126], The independent board of directors can accelerate the Company's performance. So, the fifth hypothesis was rejected. This illustrates that the proportion of independent directors cannot contribute to guaranteeing good business processes. Independent directors are considered less able to make decisions because any party in the company does not bind them and are more dominant in the number of board members than independent directors, so the consequences of the decision of the board of directors are more robust than those of independent directors.

The fifth hypothesis of the analysis shows that the board of commissioners has a significant positive effect on external pressure. The results of this analysis are evidenced by a probability value of 0.000 < 0.01 and a positive direction seen from the coefficient value of 1.726. This illustrates that the more members of the board of commissioners, the stronger the external pressure exerted by the Company. This result aligns with research that says the board of commissioners significantly affects the Company's leverage [95, 102]. Corporate Governance significantly affects capital structure [130], so the seventh hypothesis can be declared accepted. These findings illustrate that the stronger the independent commissioner, the greater the capital funding because it affects the decisions taken. The company will use debt as a source of corporate capital funding because it has less risk and prevents moral hazards. With its expertise and competence in adequate supervision, it can ensure that decisions regarding funding, such as debt collection, are made with the company's and shareholders' long-term interests in mind. So that the authority possessed by the board of commissioners will strengthen the external pressure imposed by the company.

The sixth hypothesis of this analysis shows that the board of commissioners has a significant negative effect on financial performance by proving that the probability value is 0.065 < 0.10, and the negative direction is seen from the value of the coefficient -0.246. This result illustrates that the more members of the board of commissioners, the lower the Company's financial performance. This result is in line with the research of the Board of Commissioners, which has a significant negative effect on financial performance [103]. The independent board of commissioners has a negative impact on financial performance [131]. Sharia companies with smaller independent commissioner sizes are associated with higher performance [132], so the eighth hypothesis was accepted. The findings illustrate that the stronger the board of commissioners, the worse the financial performance will be because they need more knowledge or experience in the industry or economic field so they may be able to provide adequate guidance or supervision. Decisions that are not right or slow can hinder the company's financial performance. Or it is possible to make decisions that are more beneficial to oneself or a particular party than the company's interests as a whole. This may result in inefficient allocation of resources, which is detrimental to the company's financial performance.

The seventh hypothesis of this analysis shows that external pressure has a significant negative effect on financial performance. This result is evidenced by the probability value of 0.000 < 0.01 and the negative coefficient value of 0.101. This illustrates that the stronger the external pressure, the lower the financial performance produced. These results align with research on capital structure's significant negative effect on profitability [104]. Utomo & Mawardi [74] said that leverage significantly negatively affects the Company's financial performance so that the tenth hypothesis is declared accepted. The findings illustrate that the stronger the external pressure, the weaker the financial performance. This is because external pressure from stakeholders forces management to meet short-term profit expectations and make unwise decisions, such as excessive cost reductions or long-term investment cuts that can damage the company's financial health in the long run.

V. CONCLUSION

Theory and empirical studies have built the relationship between corporate governance, external pressure, and financial performance. However, no one has built the concept of this research, judging from previous research, to provide a deep understanding of the relationship between corporate governance, external pressure, and financial performance. Therefore, this study explores the impact of the board of directors, the independent board of directors, and the board of commissioners on financial performance and external pressure. In addition, this study proves that the practice of corporate governance (board of directors, independent directors, and board of commissioners) significantly impacts external pressure. Meanwhile, the board of directors, the board of commissioners, and pressure significantly affect financial performance.

Based on the results of this study, it is clear that using the argument of agency theory to explain the basic logic of the influence of corporate governance and external pressure, which is the basis for the existence of debt as the basis for meeting the target, while the trade-off theory as a form of balance between debt and agency costs as the basis of logic, if there is no balance, there will be an excess debt burden that exerts external pressure on the Company. The absence of empirical studies that use the perspective of external pressure provides a new and broad understanding of management management. This perspective can be explored more comprehensively and in-depth in the future to get results from a different perspective. However, this research in the future can open up new insights in conducting further research. In the future, conducting comparative research between different countries and industries can provide insights into how local contexts (such as regulations, culture, and level of competition) affect the effectiveness of corporate governance in the face of external pressures. It also combines perspectives from different disciplines, such as risk management, economics, sociology, and law, and it can provide a more comprehensive view.

First, one of the limitations of this research is the basic assumption in testing the direct effect with an external pressure perspective that only exists empirically in this research. Second, this research was conducted in a developing country (Indonesia), which has a unique and dynamic environment, so it has not been able to be generalized. In addition, this study focuses on the object of non-financial companies. Therefore, the results of this analysis cannot be generalized to financial companies with different levels of external pressure.

Considering the results of the findings, there are several implications, both theoretically and practically, as an effort to build literature on corporate governance relations, external pressure, and financial performance. First, the management needs to consider carefully determining the balance between debt and capital costs not to pose a high risk to the company's burden. In addition, the role of the board of directors in management is vital because the proportion of directors, independent directors, and commissioners will significantly impact the company's external pressure. An increase in the board of directors is much better than an increase in the independent board of directors and commissioners, which will impact the company's external pressure. Third, management must proactively monitor changes in government regulations and policies that can affect the company's operations. This includes ensuring strict compliance with the new rules and working closely with external stakeholders to mitigate the negative impact of the changes. Fourth, management must communicate effectively with stakeholders, including shareholders, regulators, customers, and the wider community. This involvement is essential to maintain trust and gain support under external pressure. Transparency and open dialogue can also help to allay concerns and build a positive reputation. Fifth, in the face of external pressures such as rising costs or declining revenues, corporate governance encourages management to manage resources efficiently. This can mean allocating budgets more wisely, reducing waste, and ensuring that every investment adds value to the company. Sixth, it is necessary to ensure that a robust internal monitoring system exists to detect and manage risks associated with external pressures. This involves increased transparency, frequent internal audits, and comprehensive risk assessments.

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Author Contribution

The name of the first author is Sasongko Tri Utomo the main author and correspondent who has contributed to compiling, conceptualizing, writing, analyzing the paper made (Writing - Original Draft, Conceptualization, Formal Analysis, Methodology), and funding acquisition. While the second author, Wisnu Mawardi contributed to validation, Supervision. And the third author, Nur Amalina, contributed to data curation, funding acquisition

Conflict of Interest

The author has no interest in financial or non-financial matters, and the authors do not even have any interests that need to be expressed in this study.

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