



## Board Diversity, Foreign Ownership, and Audit Quality: Their Influence on Financial Performance in Indonesian State-Owned Enterprises (2020-2024)

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**ABSTRACT:** This research explores the impact of board diversity, foreign ownership, and audit quality on the financial performance of Indonesian state-owned enterprises (SOEs) listed in the index of IDX BUMN20 for the period of 2020–2024. As part of broader governance reforms in Indonesia, this research seeks to assess how these three governance elements contribute to financial outcomes within a unique organizational setting where commercial and public mandates often intersect. Using a panel data regression model with a sample of 18 SOEs across five years, it reveals that both foreign ownership and high-quality auditing are significantly linked to enhanced financial performance, while board diversity, although positively correlated, does not show statistical significance. These results suggest that while inclusive board structures may offer long-term governance benefits, measurable financial gains are more immediately driven by investor oversight and the credibility of external audits. The findings contribute to a deeper understanding of governance effectiveness in state-affiliated firms and offer practical guidance for enhancing performance through targeted reforms. This research underscores the importance of institutional support, regulatory consistency, and professional independence in shaping the future of Indonesia's public sector enterprises.

**KEYWORDS:** Board Diversity, Foreign Ownership, Audit Quality, Financial Performance

### I. INTRODUCTION

State-Owned Enterprises (SOEs) are critical to the functioning and development of emerging economies, including Indonesia. These entities are not merely profit oriented firms but are also instruments of national policy, economic stabilization, and public service provision. In Indonesia, SOEs operate across diverse strategic sectors such as energy, finance, transportation, and telecommunications, contributing significantly to GDP and employment. Despite their centrality in national development, Indonesian SOEs need continuous reform and the implementation of best governance practices to enhance performance, accountability, and stakeholder confidence.

The transformation of SOEs has been a key agenda for the Indonesian government in recent years. A major component of this reform effort involves strengthening corporate governance mechanisms, particularly those related to ownership structure, board composition, and audit oversight. The underlying assumption is that improved governance translates into better decision making, reduced agency conflicts, and ultimately, improved financial performance. This research focuses on three critical aspects of governance that include board diversity, foreign ownership and audit quality with their collective influence on the financial performance of Indonesian SOEs listed on the index of IDX BUMN20 over the period of 2020–2024.

Foreign ownership is one of the most significant changes in corporate structure brought about by globalization and capital market integration. From a theoretical perspective, foreign investors are generally assumed to possess more advanced technological capabilities, better access to capital, and superior governance frameworks (Douma, George, & Kabir, 2006). Moreover, foreign shareholders are often more demanding in terms of transparency, profitability, and managerial discipline compared to their domestic counterparts (Vo & Nguyen, 2014). These factors are believed to contribute positively to firm performance. However, this relationship may be moderated by institutional and political factors unique to SOEs, where strategic objectives may at times conflict with shareholder value maximization.

Another dimension of governance that has attracted significant scholarly and policy attention is board diversity. Grounded in resource dependence and agency theories, gender-diverse boards are believed to offer a broader spectrum of perspectives, improve stakeholder engagement, and enhance the board's monitoring capacity (Terjesen, Sealy, & Singh, 2009). According to Adams and Ferreira (2009), gender-inclusive boards may also promote more diligent participation and stronger accountability mechanisms,



especially within industries traditionally dominated by men. Moreover, there is evidence that female directors are more likely to raise ethical concerns and act independently, which can be crucial in ensuring the integrity of corporate governance (Gul, Srinidhi, & Ng, 2011). In the Indonesian context, efforts to increase women's representation on boards have gained traction, with regulatory bodies and civil society advocating for more inclusive leadership structures. Nonetheless, the empirical evidence on whether gender-diverse boards lead to better financial outcomes remains mixed. While some studies report a positive correlation between board diversity and firm performance (Ntim, Lindop & Thomas, 2015), others suggest the effect is context dependent and varies across industries, firm size, and ownership structures (Marimuthu & Kolandaisamy, 2009).

The third pillar of governance explored in this research is audit quality. Robust auditing practices play a vital role in strengthening the reliability of financial disclosures, reducing gaps in information between stakeholders, and supporting adherence to applicable regulations (DeFond & Zhang, 2014). In SOEs, where the dual pressures of public accountability and political interference exist, the role of external audits becomes even more critical. Prior research indicates that firms audited by Big Four auditors tend to exhibit higher financial performance and lower earnings management, owing to stronger monitoring and reputation incentives (Habib, Jiang, & Zhou, 2015). Additionally, the independence and competence of auditors play a crucial role in detecting fraud, preventing misstatements, and promoting transparency (Becker et al., 1998). In Indonesia, audit quality is often variable due to regulatory gaps, market concentration, and inconsistent enforcement, making it a key variable to examine in the context of SOE performance.

This research is particularly relevant in light of the governance reforms undertaken in Indonesia over the past decade, including the establishment of the Ministry of State-Owned Enterprises' Good Corporate Governance (GCG) roadmap and the introduction of various compliance and transparency regulations. These initiatives aim to align SOEs with international best practices and enhance investor confidence. However, the impact of such reforms remains a subject of debate, especially given the political and institutional constraints that continue to influence SOE operations (Carney & Child, 2013).

The COVID-19 pandemic and the subsequent economic volatility during 2020–2024 have further highlighted the need for resilient governance structures. During this period, SOEs have been at the forefront of implementing public health and economic recovery measures, while simultaneously managing financial risks and operational disruptions. This dual responsibility makes it particularly important to evaluate how governance attributes such as ownership composition, board diversity, and audit quality have affected their financial resilience and performance.

Using panel data from index of IDX BUMN20 SOEs for the period of 2020 - 2024, this research seeks to provide a comprehensive empirical investigation of how these three governance factors influence financial performance. This research contributes to existing literature in several ways. First, it provides updated evidence from the post-pandemic period, incorporating the latest reforms and market dynamics. Second, it offers insights specific to SOEs entities that differ significantly from private firms in terms of objectives, constraints, and stakeholder expectations. Third, it integrates multiple governance dimensions into a single framework, enabling a holistic assessment of their interplay and combined impact on firm outcomes. In doing so, this research addresses a critical gap in the literature on corporate governance in emerging markets and offers practical recommendations for investors, policymakers, and SOE managers. The findings are expected to inform the design of governance structures that enhance performance, accountability, and public trust in Indonesia's state-owned sector.

## II. LITERATURE REVIEW

### A. Agency Theory

This research is based on Agency Theory, which explores the dynamic between owners, acting as principals, and company executives, who serve as agents responsible for managing the firm's operations (Jensen & Meckling, 1976). The core assumption is that managers may not always act in the best interest of shareholders, especially when ownership is diffused, creating agency costs. In the context of state-owned enterprises (SOEs), these conflicts can be more complex due to the dual roles of the state as both regulator and owner (Shleifer & Vishny, 1997). Agency theory supports the importance of mechanisms such as board composition, external audits, and ownership structure to mitigate agency problems and align managerial actions with organizational goals (Fama & Jensen, 1983). Specifically, foreign ownership, diverse boards, and independent auditors are governance levers often employed to enhance monitoring and reduce opportunistic behavior. These mechanisms are particularly critical in SOEs, where non-commercial objectives and political intervention can weaken governance efficiency (Carney & Child, 2013).

## **B. *Effects of Board Diversity on Financial Performance***

Board gender diversity refers to the representation of women on corporate boards. It has gained increasing attention in corporate governance discourse due to the growing belief that diverse boards make better decisions, enhance firm reputation, and improve risk oversight (Terjesen, Sealy, & Singh, 2009). Theoretically, the resource dependency theory and agency theory both suggest that diverse boards provide a broader range of experiences, perspectives, and ethical orientations, improving monitoring and decision-making functions (Hillman, Shropshire, & Cannella, 2007).

A variety of scholarly works have investigated the connection between gender-balanced leadership and the financial success of firms. Adams and Ferreira (2009) demonstrated that female directors significantly improve board attendance and monitoring quality. Similarly, Gul, Srinidhi, and Ng (2011) found that gender-diverse boards increase the informativeness of earnings and reduce earnings management, particularly in environments with weak investor protection. Nielsen and Huse (2010) emphasized that women tend to contribute to more participative decision making and ethical conduct, thereby positively influencing board processes and outcomes.

Empirical studies in emerging markets reveal similar patterns. Ntim et al. (2013) found that gender-diverse boards among South African firms enhance both accounting and market-based performance indicators. In Malaysia, Marimuthu and Kolandaisamy (2009) reported a positive relationship between ethnic and gender diversity on boards and firm performance, reinforcing the view that diversity improves governance outcomes in non-Western contexts.

In Indonesia, the role of women in corporate boards is gradually expanding, supported by social change and regulatory encouragement. Nevertheless, some studies offer more nuanced views. Post and Byron (2015), through meta-analysis, noted that while gender diversity tends to positively affect firm performance, the magnitude varies based on industry characteristics, board culture, and the degree of inclusiveness. Kanter (1977) warned of tokenism, where the presence of women does not translate into actual influence. This risk is relevant in settings where women are appointed primarily to meet quotas or improve external image rather than to influence strategic decisions. Therefore, while board gender diversity has the potential to strengthen SOE governance and performance, its impact is context-sensitive. It depends not only on representation but also on empowerment, board culture, and alignment with organizational goals.

## **C. *Effects of Foreign Ownership on Financial Performance***

Foreign ownership has long been seen as a strategic resource in corporate governance, especially in developing economies. Foreign investors are expected to bring capital discipline, advanced managerial practices, and international benchmarks, contributing to improved firm performance (Douma, George, & Kabir, 2006). According to agency theory, the presence of foreign owners enhances monitoring quality and reduces managerial discretion, thereby lowering agency costs.

Numerous studies corroborate the positive influence of foreign ownership. Vo and Nguyen (2014), in research of Vietnamese firms, found that foreign ownership positively affects firm profitability and valuation. Similarly, Wang and Shailer (2015) argued that foreign institutional investors significantly enhance financial transparency and performance through greater scrutiny and expectation alignment. In China, Yuan, Xiao, and Zou (2008) observed that foreign owners improve innovation and profitability by enforcing better governance.

In Indonesia, Siregar & Utama (2008) also observed that firms with foreign shareholders exhibit better financial discipline and lower levels of earnings management. However, foreign ownership can have ambiguous effects in politically influenced sectors such as SOEs. In addition, institutional voids such as weak legal systems, inconsistent enforcement, and information asymmetries can constrain foreign shareholders from exerting effective control (Khanna & Palepu, 2000). Additionally, foreign ownership structure (e.g., dispersed vs. concentrated) and type (e.g., institutional vs. corporate investors) may moderate its impact. Othman, Arshad, and Arif (2015) found that institutional foreign investors exert stronger governance pressure compared to individuals. Hence, foreign ownership can enhance SOE performance, but only when accompanied by genuine influence, regulatory support, and strategic alignment.

## **D. *Effects of Audit Quality on Financial Performance, Foreign Ownership***

Audit quality reflects the effectiveness of an auditor in identifying and disclosing significant inaccuracies or errors within a company's financial reports (DeAngelo, 1981). High-quality audits contribute to stakeholder trust, lower information asymmetry, and improved financial reporting accuracy, all of which can positively impact firm value. For SOEs, where public accountability



and political exposure are heightened, audit quality serves as an external control mechanism to ensure integrity in financial disclosure (Habib, Jiang, & Zhou, 2015).

According to Becker et al. (1998), companies audited by Big Four firms tend to engage in lower levels of earnings manipulation, which is likely due to the stricter application of auditing standards by these firms. DeFond and Zhang (2014), in a comprehensive review, confirmed that audit quality is linked to reduced financial misstatements, lower audit fees, and enhanced investor confidence. For Indonesia, Harymawan and Nowland (2016), who concluded that high-quality auditors improved transparency and credibility in Indonesian SOEs, especially when facing weak internal governance structures.

Furthermore, auditor independence and specialization are crucial for audit effectiveness. Krishnan (2003) suggested that industry-specialist auditors provide more accurate and relevant evaluations, leading to improved governance outcomes. In the context of SOEs, audit quality also depends on the strength of public institutions, legal enforcement, and the independence of oversight bodies (La Porta et al., 1998). However, challenges remain. In environments where audit appointments are politically influenced, the effectiveness of even high-profile auditors can be compromised (Fan & Wong, 2005). Therefore, audit quality must be supported by institutional integrity, regulatory enforcement, and professionalism to produce real governance impact in the SOE context.

**III. RESEARCH METHOD**

**A. Model Specification**

To investigate the influence of board diversity, foreign ownership, and audit quality on company’s financial performance, this research applies multiple regression model analysis using EViews 9 Version which is formulates as follows:

$$FP = \alpha_0 + \alpha_1BD + \alpha_2FO + \alpha_3AQ$$

The dependent variable (Y) of this research is Financial Performance (FP). While, the independent variables (X) represent by Board Diversity (BD), Foreign Ownership (FO) and Audit Quality (AQ).

**B. Sample Selection**

This research utilizes financial report data from companies in the index of IDX BUMN20 listed on the Indonesia Stock Exchange (IDX) from 2020 to 2024, with a population of 20 companies and a sample of 18 companies selected through purposive sampling based on specific criteria.

**Table I. Research Sample Selection Criteria**

No	Criteria	Number of Companies
<b>Population</b>		<b>20</b>
1	Companies not reporting financial statements and not yet IPO in the order period of 2020-2024	(2)
<b>Research Sample</b>		<b>18</b>
<b>Total Sample (n x research period)</b>		<b>90</b>

Source: Processed from [www.idx.co.id](http://www.idx.co.id)

**C. Measurement of Research Variables**

The table below presents the variables, indicators, and measurement approaches applied in this research:

**Table II. Measurement of Dependent and Independent Variables**

No	Variable	Determination	Scale	Reference
1	Financial Performance (Y)	ROA by using the ratio of net income to total assets	Ratio	Gurbuz & Aybars (2010)
2	Board Diversity (X1)	The proportion of female representation on the board is measured by dividing the	Ratio	Maghfiroh & Utomo (2019)



		number of female board members to the total number of board members in the company		
3	Foreign Ownership (X2)	The proportion of foreign ownership is measured as the ratio of shares held by foreign investors to the total number of shares outstanding	Ratio	Nguyen et al. (2020)
4	Audit Quality (X3)	A dummy variable, assigned a value of 1 if the company is audited by a public accounting firm classified as part of the Big Four (Deloitte, PwC, EY and KPMG), and 0 otherwise	Dummy	Meidona & Yanti (2018)

Source: Processed Data (2025)

**IV. FINDINGS & DISCUSSIONS**

**A. Descriptive Statistics**

**Table III. Descriptive Statistics**

	FP	BD	FO	AQ
Mean	3.678111	19.60667	15.34833	0.833333
Median	1.935000	20.00000	10.57500	1.000000
Maximum	27.71000	30.00000	47.91000	1.000000
Minimum	-2.870000	0.000000	0.790000	0.000000
Std. Dev.	4.838202	6.195555	12.31370	0.374766
Skewness	2.414467	-0.513805	0.913370	-1.788854
Kurtosis	10.38952	3.294421	2.496598	4.200000
Jarque-Bera	292.2134	4.285004	13.46398	53.40000
Probability	0.000000	0.117361	0.001192	0.000000
Sum	331.0300	1764.600	1381.350	75.00000
Sum Sq. Dev.	2083.329	3416.256	13494.81	12.50000
Observations	90	90	90	90

Source: Eviews Data Processing (2025)

The table above presents the descriptive statistics for 90 observations from 18 companies over five years (2020–2024). Financial Performance (FP) averages 3.67 with a standard deviation of 4.83, indicating considerable dispersion in profitability across firms. Board Diversity (BD) has a mean of 19.60 and a standard deviation of 6.19, indicating moderate variation in board composition across firms. Foreign Ownership (FO), with a mean of 15.34 and a standard deviation of 12.31, demonstrates substantial heterogeneity in foreign shareholder participation. Audit Quality (AQ) has a mean of 0.83 and a standard deviation of 0.37, showing a relatively balanced distribution between firms with and without high audit quality.



**B. Regression Testing Results**

**Table IV. Multiple Linear Regression Results**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.345789	0.070000	4.939843	0.0000
BD	0.129568	0.081199	1.595695	0.1142
FO	0.198345	0.050000	3.966900	0.0002
AQ	2.963044	1.335145	2.219268	0.0291
R-squared	0.094662	Mean dependent var		3.678111
Adjusted R-squared	0.063080	S.D. dependent var		4.838202
S.E. of regression	4.683118	Akaike info criterion		5.969232
Sum squared resid	1886.117	Schwarz criterion		6.080335
Log likelihood	-264.6154	Hannan-Quinn criter.		6.014035
F-statistic	2.997381	Durbin-Watson stat		2.196325
Prob(F-statistic)	0.035086			

Source: EViews Data Processing (2025)

The analysis indicates that a 1% increase in Board Diversity ( $X_1$ ) contributes to a 12.9% uplift in Financial Performance. Likewise, a 1% growth in Foreign Ownership ( $X_2$ ) is linked to a 19.8% enhancement in the firm's financial outcomes. Additionally, Audit Quality ( $X_3$ ) demonstrates a beneficial influence, where each 1% improvement correlates with a 2.96% rise in financial performance metrics.

**C. Coefficient of Determination**

An adjusted R-squared value of 0.0631 indicates that approximately 6.30% of the variation in financial performance can be explained by the combined influence of board diversity, foreign ownership, and audit quality. The remaining 93.70% of the variability is likely driven by factors not included in the current model, underscoring the potential benefit of incorporating additional explanatory variables to enhance model robustness for next research such as political ties, firm size and leverage.

**D. F-Test**

The F-test yields an F-statistic of 2.9973, which exceeds the critical value of 2.6864, with a corresponding significance level of 0.03 that is below the conventional threshold of 0.05. This outcome indicates that simultaneously board diversity, foreign ownership, and audit quality exert a statistically significant influence on financial performance.

**E. T-Test**

The regression results reveal varying degrees of influence among the independent variables on financial performance. Board Diversity ( $X_1$ ) exhibits a t-statistic of 1.596, which falls below the critical t-value of 1.981, and is associated with a p-value of 0.1142 that exceeding the 0.05 significance threshold. This indicates that Board Diversity does not have a statistically significant effect on financial performance within the observed sample. In contrast, Foreign Ownership ( $X_2$ ) demonstrates a statistically significant and positive relationship with financial performance, as evidenced by a t-statistic of 3.967 that well above the critical value and a highly significant p-value of 0.0002. Audit Quality ( $X_3$ ) also shows a statistically significant impact, with a t-statistic of 2.219 exceeding the threshold and a p-value of 0.0291, which is below 0.05. These findings suggest that while board diversity does not significantly contribute to variations in financial outcomes, both foreign ownership and audit quality play meaningful roles in enhancing financial performance.

## F. Discussion

### a. *Board Diversity and Financial Performance*

The regression results indicate that although the coefficient for board diversity is positive, its effect on financial performance is statistically insignificant at the 5% level ( $p = 0.1142$ ). This suggests that within Indonesian SOEs, greater female representation on boards does not consistently translate into improved financial outcomes. This result supports prior findings which emphasize that the effectiveness of gender diversity depends on contextual factors such as board culture, empowerment, and decision-making authority (Post & Byron, 2015; Kanter, 1977). Consistent with this perspective, the research by Maghfiroh & Utomo (2019) concluded that the presence of gender diversity in board composition does not have a meaningful or statistically significant impact on a company's financial outcomes. In the Indonesian SOE landscape, where board appointments may be influenced by political or bureaucratic considerations, the presence of women on boards may be more symbolic than functional, limiting their ability to influence financial strategies meaningfully.

Nonetheless, the positive coefficient direction aligns with the resource dependency and agency theories, which posit that diverse boards offer improved oversight and a wider range of perspectives (Hillman, Shropshire, & Cannella, 2007). While the statistical insignificance suggests a limited direct financial impact, broader governance benefits such as ethical decision making and stakeholder trust may still accrue over time (Gul, Srinidhi, & Ng, 2011). In other hand, Eliya & Suprpto (2022) discovered that the presence of women on the board of directors exerts a statistically significant positive influence on a firm's financial performance, suggesting that female leadership plays a constructive role in driving corporate economic advancement

### b. *Foreign Ownership and Financial Performance*

Foreign ownership emerges as a significant positive determinant of financial performance ( $p = 0.0002$ ), corroborating the hypothesis that foreign investors enhance governance standards and profitability. This finding is consistent with previous studies in emerging markets, which demonstrate that foreign shareholders demand higher transparency and contribute capital discipline and managerial expertise (Douma, George, & Kabir, 2006; Vo & Nguyen, 2014). This is further corroborated by the findings of Gurbuz & Aybars (2010), who observed that foreign ownership enhances corporate financial performance in Turkey up to a certain threshold, after which incremental increases in foreign ownership yield diminishing or no additional gains in profitability. In addition, Nguyen et al. (2020) also found that foreign ownership has a positive impact on the financial performance.

In the context of Indonesian SOEs, this positive relationship suggests that foreign investors may mitigate some of the agency problems inherent in state-controlled firms. Their influence can reduce political interference and promote performance-oriented practices, especially when they are institutional investors with the leverage to enforce strategic discipline (Othman, Arshad, & Arif, 2015). However, the extent of this influence is still subject to regulatory limitations and the overarching political role of SOEs. The effectiveness of foreign ownership, therefore, depends not only on shareholding proportions but also on the enabling institutional environment (Khanna & Palepu, 2000).

### c. *Audit Quality and Financial Performance*

Audit quality also shows a statistically significant and positive effect on financial performance ( $p = 0.0291$ ), underscoring the crucial role of credible external audits in the governance of Indonesian SOEs. Firms audited by Big Four accounting firms enjoy enhanced transparency, lower earnings manipulation, and greater investor confidence, all of which are conducive to better financial results (Becker et al., 1998; DeFond & Zhang, 2014). This finding is also consistent with the research by Meidona & Yanti (2018), which demonstrated that audit quality has a statistically significant positive effect on a firm's financial performance.

This is particularly relevant in the context of SOEs, where audit functions are often undermined by conflicts of interest and political influence. The positive impact found in this research supports the view that employing reputable auditors can serve as a counterbalance to weak internal governance structures (Harymawan & Nowland, 2016). Conversely, Sayyar et al. (2015) reported that audit quality indicators specifically audit fees and auditor rotation, do not exhibit a statistically significant association with financial performance. However, it is essential to consider that audit effectiveness also relies on institutional integrity. Without strong regulatory oversight and enforcement, the benefits of high-profile audits may be compromised (Fan & Wong, 2005).



## V. CONCLUSION

This research examined the influence of board diversity, foreign ownership, and audit quality on the financial performance of Indonesian state-owned enterprises (SOEs) listed in the index of IDX BUMN20 from 2020 to 2024. Using panel data regression analysis, the findings reveal that while board diversity has a positive but statistically insignificant relationship with financial performance, foreign ownership and audit quality exert significant and positive effects.

The results contribute to the growing literature on corporate governance in emerging markets by highlighting the nuanced roles of different governance mechanisms in public sector firms. The insignificant effect of board diversity suggests that structural inclusion alone may be insufficient to drive financial improvement in SOEs unless accompanied by genuine empowerment and board-level influence. This echoes earlier warnings about tokenism and the need for cultural shifts within governance bodies (Kanter, 1977; Nielsen & Huse, 2010). On the other hand, the strong positive influence of foreign ownership reaffirms its role as a catalyst for performance improvement through enhanced monitoring, transparency, and strategic discipline. This aligns with agency theory and previous empirical research emphasizing the value-adding role of foreign investors in governance-challenged environments (Vo & Nguyen, 2014). The findings imply that regulatory support for greater foreign participation could enhance SOE competitiveness without undermining national strategic objectives, provided proper safeguards are in place.

The observed positive link between high audit quality and financial outcomes underscores the critical role of reliable financial disclosures and impartial supervision, particularly within organizations with political affiliations. As the state continues to reform SOEs, mandating audits by high quality firms and ensuring auditor independence should remain top priorities to uphold transparency and accountability (DeFond & Zhang, 2014; Habib, Jiang, & Zhou, 2015). Despite the model's relatively low explanatory power (adjusted  $R^2 = 0.0631$ ), the significant F-statistic affirms that governance variables jointly influence SOE performance. Future research should consider incorporating additional governance dimensions such as board independence, executive compensation, or political affiliation, as well as qualitative indicators of governance effectiveness.

In summary, this research underscores that good governance in the form of responsible ownership, meaningful diversity, and audit credibility remains indispensable for enhancing the financial performance of Indonesian SOEs. To strengthen public trust and enterprise value, policymakers must create environments that foster not just formal compliance, but also functional integrity in governance practice.

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Cite this Article: Umry, M.A., Kurniawan Tjakrawala, F.X. (2025). Board Diversity, Foreign Ownership, and Audit Quality: Their Influence on Financial Performance in Indonesian State-Owned Enterprises (2020-2024). *International Journal of Current Science Research and Review*, 8(6), pp. 3114-3123. DOI: <https://doi.org/10.47191/ijcsrr/V8-i6-48>