

Corporate Governance in SMEs: Substitution or Symbolism? Evidence from Indonesia's Acceleration Board

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Abstract

SMEs play a critical role in economic growth, yet those entering public markets often face governance constraints due to limited resources, concentrated ownership, and compliance-driven structures. In Indonesia's Acceleration Board, the implementation of corporate governance mechanisms faces a critical dilemma: do they serve as functional substitutes for resource constraints (substitution effect) or merely as compliance-driven formalities (symbolic governance)? This study investigates whether these corporate governance mechanisms effectively improve the financial performance of SMEs listed on Indonesia's Acceleration Board. Drawing on agency theory, this paper conceptualizes the interplay between substitution and symbolic governance perspectives to explain governance dynamics and their direct impact on firm performance in resource-constrained environments. Using panel data from ten companies over 2021–2024, this study examines the effects of board size, independent commissioners, and institutional ownership on ROA and ROE, with firm size and leverage as control variables. The findings show that institutional ownership has a positive and significant effect on both performance measures, while board size and independent commissioners are insignificant. Leverage positively affects performance, whereas firm size has a negative effect. These results empirically demonstrate that external governance acts as a functional substitute for weak internal structures, while internal boards remain largely symbolic.

Keywords: Corporate Governance, Institutional Ownership, Financial Performance, SMEs, Leverage



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INTRODUCTION

Small and medium-sized enterprises (SMEs) are crucial to economic development, particularly in developing countries where they significantly increase inclusive growth, innovation, and job creation. SMEs nevertheless confront structural obstacles despite their significance, especially when it comes to obtaining outside funding and maintaining long-term growth. SMEs' capacity to grow and successfully compete is hampered by poor institutional environments, strong information asymmetry, and limited finance access (Ayyagari et al., 2011; Beck & Demirguc-Kunt, 2006; Ullah, 2020). As a result, SMEs are being encouraged to move from privately owned companies to publicly traded companies with better governance and transparency norms through the emergence of capital markets as an alternative financing route. Prior studies on SMEs in Indonesia also indicate that financial performance is influenced by various internal factors, including financial literacy, financial management practices, and accounting systems (Hamzah et al., 2024). However, these factors alone may not be sufficient to ensure sustainable performance without effective governance mechanisms.

The growth of SMEs in Indonesia's capital markets is directly linked to the legislative frameworks that make it easier for them to obtain outside funding. In order to facilitate SME listings, the Indonesia Stock Exchange (IDX) established the Acceleration Board; nonetheless, companies in this category typically have low resources, concentrated ownership, and changing governance structures. More significantly, regulatory constraints imposed during the IPO process are intimately related to the adoption of corporate governance in SMEs. Otoritas Jasa Keuangan regulations, specifically OJK Regulation No.53/POJK.04/2017, mandate that companies conducting public offerings adhere to governance-related requirements, such as disclosing board structures, presenting audited financial statements, and making formal commitments to governance practices. Although these regulations are meant to improve investor safety and transparency, they may potentially lead to governance structures that are more focused on compliance than on functionality.

SMEs must implement formal corporate governance systems intended to improve accountability and safeguard investor interests in order to make the move to public listing. According to agency theory, conflicts between managers and shareholders brought on by information asymmetry and conflicting incentives are lessened by governance structures (Meckling & Jensen, 1976; Shleifer & Vishny, 1997). According to a large body of research, corporate governance enhances monitoring and decreases opportunistic behavior, which both increase business performance (Bhagat et al., 2008; Claessens & Yurtoglu, 2013). But actual data is still equivocal, especially when it comes to SMEs and emerging markets.

According to recent research, corporate governance mechanisms' efficacy is very context-dependent. Internal governance practices like independent commissioners and board size frequently don't result in appreciable gains in business performance in SMEs (Lappalainen & Niskanen, 2012; Rashid, 2018; Singh & Rastogi, 2023). On the other hand, it seems that external governance mechanisms—especially institutional ownership—have a greater influence on

enhancing business performance (Cornett et al., 2007; Hernández-Cánovas et al., 2016; Liu & Suzuki, 2025). The significance of ownership patterns in influencing governance results is further demonstrated by data from Indonesia. (Irvan et al., 2025) demonstrates how ownership traits affect corporate behavior and could change business outcomes, indicating that ownership dynamics and institutional context determine how effective governance is.

This discrepancy raises the possibility that governance systems may not function consistently across businesses. Rather, how various mechanisms interact within certain institutional contexts determines how effective they are. According to (Agrawal & Knoeber, 1996; Rediker & Seth, 1995), governance methods might serve as alternatives rather than complements. Additionally, formal institutions exist mostly for compliance rather than efficient monitoring, and governance methods in emerging economies may have symbolic traits (Zajac & Westphal, 1994).

Evidence from Indonesia further supports this argument. (Hakimah et al., 2019) finds that governance mechanisms in SMEs have varying effects on profitability, with some attributes improving performance while others weaken it. Similarly, (Utami et al., 2026) shows that governance effectiveness depends on contextual factors and may operate indirectly rather than producing uniform outcomes. These findings highlight the importance of examining governance mechanisms within specific institutional and organizational contexts.

To bridge this gap, this study looks at the effects of corporate governance practices on the financial performance of SMEs listed on the Indonesia Stock Exchange's Acceleration Board as measured by Return on Equity (ROE) and Return on Assets (ROA). These practices include board size, independent commissioners, and institutional ownership. Examples of control variables are firm size and leverage. This work contributes to the literature in three ways. It first provides actual data on the effectiveness of corporate governance in SMEs within the framework of a growing capital market. Second, it offers a substitution strategy by demonstrating how external governance systems could make up for inadequate internal structures. Thirdly, it highlights the presence of symbolic governance, which happens when formal governance processes don't always produce effective supervision.

LITERATURE REVIEW

Theoretical Background and Empirical Review

The system of procedures used to guide and manage businesses in order to guarantee responsibility, openness, and the defense of shareholder interests is known as corporate governance. Governance systems are intended to reduce disputes between managers and shareholders that result from information asymmetry and conflicting incentives within the context of agency theory (Meckling & Jensen, 1976). Therefore, by strengthening oversight and coordinating managerial choices with shareholder interests, effective governance arrangements are anticipated to improve business performance (Shleifer & Vishny, 1997).

Nevertheless, there are still conflicting empirical results about the connection between corporate governance and financial performance, especially in emerging markets and SMEs. Some research

indicate weak or inconsequential correlations (Miao et al., 2023) others report favorable impacts (Affes & Jarboui, 2023; Alabdullah, 2021). Evidence from SMEs suggests that governance mechanisms might not function consistently and that their efficacy varies based on institutional contexts and firm characteristics.

According to recent data, governance structures may not always yield consistent results across several performance dimensions, including non-financial performance like sustainability (Marselita & Adhariani, 2025). Ownership structures and firm-specific circumstances also influence governance effectiveness in the Indonesian context (Irvan et al., 2025), supporting the claim that governance systems function in intricate and situation-specific ways.

This argument is supported by evidence from Indonesia. While (Utami et al., 2026) illustrates that governance efficacy frequently depends on contextual and sectoral variables, (Hakimah et al., 2019) demonstrates that governance measures have diverse effects on SME profitability. These results imply that governance mechanisms interact in intricate ways rather than functioning independently.

Additionally, earlier research indicates that governance mechanisms could serve as replacements rather than supplementary instruments (Agrawal & Knoeber, 1996; Rediker & Seth, 1995). Furthermore, formal compliance does not always indicate successful monitoring in emerging market governance arrangements, which may have symbolic features (Zajac & Westphal, 1994). In order to understand the differing efficacy of governance methods in SMEs, this study employs both substitution and symbolic governance approaches.

Firm Size and Financial Performance

Market power, economies of scale, and resource availability are frequently linked to firm size. Due to their increased financial resources and operational effectiveness, larger companies are typically anticipated to perform better. However, earlier research indicates that, especially in SMEs and emerging markets, business growth may also create inefficiencies brought on by organizational complexity and coordination issues (Mehmood et al., 2019; Yasin et al., 2021). Therefore, firm size is included as a control variable to account for heterogeneity in firm characteristics.

Leverage and Financial Performance

Leverage is a measure of how much a company's capital structure depends on debt funding. Trade-off and agency theories state that by offering tax advantages and controlling managerial conduct, debt can improve business performance (Kraus & Litzenberger, 1973; Meckling & Jensen, 1976). On the other hand, too much leverage can raise financial risk. Because of its amplification effect, previous research suggests that leverage has a greater impact on equity-based performance (ROE). Leverage is therefore added as a control variable to account for variations in financial structures among businesses.

Hypotheses Development

Board Size and Financial Performance

The relationship between board size and SME financial performance can be explained through the competing lenses of Resource Dependence Theory and Agency Theory. From a resource dependence perspective, a larger board provides resource-constrained SMEs with broader networks, diverse business expertise, and enhanced critical resource access (Haynes & Hillman, 2010; Pfeffer & Salancik, 2015). However, in the context of listed SMEs, Agency Theory warns that expanding board size often triggers coordination problems, communication bottlenecks, and strategic decision-making delays (Eisenhardt, 1989; Meckling & Jensen, 1976). Empirical evidence from smaller firms frequently demonstrates that larger boards fail to generate substantive monitoring benefits, rendering their effects on performance statistically insignificant (Lappalainen & Niskanen, 2012; Roffia et al., 2022). This phenomenon is also widely observed in the Indonesian market, where research shows that a larger board structure does not necessarily translate into superior financial outcomes due to high friction and coordination barriers (Handayani et al., 2020; Krisnadewi et al., 2020). In emerging markets like Indonesia's Acceleration Board, where compliance costs are high, adding more board members may reflect symbolic governance a formality to satisfy listing requirements rather than a functional tool to drive financial outcomes (Westphal & Zajac, 1998).

H₁: Board Size (BSIZE) affects Return on Assets (ROA).

H₂: Board Size (BSIZE) affects Return on Equity (ROE).

Independent Commissioners and Financial Performance

From an Agency Theory perspective, independent commissioners act as crucial governance mechanisms designed to mitigate agency conflicts through impartial monitoring and the protection of minority shareholders (Eisenhardt, 1989). However, the operational effectiveness of independent oversight is often severely constrained in emerging markets and resource-poor environments like listed SMEs. According to the symbolic governance perspective, firms under intense regulatory pressure frequently engage in 'decoupling'—appointing independent directors merely as a cosmetic exercise to satisfy formal listing mandates rather than to leverage their oversight capabilities (Zajac & Westphal, 1994). Consequently, their substantive capacity to influence strategic choices and improve financial outcomes remains highly restricted (Rashid, 2018). This institutional phenomenon is also prominent in Indonesia, where empirical literature consistently indicates that the appointment of independent commissioners often serves a purely administrative, compliance-driven function, failing to exert real disciplinary power over concentrated owners (Darmadi, 2011; Siregar & Utama, 2008). Given that firms on the Acceleration Board are characterized by tight resource constraints and high insider ownership, independent commissioners are highly likely to function as symbolic gestures.

H₃: Independent Commissioners (INDCOM) affect Return on Assets (ROA).

H₄: Independent Commissioners (INDCOM) affect Return on Equity (ROE).

Institutional Ownership and Financial Performance

In contrast to internal boards, institutional ownership serves as a powerful external governance mechanism that significantly enhances firm-level monitoring quality. Under Agency Theory's

active monitoring hypothesis, institutional investors possess substantial financial stakes, professional expertise, and lower information asymmetry costs, which grant them both the incentive and capability to scrutinize management and curb opportunistic behaviors (Cornett et al., 2007; Liu & Suzuki, 2025). Within the unique dynamics of resource-constrained environments, this relationship is robustly explained by the substitution perspective. When internal governance mechanisms fall short or operate merely on a symbolic compliance level, strong external governance structures step in to compensate for these internal structural deficiencies. This substitution dynamic is highly relevant in emerging economies like Indonesia, where empirical evidence suggests that institutional blockholders act as primary disciplinary forces, filling the governance vacuum left by ineffective or decorative corporate boards (Siregar & Utama, 2008). Consequently, institutional oversight directly reduces agency costs, protects minority interests, and forces listed SMEs to optimize resource allocations, ultimately driving superior financial outcomes.

H₅: Institutional Ownership (IOWN) affects Return on Assets (ROA).

H₆: Institutional Ownership (IOWN) affects Return on Equity (ROE).

Conceptual Framework

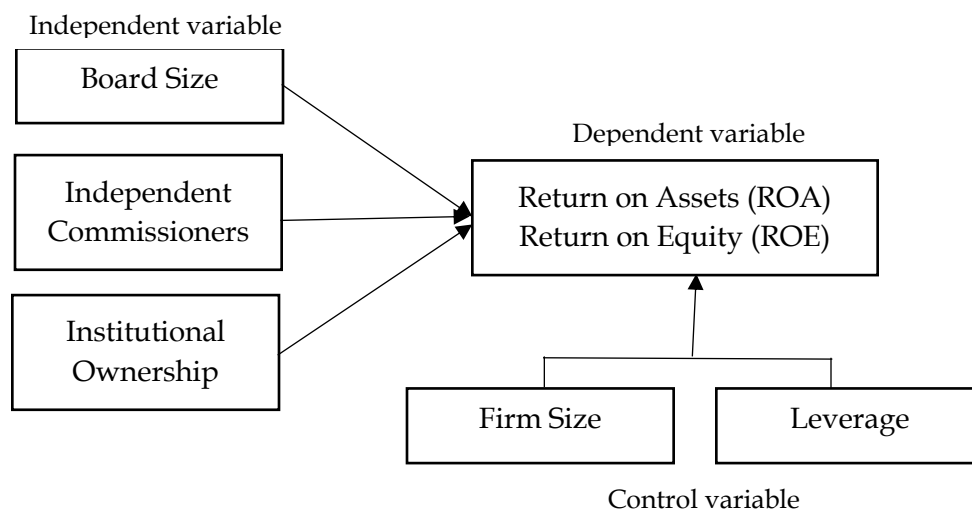


Figure 1. Conceptual Framework

METHOD

This study looks at how corporate governance practices affect financial performance utilizing a quantitative research methodology and panel data analysis. Panel data allows for more effective estimation and better management of unobserved heterogeneity across businesses by combining cross-sectional and time-series observations. This method works especially well for documenting changes in a company's behavior over time and between different entities.

Sample and Data

Small and medium-sized businesses (SMEs) listed on the Indonesia Stock Exchange's (IDX) Acceleration Board make up the study's population. Purposive sampling is used to choose the sample based on three criteria: (1) companies publish comprehensive financial statements; (2) companies are regularly listed on the Acceleration Board during the observation period; and (3) all necessary data for all variables are accessible.

The final sample consists of 10 companies observed over a four-year period (2021–2024), resulting in a balanced panel dataset. Although the sample size is relatively small, it reflects the limited number of SMEs listed on the Acceleration Board, which represents a unique and underexplored segment of the capital market.

Variables Measurement

This study uses two dependent variables to measure financial performance:

Return on Assets (ROA), calculated as net income divided by total assets, representing the efficiency of asset utilization. Return on Equity (ROE), calculated as net income divided by total equity, representing the return to shareholders.

The independent variables representing corporate governance mechanisms are:

The total number of board members determines the Board Size (BSIZE). The percentage of independent commissioners on the board is known as Independent Commissioners (INDCOM). The percentage of shares held by institutional investors is known as Institutional Ownership (IOWN). Additionally, control variables are used in this study to take firm-specific features into account:

The natural logarithm of total assets is used to calculate Firm Size (SIZE). Leverage (LEV), measured as total debt divided by total assets.

Table 1. Variabel and Measurement

Variable	Type	Measurement	Scale
Return on Assets (ROA)	Dependent	Net Income / Total Assets	Ratio
Return on Equity (ROE)	Dependent	Net Income / Total Equity	Ratio
Board Size (BSIZE)	Independent	Number of board members	Discrete
Independent Commissioners (INDCOM)	Independent	Independent commissioners / Total board members	Ratio
Institutional Ownership (IOWN)	Independent	Institutional shares / Total shares	Ratio
Firm Size (SIZE)	Control	Ln (Total Assets)	Interval
Leverage (LEV)	Control	Total Debt / Total Assets	Ratio

Source: Modified from earlier research (Cornett et al., 2007; Hakimah et al., 2019; Irvan et al., 2025; Kraus & Litzenberger, 1973; Lappalainen & Niskanen, 2012; Mehmood et al., 2019; Rashid, 2018; Utami et al., 2026; Yasin et al., 2021)

Data Analysis and Model Specification

The dataset is organized as panel data, integrating time-series observations from 2021 to 2024 (t) with cross-sectional observations of enterprises (i). To capture both dimensions and produce more accurate and reliable results, panel data regression is used. The following is a description of the empirical models:

$$ROA = \alpha + \beta_1 BSIZE_{it} + \beta_2 INDCOM_{it} + \beta_3 IOWN_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \varepsilon_{it}$$

$$ROE = \alpha + \beta_1 BSIZE_{it} + \beta_2 INDCOM_{it} + \beta_3 IOWN_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \varepsilon_{it}$$

Where:

ROA = Return on Assets

ROE = Return on Equity

A = Constant

β_1 – β_5 = Regression coefficients of each independent variable

BSIZE = Board Size

INDCOM = Independent Commissioners

IOWN = Institutional Ownership

SIZE = Firm Size

LEV = Leverage

i = Cross-section

t = Time period

ε = Error term

The analysis uses panel data regression with the help of EViews version 12. The Chow test is used to compare the Common Effect Model (CEM) and Fixed Effect Model (FEM), whereas the Lagrange Multiplier (LM) test is used to compare the Common Effect Model (CEM) and Random Effect Model (REM).

To ensure the robustness of the regression results, traditional assumption tests are performed, such as multicollinearity testing using a correlation matrix, heteroskedasticity testing using the Glejser method, and autocorrelation testing using the Durbin–Watson statistic. These procedures ensure that the regression model satisfies the underlying assumptions and produces precise and effective estimates.

ANALYSIS AND DISCUSSION

Descriptive Statistical Analysis

Descriptive statistical analysis was conducted to describe the characteristics of the research data through the mean, minimum, maximum, and standard deviation values of each variable.

Table 2. Descriptive Statistic

Variable	Mean	Min	Max	Std. Dev
ROA	0.0198	-0.1590	0.2290	0.0633
ROE	0.0277	-0.1700	0.3100	0.0805
IOWN	0.4962	0.0000	1.0000	0.3706
INDCOM	0.3230	0.0000	0.5000	0.1552
BSIZE	2.8500	1.0000	3.0000	0.5334
SIZE	24.42525	1689.000	2665.000	243.1283
LEV	0.1920	0.0200	0.7900	0.1821

Source: Data Processed with Eviews 12 (2026)

Table 2 presents the descriptive statistics of all variables used in this study, including the mean, minimum, maximum, and standard deviation. The results indicate that the average Return on Assets (ROA) is 0.0198, suggesting that firms generate approximately 1.99% returns on total assets. Meanwhile, the average Return on Equity (ROE) is 0.0277, indicating that shareholders earn an average return of 2.78%. These relatively low values reflect the moderate profitability typically associated with SMEs in the early stages of development.

Institutional ownership (IOWN) has a mean value of 0.4962, indicating that institutional investors hold approximately 49.63% of total shares, which reflects a relatively strong external monitoring mechanism. The proportion of independent commissioners (INDCOM) averages 0.3230, suggesting that about 32.30% of board members are independent, consistent with regulatory governance requirements.

Board size (BSIZE) has an average of 2.85 members, ranging from 1 to 3, indicating relatively small board structures, which are typical for SMEs with less complex organizational frameworks. Regarding control variables, firm size (SIZE) has a mean value of 24.42525 and a standard deviation of 243.128, indicating moderate variation across firms. Leverage (LEV) has an average value of 0.1920, suggesting that approximately 19.20% of total assets are financed through debt, reflecting a relatively conservative capital structure.

Furthermore, the standard deviation values indicate moderate variability across variables, with ROE exhibiting slightly higher dispersion than ROA, implying greater variability in shareholder returns. The skewness and kurtosis values, particularly for BSIZE and ROE, indicate deviations from normality. This is further supported by the Jarque–Bera test results, where several variables show probability values below 0.05, confirming non-normal distribution. Overall, these findings suggest that SMEs listed on the Acceleration Board are characterized by moderate institutional ownership, relatively small board structures, conservative leverage levels, and modest yet variable financial performance.

Model Selection

To find the best panel data regression model, model selection is carried out. The Common Effect Model (CEM) and Fixed Effect Model (FEM) are compared in this study using the Chow test, and the Common Effect Model (CEM) and Random Effect Model (REM) are compared using the Lagrange Multiplier (LM) test. After that, more analysis is conducted using the chosen model.

Test Chow Model

The Chow test is conducted to determine the most appropriate panel data model between the common effect model and the fixed effect model. This test evaluates whether there are significant individual effects across cross-sections. A probability value (p-value) less than 0.05 indicates that the fixed effect model is more appropriate. The results of the Chow test are presented in the following table.

Table 3. Test Chow Model 1 (ROA)

Test	Statistic	Prob.
Cross-section F	1.146897	0.3689
Cross-section Chi-square	13.825.293	0.1287

Source: Data Processed with Eviews 12 (2026)

Table 4. Test Chow Model 2 (ROE)

Test	Statistic	Prob.
Cross-section F	1.368.433	0.2542
Cross-section Chi-square	16.021.746	0.0664

Source: Data Processed with Eviews 12 (2026)

Test Lagrange Multiplier Model

The Lagrange Multiplier (LM) test is conducted to determine the most appropriate panel data model between the common effect model and the random effect model. This test evaluates whether individual effects are present in the data. A significant probability value (p-value < 0.05) indicates that the random effect model is more suitable than the common effect model. The results of the LM test are presented in the following table.

Table 5. Test Lagrange Multiplier Model 1 (ROA)

Method	Cross-section	Test Hypothesis Time	Both
Breusch-Pagan	1.387.106 (0.2389)	0.206767 (0.6493)	1.593.873 (0.2068)
Honda	-1.177.754 (0.8806)	0.454717 (0.3247)	-0.511265 (0.6954)

Source: Data Processed with Eviews 12 (2026)

Table 6. Test Lagrange Multiplier Model 2 (ROE)

Method	Cross-section	Test Hypothesis Time	Both
Breusch-Pagan	1.032993 (0.3095)	0.003027 (0.9561)	1.036020 (0.3087)
Honda	-1.016363 (0.8453)	0.055019 (0.4781)	-0.679773 (0.7517)

Source: Data Processed with Eviews 12 (2026)

This study uses the Lagrange Multiplier (LM) test and the Chow test to identify the best panel data regression model.

The Common Effect Model (CEM) and the Fixed Effect Model (FEM) are compared using the Chow test. According to the findings, the probability values for Model 1 (ROA) are 0.1287 (chi-square) and 0.3689 (F-statistic), both of which are higher than the 0.05 significant level. The probability values for Model 2 (ROE) are likewise higher than 0.05, at 0.2542 and 0.0664. These findings suggest that the Common Effect Model (CEM) is better for both models and that the fixed-effect model is inappropriate.

Additionally, the Common Effect Model (CEM) and the Random Effect Model (REM) are compared using the Lagrange Multiplier (LM) test. The findings demonstrate that both Model 1 (ROA) and Model 2 (ROE) have Breusch-Pagan probability values of 0.3087, which is higher than 0.05. This suggests that the Common Effect Model is more appropriate than the Random Effect Model.

The Common Effect Model (CEM) is the best model for both Model 1 (ROA) and Model 2 (ROE), according to the findings of both experiments. This implies that pooled regression is adequate to quantify the association between corporate governance mechanisms and financial performance and that there are no significant cross-sectional impacts among enterprises.

The findings of the Chow and Lagrange Multiplier tests, which show the lack of significant individual and random effects, support the use of the Common Effect Model (CEM). This implies that the dataset utilized in this investigation is suitable for pooled estimate.

Hypotheses Testing

Hypotheses testing is conducted using panel data regression analysis to examine both partial and simultaneous effects of the independent variables on the dependent variables, namely ROA and ROE. The t-test is used to assess the partial effect of each independent variable on each dependent variable, while the F-test evaluates the joint significance of all variables. The estimation results for both models are presented in the following table.

Table 7. t-Test Model 1 (ROA)

Variable	Coefficient	t-Statistic	Prob.
IOWN	0.115423	5.337956	0.0000
INDCOM	0.065834	0.908120	0.3702
BSIZE	-0.008553	-0.563990	0.5765
SIZE	-0.000157	-3.503887	0.0013
LEV	0.104412	2.110265	0.0423

Source: Data Processed with Eviews 12 (2026)

Based on Table 7 presented above, the analysis yields several key findings regarding the determinants of financial performance measured by ROA. First, IOWN has a positive and significant effect on ROA, with a coefficient of 0.115423 and a p-value of 0.0000. This result indicates that higher institutional ownership improves financial performance. Second, LEV also shows a positive and significant effect on ROA (coefficient = 0.104412; p-value = 0.0423), suggesting that leverage contributes positively to firm performance. Third, Firm Size (SIZE) has a significant negative effect on ROA (coefficient = -0.000157; p-value = 0.0013), indicating that larger firm size is associated with lower financial performance. Fourth, the proportion of INDCOM exhibits a positive but not significant effect on ROA (coefficient = 0.065834; p-value = 0.3702), meaning that the proportion of independent commissioners does not significantly influence financial performance. Finally, BSIZE has a negative and not significant effect on ROA (coefficient = -0.008553; p-value = 0.5765), indicating that board size does not have a significant impact on financial performance.

Table 8. t-Test Model 2 (ROE)

Variable	Coefficient	t-Statistic	Prob.
IOWN	0.154567	5.923405	0.0000
INDCOM	0.132687	1.516662	0.1386
BSIZE	-0.009195	-0.502439	0.6186
SIZE	-0.000216	-3.996608	0.0003
LEV	0.187481	3.264965	0.0025

Source: Data Processed with Eviews 12 (2026)

Based on Table 8 presented above, the analysis yields several key findings. First, IOWN has a positive and significant effect on ROE, with a coefficient of 0.154567 and a p-value of 0.0000. This indicates that higher institutional ownership improves financial performance. Second, LEV also shows a positive and significant effect on ROE (coefficient = 0.187481; p-value = 0.0025), suggesting that leverage positively contributes to firm performance. Third, SIZE has a significant negative effect on ROE (coefficient = -0.000216; p-value = 0.0003), indicating that larger firms tend to have lower financial performance. Fourth, the proportion of INDCOM exhibits a positive but not significant effect on ROE (coefficient = 0.132687; p-value = 0.1386), meaning that independent commissioners do not significantly influence financial performance. Finally, BSIZE has a negative

and not significant effect on ROE (coefficient = -0.009195; p-value = 0.6186), indicating that board size does not significantly affect financial performance.

Simultaneous Test (F-Test)

The F-test is performed to evaluate whether the independent variables, as a group, have a significant effect on the dependent variable.

Table 9. F-test Model 1 (ROA)

Statistic	Value
F-statistic	9.636733
Prob (F-statistic)	0.000008

Source: Data Processed with Eviews 12 (2026)

Simultaneous significance testing (F-test) is conducted to examine whether all independent variables jointly affect the dependent variable (ROA). The results as presented in Table 9 show that the F-statistic value is 9.636733 with a probability (Prob. F-statistic) of 0.000008, which is below the 0.05 significance level. This indicates that all independent variables simultaneously have a significant effect on ROA. Therefore, the regression model is considered fit and appropriate for explaining the variation in financial performance.

Table 10. F-test Model 2 (ROE)

Statistic	Value
F-statistic	11.45844
Prob (F-statistic)	0.000002

Source: Data Processed with Eviews 12 (2026)

Simultaneous significance testing (F-test) is conducted to examine whether all independent variables jointly affect the dependent variable (ROE). The results presented in Table 9 show that the F-statistic value is 11.45844 with a probability (Prob. F-statistic) of 0.000002, which is below the 0.05 significance level. This indicates that all independent variables simultaneously have a significant effect on ROE. Therefore, the regression model is considered fit and appropriate for explaining the variation in firm performance.

Coefficient of Determination (R²)

Table 11. Coefficient of Determination (R²) Model 1 (ROA) and Model 2 (ROE)

Model	Statistic	Value
Model 1 (ROA)	R-squared	0.586292
Model 2 (ROE)	R-squared	0.627570

Source: Data Processed with Eviews 12 (2026)

Table 11 above shows that Model 1 (ROA), the R^2 value of 0.586292 indicates that 58.63% of the variation in ROA can be explained by the independent variables, while the remaining 41.37% is influenced by other factors outside the model. Meanwhile, for Model 2 (ROE), the R^2 value of 0.627570 shows that 62.76% of the variation in ROE is explained by the model, with 37.24% explained by other variables not included in the analysis.

Discussion

Board Size and Financial Performance

Board size (BSIZE) is also found to have no significant effect on firm performance. This suggests that increasing the number of board members does not necessarily improve governance effectiveness. While larger boards may offer a broader range of expertise, they may also lead to coordination problems, slower decision-making, and inefficiencies. Prior research indicates that board effectiveness depends more on qualitative aspects such as expertise, participation, and decision-making processes rather than the number of members (Lappalainen & Niskanen, 2012; Roffia et al., 2022). In SMEs, which typically have simpler organizational structures, smaller boards may already be sufficient to ensure effective governance.

Independent Commissioners and Financial Performance

Independent commissioners (INDCOM) are found to have no significant effect on financial performance. This result challenges agency theory, which suggests that independent board members enhance monitoring effectiveness. In the context of SMEs, independent commissioners may function more as a formal compliance requirement rather than as an effective governance mechanism. This interpretation aligns with findings in emerging markets where independent commissioners often play a symbolic role due to weak institutional enforcement (Rashid, 2018). Moreover, in SMEs with concentrated ownership structures, independent commissioners may lack sufficient authority and incentives to effectively supervise management, thereby limiting their impact on firm performance.

Institutional Ownership and Financial Performance

Institutional ownership (IOWN) is found to have a positive and significant effect on both ROA and ROE. This finding confirms that institutional investors act as effective external monitoring mechanisms that are capable of reducing agency problems and improving firm performance. Compared to internal governance mechanisms, institutional investors possess greater resources, expertise, and incentives to oversee managerial behavior. This result is consistent with prior studies showing that institutional ownership enhances firm performance through improved monitoring and governance quality (Cornett et al., 2007; Liu & Suzuki, 2025). Furthermore, the stronger influence on ROE suggests that institutional investors are more oriented toward maximizing shareholder value, particularly in SMEs listed on the Acceleration Board where governance structures are still evolving. This finding is also supported by evidence in the

Indonesian context emphasizing the importance of ownership structure in shaping governance outcomes (Irvan et al., 2025).

Firm Size and Financial Performance

Firm size (SIZE) has a negative and significant effect on both ROA and ROE. This finding indicates that as SMEs grow, their efficiency in utilizing resources may decline. This can be explained by increasing organizational complexity, bureaucratic inefficiencies, and coordination challenges that often accompany firm expansion. This result is consistent with previous studies showing that rapid firm growth in emerging markets is not always matched by improvements in managerial capabilities and governance structures (Mehmood et al., 2019; Yasin et al., 2021). Therefore, firm growth must be accompanied by improvements in governance capacity to sustain performance.

Leverage and Financial Performance

Leverage (LEV) is found to have a positive and significant effect on financial performance, particularly stronger on ROE. This finding supports both agency theory and trade-off theory, which suggest that debt can act as a disciplinary mechanism by limiting free cash flow and reducing managerial opportunism (Kraus & Litzenberger, 1973; Meckling & Jensen, 1976). By imposing financial obligations, leverage encourages managers to operate more efficiently, thereby improving firm performance. The stronger impact on ROE indicates that leverage plays a crucial role in enhancing returns to equity holders, which is consistent with prior findings (Utami et al., 2026).

Overall, the findings support the substitution effect of corporate governance mechanisms, where external governance (institutional ownership) can substitute for weaker internal governance mechanisms such as independent commissioners and board size. This result is consistent with prior studies suggesting that governance mechanisms may function as substitutes rather than complements (Agrawal & Knoeber, 1996; Rediker & Seth, 1995). In the Indonesian SME context, governance effectiveness is highly dependent on institutional conditions and resource availability (Hakimah et al., 2019; Utami et al., 2026). Additionally, the findings reflect the presence of symbolic governance, where governance structures are implemented primarily to comply with regulations such as OJK Regulation No. 53/POJK.04/2017 rather than to ensure effective monitoring.

CONCLUSION

The results show that institutional ownership is the only governance mechanism that consistently improves financial performance, as measured by ROA and ROE. This emphasizes how important institutional investors are as efficient external observers in lowering agency issues and improving company performance. Internal governance instruments, such as independent commissioners and board size, on the other hand, have no discernible impact, indicating that their existence by itself is insufficient to guarantee good governance. These results are in line with other research

showing that governance methods in SMEs may have varying effects based on their organizational setting and features.

While this study offers significant contributions to the corporate governance literature, several limitations should be acknowledged, particularly regarding the limited sample size and the brief observation period, which may affect the generalizability of the findings. Consequently, future research is encouraged to utilize larger sample sizes and longer time horizons to provide more robust and longitudinal evidence. Furthermore, expanding the scope of governance variables to include factors such as board diversity, audit committees, and ESG (Environmental, Social, and Governance) performance, along with the application of alternative econometric approaches, would significantly enhance the robustness and depth of future findings in this field.

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