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(Research Article)

The effect of good corporate governance on financial performance in banking companies listed on the Indonesia stock exchange

Udi Hadiono *, Oktarini Khamilah Siregar and Rahima Br Purba

Master of Accounting Study Program, Post-Graduate, Universitas Pembangunan Panca Budi, Indonesia.

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Abstract

This research was conducted by a banking company listed on the Indonesia Stock Exchange. The purpose of the study is to find out and analyze the influence of Good Corporate Governance on financial performance in banking companies listed on the Indonesia Stock Exchange. Good Corporate Governance in this study is measured by the Independent Board of Directors, Independent Board of Commissioners, Managerial Ownership and Audit Committee. Meanwhile, Financial Performance is measured by return on assets (ROA). The number of samples in this study is 120 financial statements. The research was conducted from 2021 to 2023. This study uses quantitative data processed with the Eviews application with a linear regression model of panel data. The data source used is secondary data taken from the Indonesia Stock Exchange website. The results of the study show that the Independent Board of Directors partially has a positive but not significant effect on ROA. The Independent Board of Commissioners has a significant positive effect on ROA. Managerial ownership has a significant positive effect on ROA. The Audit Committee has a significant positive effect on ROA. Meanwhile, simultaneously the Independent Board of Directors, the Independent Board of Commissioners, Managerial Ownership and the Audit Committee simultaneously had a significant positive effect on the ROA variable. The amount of influence contribution is 84.82%.

Keywords: Good Corporate Governance; Financial Performance; Independent Board of Directors; Independent Board of Commissioners; Managerial Ownership; Audit Committee; ROA

1. Introduction

The development of the world economy is very rapid, this can be seen from the economic progress experienced by developed and developing countries such as Indonesia. This economic progress must of course be supported by adequate banking companies. Very rapid banking development and a high level of complexity can affect the performance of a bank. The high complexity of the banking business can increase the risks faced by banks in Indonesia. The submission of company financial reports is very important for internal and external parties to find out information about the company. In accordance with the Financial Accounting Standards Board (FASB) that the purpose of financial statements is to provide information that is useful for business decisions. Financial statements are one of the important aspects in assessing the good or bad financial performance of the company.

Bank financial performance is one of the factors that increase the value of a company to improve the welfare of its owners [1]. According to [2] explains that the overall performance of the bank is a description of the achievements of the bank and its operations, both regarding financial aspects, marketing, collection and distribution of funds, technology and human resources. Banking companies can be measured by various ratios such as solvency ratios, liquidity ratios and profitability ratios [3].

* Corresponding author: Udi Hadiono

One of the efforts to improve the performance of a company /organization is by implementing good corporate governance (GCG). The implementation of good corporate governance (GCG) is a guideline for commissioners and directors in making decisions and carrying out actions based on high morals, compliance with applicable laws and regulations and awareness of the company's social responsibility to interested parties (stakeholders) consistently. Bank Indonesia states that the implementation of GCG principles is one of the criteria used to assess the health level of banks. One of the ratios used to measure banking financial performance is return on assets (ROA).

According to [4] ROA is a ratio used to see the extent to which the investment invested is able to provide a return on profits as expected and the investment is actually the same as the company's assets invested or placed. According to [5] in [3] ROA is a financial ratio that shows the return on the use of company assets. The higher this ratio will make asset productivity better in making a profit. Meanwhile, according to [6] return on assets (ROA) is a ratio that can measure the ability of capital invested in overall assets which aims to generate net profit.

From the above definition it can be concluded that ROA is the ratio between profit after tax to total asssets with the aim of assessing the company's financial performance, the greater the ROA, the better the company's financial performance because the rate of return is getting bigger, on the other hand, if ROA decreases, the worse the company's financial performance because the rate of return is getting smaller.

One way to improve company performance is to implement good corporate governance, namely procedures that regulate the relationship between those who make decisions and those who control and supervise decisions [7]. There are two things that are emphasized in the concept of good corporate governance, namely, first, there is an interest in the rights of shareholders in obtaining information correctly and in a timely manner. Second, there is an obligation of the company to make accurate, timely, transparent disclosure of all information on company performance, ownership, and stakeholders.

Good corporate governance is a system, process, and set of rules that regulate the relationship between various interested parties, especially in a narrow sense, the relationship between shareholders, the board of directors for the achievement of organizational goals(Sedarmayanti, 2017).The concept of corporate governance is proposed to achieve transparency in the management of the company for all users of financial statements; if this concept is implemented properly, the trust of investors and other parties will increase, which will have an impact on improving business performance, so that it can benefit several parties [2]. Good corporate governance can also be used as a tool to overcome competition in the era of globalization so that companies, especially Indonesian banks, are not oppressed in the era of globalization and free competition [9].

The lack of implementation of corporate governance is the main trigger for various financial scandals. Cases of fraud, embezzlement, burglary and corruption committed by bank personnel themselves have occurred in Indonesian banking. The implementation of good corporate governance in banking is expected to affect banking performance, because the implementation of corporate governance can improve financial performance, reduce risks due to management actions that tend to benefit themselves. The issue of good corporate governance has increased again rapidly along with the opening of the PT Lippo Bank Tbk case scandal which manipulated financial reports, this proves that the implementation of good corporate governance is still weak even though it has moved away from the monetary crisis period [10].

The banking world of good corporate governance has not been fully implemented as seen from the many banking companies that have experienced problems due to poor corporate governance such as the Century Bank case which experienced serious liquidity. Another good corporate governance problem is internal fraud at Bank Jawa Barat, namely there were 4 (four) cases of irregularities (internal fraud) that significantly affected the bank's operational activities and financial condition in 2018. One of them, namely PT Bank Jawa Barat and Banten Syariah, is still involved in a case of alleged fictitious credit that cost the company IDR 548 billion and the fictitious credit involved PLT President Director Yocie Gusman, not the only case in the company. Another case at West Java Bank is the former BJB Commercial Business Manager of the Pekanbaru Riau city branch, initialed IOG, was arrested for stealing customer money reaching Rp. 3,200,800,000. Apart from IOG, officers also arrested a BJB Bank teller with the initials TDC. However, TDC was not detained like IOG because the act was carried out under the orders of his superior, IOG. TDC also did not benefit from the order. Head of Public Relations of Riau Police Kombes Pol Sunarto explained, from the examination, IOG asked TDC to imitate the victim's signature. Good corporate governance is considered important to be implemented in the banking industry because banks occupy a dominant position in the economic system, especially as an engine of growth.

Good corporate governance in Indonesia has indeed been implemented, especially in banking since 2006 in the form of bank Indonesia regulations (PBI), but until now, its application has not been maximized. Corporate governance runs well, so the company's performance will be of good quality. The benefits for companies that implement corporate governance will economically maintain business continuity. In addition, it can prevent collusion, corruption and nepotism (KKN), create and accelerate a healthier business climate and increase the trust of both investors and creditors. This is where the implementation of corporate governance and financial performance are linked. The implementation of good corporate governance will make investors respond positively to financial performance.

There are several basic principles of good corporate governance aspects that are used in realizing the balance aspect. Based on the General Guidelines for Indonesian Good Corporate Governance, issued by the National Committee on Governance Policy in 2006, there are 5 (five) principles in good corporate governance, namely transparency, accountability, responsibility, independence and fairness and equality. To realize the effective implementation of good corporate governance, it is necessary to carry out the duties and responsibilities of internal parties, including the board of directors, board of commissioners, committees, and work units that carry out the function of internal banking control. The internal elements of good corporate governance used in this study are the board of directors, board of commissioners, managerial ownership, and audit committee as measured by proportion.

According to the National Committee on Governance Policy 2006, the Board of Directors is explained as a company organ that has duties and responsibilities collegially in managing the company. The board of directors is responsible for managing the company in order to generate profits (profitability) and ensure the sustainability of the company's business. Meanwhile, according to [11], the board of directors is a company organ that is authorized and fully responsible for the management of the company for the benefit of the company, in accordance with the aims and objectives of the company and represents the company, both inside and outside the court in accordance with the provisions of the articles of association. The indicators used in this study are to measure the extent to which the board of directors and the board of commissioners affect financial performance.

This study aims to test corporate governance variables that have been adjusted to the conditions of the business environment in Indonesia (using measures developed by IICG). To improve financial performance as measured by return on assets, a mechanism is needed. One mechanism that can be used is the practice of corporate governance. Corporate governance is a concept proposed to improve company performance through supervision or monitoring of management performance and ensuring management accountability to stakeholders based on a regulatory framework. The concept of corporate governance is proposed in order to achieve more transparent company management for all users of financial statements.

The corporate governance system provides effective protection for shareholders and creditors so that they are confident that they will get the right return on their investment. Corporate governance also helps create a conducive environment for efficient and sustainable growth in the corporate sector. Corporate governance can be defined as the set of rules that determine the relationship between shareholders, managers, creditors, government, employees, and other internal and external stakeholders in accordance with their rights and responsibilities. Corporate governance is one of the key elements in improving economic efficiency, which includes a series of relationships between company management, the board of commissioners, shareholders and other stakeholders.

The duties of the board of commissioners include ensuring the implementation of company strategy, supervising management in managing the company, and requiring accountability. In essence, the board of commissioners is a mechanism for supervising and providing guidance and direction to company managers (management). The active role of the board of commissioners in practice is highly dependent on the environment created by the company. Such a complex business environment requires the board of commissioners to distribute their duties to committees in order to work effectively. One committee that is closely related to the accounting process is the audit committee.

The committee's duties are related to the quality of financial statements, because the audit committee can assist the board of commissioners in carrying out its duties, namely overseeing the financial reporting process by management. Improving the company's financial performance will be achieved by minimizing various conflicts of interest through a monitoring mechanism that aims to align these various interests. According to [12] by increasing the ownership of company shares by management (managerial ownership), so that the interests of the owner or shareholder will be aligned with the interests of management, namely as the owner of the company's shares. Also with share ownership by institutional investors.

2. Literature Review

2.1. Definition of Agency Theory

This study uses agency theory as a grand theory that underlies and is useful for strengthening hypotheses. The Principal, in this case the owner or shareholder, gives decision-making authority to management to maximize the welfare of the owner or shareholder [13]. Agency theory is one or more contracts involving agents, who provide them with services by entrusting decision-making to agents [12].

Agency theory is the theory of the principal and agent relationship. In practice, the owner delegates power to the manager, with the expectation that the manager will make every effort to achieve the owner's goal of maximum business value. The exposure [13] indicates that the separation of management and ownership will cause agency conflicts to arise. Agency problems occur due to conflicts of interest between owners and agents.

2.2. Signaling Theory

Signaling theory was first proposed by [14] which explains that the sender (owner of information) provides a signal or signal in the form of information that reflects the condition of a company that is beneficial to the recipient (investor). Signal theory explains management's perception of the company's future growth, which will affect the response of potential investors to the company [15]. The signal is in the form of information that explains management's efforts to realize the owner's wishes. This information is considered an important indicator for investors and business people in making investment decisions.

Information that has been submitted by the company and received by investors, will be interpreted and analyzed first whether the information is considered a positive signal (good news) or a negative signal (bad news) [16]. If the information is positive, it means that investors will respond positively and be able to distinguish between quality companies and those that are not, so that the stock price will be higher and the company value will increase. However, if the investor gives a negative signal, it indicates that the investor's desire to invest is decreasing which will affect the decrease in company value.

2.3. Definition of Good Corporate Governance

In the journal [17] in the Forum for Corporate Governance in Indonesia is a set of rules regarding the relationship between shareholders, company managers, creditors, government, employees, internal stakeholders and other external stakeholders related to their rights and obligations, namely the system that controls the company.

Another definition according to the Decree of the Minister of State for Banking Number KEP-117/M-MBU/2002, the definition of GCG is a structural process used by Banking bodies to increase the success of the company and the company's obligation to realize shareholder long-term value while taking into account the interests of stakeholders. Long-term value while taking into account the interests of other stakeholders, based on laws and regulations and ethical values.

The corporate governance mechanism in this study includes; Independent Board of Directors, Independent Board of Commissioners, Managerial Ownership and Audit Committee.

2.3.1. Independent Board of Directors

According to the Limited Liability Company Law, the board of directors is the representative of the company both inside and outside the court with the provisions of the articles of association. The board of directors is responsible for the management of the company for the interests and purposes of the company. The management of the company is accounted for by the board of directors through an annual report that contains, among other things, a financial report, a report on the company's activities, and a report on the implementation of GCG in 2006. The KNKG explains the responsibilities of the board of directors more fully. The board of directors is responsible for managing the company in order to make a profit and ensure business continuity. The main tasks of the board of directors in managing the company are management, risk management, internal control, communication, and social responsibility. Corporate social responsibility is important to fulfill to maintain business continuity. The measurement of the independent board of commissioners is as follows:

$$\text{Board of Directors} = \frac{\text{Number of Independent Directors}}{\text{Number of All Directors}} x100\%$$

2.3.2. Independent Board of Commissioners

Independent commissioners aim to balance commissioner decision making according to [10]. Independent Commissioners are members of the board of commissioners who are not affiliated with the board of directors, other members of the board of commissioners and controlling shareholders, and are free from business relationships or other relationships that may affect their ability to act independently or act solely in the interests of the company [3]. The more the number of boards of commissioners, the better the implementation of the company's good corporate governance [18]. Measurement of the independent board of commissioners, as follows:

Board of Commissioners = (Number of Independent Commissioners) / (Total Number of Commissioners) x100%

$$\text{Board of Commissioners } = \frac{\text{Number of Independent Commissioners}}{\text{Total Number of Commissioners}} x100\%$$

2.3.3. Managerial Ownership

Managerial ownership is the number of shares owned by owners, executive boards, and management in a company [19]. Measurement of managerial ownership is the percentage of total shares of all executive directors compared to total shares [19] The existence of managerial ownership will be closely related to agency theory. In agency theory, the relationship between managers and shareholders is described as the relationship between agent and principal. Managers as agents are trusted by shareholders who act as principals to run the company and maximize resources so that company goals are achieved [12]. The basic problem in agency theory is the conflict of interest between shareholders and managers. Managers have the risk of not being selected again as managers if they fail to carry out their functions, while shareholders have the risk of losing their capital if they choose the wrong manager [12]. Managerial ownership can be expressed by the following formula:

$$\text{Managerial Ownership} = \frac{\text{Total Shares Owned by Managerial}}{\text{Total Shares Circulated}} x100\%$$

2.3.4. Audit Committee

According to the Indonesian Audit Committee Association (IKAI) in [3] The audit committee can be a committee that works professionally and is freely formed by the board of commissioners and as such, its task is to assist and strengthen the work of the board of commissioners in carrying out the work of supervising financial reporting, opportunity administration, reviewing the use, and implementation of corporate administration in the company. The audit committee has an important and strategic role in terms of maintaining the credibility of the process of preparing financial statements, maintaining the creation of an adequate company supervisory system and implementing good corporate governance. According to [10] defines that the calculation of the independent audit committee is by using the ratio of commissioners to total audit committee members.

$$\text{Audit Committee} = \frac{Komisaris\ Independen\ dalam\ Kom\text{Independent Commissioner in the Audit Committee}ite\ Audit}{\text{Total Audit Committee}}$$

The audit committee is chaired by an Autonomous Commissioner and consists of at least 3 (three) people from the Autonomous Commissioner and parties from outside the public company. The term of office of the Review Committee members shall not exceed the term of office of the Board of Free Commissioners as stipulated in the Articles of Association and may be re-elected as before for 1 (one) subsequent period.

2.4. Performance Financial performance

A company can be said to be able to maintain existence when the company is able to maintain the company's performance remains good and stable. Financial performance company is the company's achievement in financial sector related to income, operational activities, debt structure and investment results, debt and investment returns. Financial performance is a picture of the achievement of the company's success can be interpreted as the results that have been achieved for the various activities that have been carried out. various activities that have been carried out.

Performance as actions or activities that can be measured. Company performance is a measure of the company's ability to create added value for the continuity of the company in the future. Company performance is a display of the state of the company during a certain period. Financial performance is the work performance that has been achieved by the company in a Certain period and is contained in the company's financial statements. Has been achieved by the company in a certain period and is contained in the company's financial statements [20]. Company's financial statements [20]. To find out the performance achieved, performance measurement is carried out. Common performance measures are namely financial performance measures. The size of the company's financial performance is shown by its financial statements.

2.4.1. Parameters Financial Performance

In this study the financial performance variable uses the measurement of return on assets (ROA). Return on assets (ROA), is a ratio that shows the return on the number of assets used in the company. Return on assets (ROA) is also a measure of the effectiveness of management in managing its investments (Hery, 2016). The formula is as follows:

$$ROA = \frac{Earning\ After\ Interest\ and\ Tax}{Total\ Assets}$$

2.5. Research Methods

2.5.1. Research Object

The research approach used in this study is associative. Associative research according to [21] is a research question that asks about the relationship between two or more variables. This type of research is a causal research with a quantitative approach, which is a research aimed at testing theories, building facts, showing relationships between variables, providing statistical descriptions, attracting and forecasting the results with the aim of finding out the influence between one variable and another [22].

2.5.2. Population and Sample

According to [23] population is a generalization area consisting of objects / subjects that have certain quantities and characteristics that are determined by the researcher to be studied and then drawn conclusions. Population is also not just the number of objects or objects being studied, but includes all the characteristics or traits possessed by the subject or object. The population in this study specializes in Banking Companies Listed on the Indonesia Stock Exchange with a research period from 2021 to 2023 as many as 46 companies.

The sample is a portion of the population whose characteristics will be investigated and is considered to be representative of the entire population or a smaller number of the population [22]. The determination of the sample in this study is using the purposive sampling method, which is a sample used to estimate population characteristics based on certain criteria. The total population in this study is 46 banking companies that have entered and listed stocks during the observation period of 2021-2023. The company meets the criteria for drawing the sample, namely the entire population of 40 companies, the period taken from 2021 to 2023, which is 3 years. Thus the number of N in this study is 40 x 3 = 120.

2.5.3. Data Analysis Techniques

The analysis method used in this study is to conduct a quantitative analysis expressed with numbers which in its calculation uses a statistical method assisted by the E-Views statistical data management program v. 13 [24].

2.5.4. Descriptive Statistical Analysis

Descriptive statistics are generally used to provide information about the research variables contained in a study. The descriptive analysis method is an analysis method where the data collected, classified, analyzed and interpreted the results so as to provide information and an overview of the topic to be discussed. Descriptive statistics provide an overview of the phenomenon or characteristics of the study.

2.5.5. Panel Data Model Selection

Panel data is data that is collected in *cross sections* and followed over a period of time. The data panel is a combination of *cross section* and *time series* data, the number of observations is very large. Therefore, the method used to estimate the panel data regression model (*least squared pooled data*), there are three models that can be selected, namely the Common Effect Model (CEM), the Fixed Effect Model (FEM) and the Random Effect Model (REM).

2.5.6. Chow Test

To find out which *Pooled Least Square* (PLS) or *Fixed Effect Model* (FEM) model to be selected for data estimation, it can be done by F-test or *Chow test*. *Pooled Least Square* (PLS) is a *restricted* model where it applies the same intercept to all individuals. As is well known, sometimes the assumption that each cross-section *unit* has the same behavior tends to be unrealistic considering that it is possible for each *cross-section unit* to have different behavior. For this reason, the *Chow test is used*.

2.5.7. Hausman Test

This test is carried out to determine whether a *fixed effect* or *random effect model* is chosen. The basis for the rejection of H0 is to use the statistical consideration of Chi-Square. If the Chi-Square statistic >Chi-Square Table then H0 is rejected, meaning that the model used is a *Fixed Effect Model* (FEM), and vice versa.

2.5.8. Hypothesis Test

This hypothesis test was carried out to determine the influence between independent variables on dependent variables, either the regression coefficient test together (Test-F) or the regression coefficient test individually (Test-t). Next, a determination coefficient test (R2 Test) will be carried out to determine the accuracy of the estimate in the regression analysis.

3. Research Results and Discussion

3.1. Descriptive Statistical Testing Analysis

Descriptive statistical analysis is used to find out the description of a data seen from the maximum value, minimum value, mean value, and standard deviation value. In this study, the variables used in the calculation of descriptive statistics are the Independent Board of Directors, the Independent Board of Commissioners, Managerial Ownership, the Audit Committee and Financial Performance as measured by ROA. The results of the descriptive analysis can be seen in the Table, as follows:

Table 1 Descriptive Statistical Analysis

	ROA	**C**	**Dewan_Direksi_Independen**	**Dewan_Komisaris_Independen**	**Kepemilikan_Manajerial**	**Komite_Audit**
Mean	0.009241	1.000000	0.576785	0.508530	0.891361	3.741667
Median	0.006652	1.000000	0.571430	0.500000	0.305500	3.000000
Maximum	0.032508	1.000000	1.000000	0.750000	19.02400	11.00000
Minimum	0.000185	1.000000	0.100000	0.200000	0.000250	2.000000
Std. Dev.	0.007665	0.000000	0.128840	0.121679	2.750511	1.356564
Observations	120	120	120	120	120	120

Source: EViews Software Processing Results 13, 2024

Based on Table 1, it is known that the mean value of ROA is 0.009241, the median value is 0.006652, the maximum value is 0.032508, the minimum value is 0.000185 and the std. deviation is 0.007665. It is known that the mean value of the Independent Board of Directors is 0.576785, the median value is 0.571430, the maximum value is 1.000000, the minimum value is 0.100000 and the std. deviation is 0.128840. It is known that the mean value of the Independent Board of Commissioners is 0.508530, the median value is 0.500000, the maximum value is 0.750000, the minimum value is 0.200000 and the std. deviation is 0.121679. It is known that the mean value of Managerial Ownership is 0.891361, the median value is 0.305500, the maximum value is 19.02400, the minimum value is 0.000250 and the std. deviation is 2.750511. It is known that the mean value of the Audit Committee is 3.741667, the median value is 3.000000, the maximum value is 11.00000, the minimum value is 2.000000 and the std. deviation is 1.356564.

3.2. Model Data Panel

In the regression model, panel data must be tested to select the right regression model to be used in this study. In conducting model testing, it can be done with 3 (three) alternative methods, namely methods with *common effect models* (CEM), *fixed effect models* (FEM), and *random effect models* (REM). The following are the test results, as follows:

3.2.1. Testing Using Common Effect Models (CEM)

Table 2 Result *Common Effect Models* (CEM**)**

Dependent Variable: ROA				
Method: Panel Least Squares				
Date: 10/19/24 Time: 16:35				
Sample: 2021 2023				
Periods included: 3				
Cross-sections included: 40				
Total panel (balanced) observations: 120				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	0.004280	0.005010	0.854273	0.3947
Dewan_Direksi_Independen	0.004949	0.005539	0.893515	0.3734
Dewan_Komisaris_Independen	0.002799	0.005853	0.478252	0.6334
Kepemilikan_Manajerial	-4.530005	0.000259	-0.174551	0.8617
Komite_Audit	0.000193	0.000526	0.367046	0.7143
R-squared	0.009580	Mean dependent var		0.009241
Adjusted R-squared	-0.024869	S.D. dependent var		0.007665
S.E. of regression	0.007760	Akaike info criterion		-6.839016
Sum squared resid	0.006924	Schwarz criterion		-6.722870
Log likelihood	415.3409	Hannan-Quinn criter.		-6.791849
F-statistic	0.278091	Durbin-Watson stat		0.434643
Prob(F-statistic)	0.891630			

Source: EViews Software Processing Results 13, 2024

Based on Table 2, in this estimation approach, intercepts and slopes are fixed over time and individually, the difference in intercepts and slopes is assumed to be explained by the disturbance variable (error or residual). From the regression results in the common effect models (CEM), it was found that the coefficient value in the Independent Board of Directors was 0.004949, the Independent Board of Commissioners was 0.002799, the Managerial Ownership was -4.530005 and the Audit Committee was 0.000193, with an R-squared of 0.009580.

3.2.2. Testing Using Fixed Effect Models (FEM)

Table 3 Result *Fixed Effect Models* (FEM)

Dependent Variable: ROA				
Method: Panel Least Squares				
Date: 10/19/24 Time: 16:44				
Sample: 2021 2023				
Periods included: 3				
Cross-sections included: 40				
Total panel (balanced) observations: 120				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	0.208943	0.003946	2.266489	0.0263
Dewan_Direksi_Independen	0.003994	0.003100	1.288560	0.2015
Dewan_Komisaris_Independen	0.307520	0.205330	1.410967	0.0162
Kepemilikan_Manajerial	0.300307	0.300199	1.546527	0.0126
Komite_Audit	0.401485	0.300520	2.855916	0.0055
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.848263	Mean dependent var		0.009241
Adjusted R-squared	0.762412	S.D. dependent var		0.007665
S.E. of regression	0.003736	Akaike info criterion		-8.064997
Sum squared resid	0.001061	Schwarz criterion		-7.042917
Log likelihood	527.8998	Hannan-Quinn criter.		-7.649926
F-statistic	9.880635	Durbin-Watson stat		2.689610
Prob(F-statistic)	0.000000			

Source: EViews Software Processing Results 13, 2024

Based on Table 3, in this estimation approach, neither the individual nor the time dimension is considered. It is assumed that the probability value of each individual shows that the variables of the Independent Board of Directors, Independent Board of Commissioners, Managerial Ownership, and Audit Committee show significant. *Rsquared* shows 0.848263. As for the probability value of F-statistic of 0.000000 which means that the model is significant.

3.2.3. Testing Using Random Effect Models (REM)

Table 4 Results of Random Effect Models (REM)

Dependent Variable: ROA				
Method: Panel Least Squares				
Date: 10/19/24 Time: 17:08				
Sample: 2021 2023				
Periods included: 3				
Cross-sections included: 40				
Total panel (balanced) observations: 120				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.004280	0.005010	0.854273	0.3947
Dewan_Direksi_Independen	0.004949	0.005539	0.893515	0.3734
Dewan_Komisaris_Independen	0.002799	0.005853	0.478252	0.6334
Kepemilikan_Manajerial	-4.333005	0.000259	-0.174551	0.8617
Komite_Audit	0.000193	0.000526	0.367046	0.7143
R-squared	0.009580	Mean dependent var		0.009241
Adjusted R-squared	-0.024869	S.D. dependent var		0.007665
S.E. of regression	0.007760	Akaike info criterion		-6.839016
Sum squared resid	0.006924	Schwarz criterion		-6.722870
Log likelihood	415.3409	Hannan-Quinn criter.		-6.791849
F-statistic	0.278091	Durbin-Watson stat		0.434643
Prob(F-statistic)	0.891630			

Source: EViews Software Processing Results 13, 2024

Based on Table 4, in this estimation approach, it is assumed that the Rsquared value shows 0.009580. As for the probability value of F-statistic of 0.891630, it means that the model is significant.

Furthermore, tests are carried out between common effect models (CEM), fixed effect models (FEM), and random effect models (REM) to determine the most feasible model to use.

3.3. Panel Data Model Specification Test

3.3.1. Chow Test

To determine whether the estimation model is common *effect models* (CEM) or *fixed effect models* (FEM) in forming a regression model, the Chow Test is used. The hypothesis tested is as follows:

Table 5 Chow Test Results

Redundant Fixed Effects Tests			
Equation: Untitled			
Test cross-section fixed effects			
Effects Test	**Statistics**	**D.F.**	**Prob.**
Cross-section F	10.770999	(39,76)	0.0000
Cross-section Chi-square	225.117791	39	0.0000

Source: EViews Software Processing Results 13, 2024

Based on Table 5, the results of the Chow Test show that the probability value of the Cross-section Chi-square is 0.000. Because the probability value is 0.000 < 0.05, the estimation model used is *the fixed effect model* (FEM).

3.3.2. Hausman Test

Table 6 Hausman Test Results

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	**Chi-Sq. Statistics**	**Chi-Sq. D.F.**	**Prob.**
Cross-section random	5.158907	4	0.0271

Source: EViews Software Processing Results 13, 2024

Based on Table 6, the result of the Hausman Test is known to have a probability value of 0.0271. Because the probability value is 0.0271 <0.05, the estimation model used is *the fixed effect model* (FEM).

3.4. Panel Data Regression Analysis

The linear regression analysis of panel data in this study uses *the fixed effect models* (FEM) method. The selection of *the fixed effect models* (FEM) method as the panel data analysis method in this study was previously tested through the Chow Test and the Hausman Test first, so that finally the *fixed effect models* (FEM) method is the most appropriate to test the panel data in this study.

Table 7 Panel Data Regression Results

Dependent Variable: ROA				
Method: Panel Least Squares				
Date: 10/19/24 Time: 16:44				
Sample: 2021 2023				
Periods included: 3				
Cross-sections included: 40				
Total panel (balanced) observations: 120				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	0.208943	0.003946	2.266489	0.0263
Dewan_Direksi_Independen	0.003994	0.003100	1.288560	0.2015
Dewan_Komisaris_Independen	0.307520	0.205330	1.410967	0.0162
Kepemilikan_Manajerial	0.300307	0.300199	1.546527	0.0126
Komite_Audit	0.401485	0.300520	2.855916	0.0055
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.848263	Mean dependent var		0.009241
Adjusted R-squared	0.762412	S.D. dependent var		0.007665
S.E. of regression	0.003736	Akaike info criterion		-8.064997
Sum squared resid	0.001061	Schwarz criterion		-7.042917
Log likelihood	527.8998	Hannan-Quinn criter.		-7.649926
F-statistic	9.880635	Durbin-Watson stat		2.689610
Prob(F-statistic)	0.000000			

Source: EViews Software Processing Results 13, 2024

Based on Table 7 above, a regression equation can be obtained, as follows:

ROA = 0.208943 + 0.003994 (Independent Board of Directors) + 0.307520 (Independent Board of Commissioners) + 0.300307 (Managerial Ownership) + 0.401485 (Audit Committee) + ε

The constant value of 0.208943 means that if the Independent Board of Directors, Independent Board of Commissioners, Managerial Ownership and Audit Committee have a value of 0, then the amount of ROA is 0.208943. The variable regression coefficient of the Independent Board of Directors is 0.003994, meaning that every increase in the Independent Board of Directors by 1 unit, it will increase the ROA by 0.003994 units, assuming that the value of other independent variables is fixed. The variable regression coefficient of the Independent Board of Commissioners is 0.307520, meaning that every increase in the Independent Board of Commissioners by 1 unit, it will increase the ROA by 0.307520 units, assuming that the value of other independent variables is fixed. The regression coefficient of the Managerial Ownership variable is 0.300307, meaning that for every increase in Managerial Ownership by 1 unit, it will increase the ROA by 0.300307 units, assuming the value of the other independent variable is fixed. The regression coefficient of the Audit Committee variable is 0.401485, meaning that every increase in the Audit Committee by 1 unit, it will increase the ROA by 0.401485 units, assuming that the value of the other independent variable is fixed.

3.5. Hypothesis Testing

Table 8 Hypothesis Test Results

Dependent Variable: ROA				
Method: Panel Least Squares				
Date: 10/19/24 Time: 16:44				
Sample: 2021 2023				
Periods included: 3				
Cross-sections included: 40				
Total panel (balanced) observations: 120				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	0.208943	0.003946	2.266489	0.0263
Dewan_Direksi_Independen	0.003994	0.003100	1.288560	0.2015
Dewan_Komisaris_Independen	0.307520	0.205330	1.410967	0.0162
Kepemilikan_Manajerial	0.300307	0.300199	1.546527	0.0126
Komite_Audit	0.401485	0.300520	2.855916	0.0055
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.848263	Mean dependent var		0.009241
Adjusted R-squared	0.762412	S.D. dependent var		0.007665
S.E. of regression	0.003736	Akaike info criterion		-8.064997
Sum squared resid	0.001061	Schwarz criterion		-7.042917
Log likelihood	527.8998	Hannan-Quinn criter.		-7.649926
F-statistic	9.880635	Durbin-Watson stat		2.689610
Prob(F-statistic)	0.000000			

Source: EViews Software Processing Results 13, 2024

3.5.1. Partial Influence significance test (t-test)

Based on Table 8 above, it can be seen that the results of the t-test, it is known that the Independent Board of Directors variable has a positive but not significant effect on ROA in Banking Companies Listed on the Indonesia Stock Exchange, with a regression coefficient value of 0.003994 and a probability value (Prob) = 0.2015 >0.05. It is known that the variable of the Board of Independent Commissioners has a significant positive effect on ROA in Banking Companies Listed on the Indonesia Stock Exchange, with a regression coefficient value of 0.307520 and a probability value (Prob) = 0.0162 <0.05. It is known that the Managerial Ownership variable has a significant positive effect on ROA in Banking Companies Listed on the Indonesia Stock Exchange, with a regression coefficient value of 0.300307 and a probability value (Prob) = 0.0126 <0.05. It is known that the Audit Committee variable has a significant positive effect on ROA in Banking Companies Listed on the Indonesia Stock Exchange, with a regression coefficient value of 0.401485 and a probability value (Prob) = 0.00055 <0.05.

3.5.2. Simultaneous Influence Significance Test (Test F)

The significance test F aims to test the influence of independent variables together or simultaneously on non-independent variables. Based on Table 8, it is known that the value of *Prob. (F-statistics)*, namely 0.000000 0.05, then it can be concluded that all independent variables, namely the Independent Board of Directors, the Independent Board of Commissioners, Managerial Ownership and the Audit Committee simultaneously have a significant positive effect on the ROA variable in Banking Companies Listed on the Indonesia Stock Exchange.<

3.5.3. Determination Coefficient Analysis (R2)

Based on Table 8, it is known that the value of the determination coefficient (*R-squared*) is 0.848263. This value can be interpreted as the Independent Board of Directors, Independent Board of Commissioners, Managerial Ownership and Audit Committee affecting ROA by 84.82%, the remaining 15.18% influenced by other factors

4. Conclusion

The company needs to improve the effectiveness of the Independent Board of Directors by conducting strict selection based on competence, integrity, and independence. In addition, the company needs to provide training and development programs for the Independent Board of Directors and provide sufficient authority to play an optimal role.

The Independent Board of Commissioners needs to be strengthened by conducting close monitoring of management performance, conducting objective evaluations of the company's strategy, and establishing effective communication with management and shareholders.

Companies need to optimize Managerial Ownership by designing appropriate incentive programs, such as granting stock options or bonus shares, as well as monitoring management's share ownership to prevent conflicts of interest.

The effectiveness of the Audit Committee needs to be improved by selecting competent and independent members, building good cooperation with auditors, and monitoring the company's internal control system.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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