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Does Good Corporate Governance Influence Banking Performance in Indonesia?

Diana Riyana Harjayanti
Fakultas Ekonomi dan Bisnis, Universitas Pamulang
dosen01788@unpam.ac.id
Vani Lusiana
Fakultas Ekonomi dan Bisnis, Universitas Pamulang
vanilusia123@gmail.com
Reza Octovian
Fakultas Ekonomi dan Bisnis, Universitas Pamulang
dosen01431@unpam.ac.id
Ifa Nurmasari
Fakultas Ekonomi dan Bisnis, Universitas Pamulang
dosen01550@unpam.ac.id
Mira Falatifah
Fakultas Bisnis dan Komunikasi, Swiss German University
mira.falatifah@sgu.ac.id

Abstract

This research aims to determine influence Good Corporate Governance (GCG) on financial performance in banking sector companies listed on the Indonesian for the period 2019 - 2024. The present study uses GCG variables, such the Board of Director, Independent Board of Commissioner, and Audit Committee for regression analysis using Return on Assets (ROA) ratio as financial performance. The empirical findings indicate with significance level on 0,05 that the Board of Directors negative significant influence on ROA. In contrast, the Independent Board of Commissioners has positive insignificant and the Audit Committee exhibit negative insignificant individual influence on ROA. Nevertheless, the three governance variables jointly influence on ROA, with an adjusted R^2 of 69.2582%, suggesting that the proposed model contribute substantial proportion of the variation in banking financial performance.

Keywords: Good Corporate Governance, Board Characteristic, Return on Assets

INTRODUCTION

In Indonesia, issues related to Good Corporate Governance (GCG) have become a topic of discussion since the economic crisis that hit various countries in Asia, due to cases of financial reporting fraud. It is anticipated a strong Good Corporate Governance mechanism will enhance banks' financial achievements. Indicators like Return on Assets (ROA), reflecting how efficiently a bank manages its assets to create earning are frequently used to gauge financial performance. With strict oversight from the board of commissioners and directors, as well as an effectively functioning audit committee, banks are expected to achieve optimal financial performance.

Therefore, the board of directors contributes substantially to strategic planning and decision-making and overseeing bank operations. A competent and experienced board of directors can improve the quality of decision-making, which in turn can positively impact financial performance. Research shows that an active and involved board of directors can reduce the risk of managerial misconduct. Equally important, an independent board of commissioners also serves to safeguard stakeholder interests and ensure that management acts in accordance with Good Corporate Governance (GCG) principles.

The presence of independent commissioners who do not have a direct relationship with management can improve objectivity in supervision. This is crucial to prevent conflicts of interest that could harm a bank's financial performance. The audit committee plays a crucial role in monitoring the financial reporting process and ensuring that financial statements are prepared in accordance with applicable accounting standards. An effective audit committee can help detect and prevent irregularities in financial reporting, thereby increasing public and investor confidence in the bank.

Thus, the audit committee contributes to improving a bank's financial performance. Return on Assets (ROA) is an important financial performance indicator for banks. ROA measures how efficiently a bank uses its assets to generate profits. By implementing good GCG, banks are expected to improve their ROA, reflecting better performance and the ability to provide added value to stakeholders. The selection of independent variables such as the board of directors, independent board of commissioners, and audit committee, as well as the dependent variable ROA, was based on their relevance and significance in the context of GCG and banking financial performance. These variables are interrelated and contribute to better risk management and decision-making, which ultimately impact bank financial performance.

The results of various previous studies show different findings regarding the influence of the board of directors on financial performance, particularly in Return on Assets (ROA) indicator. Research conducted (Rizki & Wuryani, 2021) found that the board of directors has a significant influence on a company's financial performance based on the ROA ratio. However, a different result was obtained from research (Fariha et al., 2022; Harjayanti et al., 2025) which stated that the board of directors did not have a positive influence on ROA. This is in line with the findings of (Al-Matari et al., 2022), who concluded that the presence of a board of directors does not have a significant impact on ROA. Conversely, according to a study conducted by (Lee, K. W. & Thong, T. Y., 2023) the board of directors actually has a positive influence on a company's financial performance in small size of board.

Research related to independent boards of commissioners also shows varying results. (Rizki & Wuryani, 2021) found that independent boards of commissioners had no effect on a company's financial performance based on ROA. In contrast, research by (Wahyuni & Mayliza, 2023) showed a positive influence of independent boards of commissioners on ROA. On the other hand, (Kristiani & Ekadjaja, n.d.) stated that independent boards of commissioners had no significant influence on ROA. However, different results were obtained by (Wahyuni & Mayliza, 2023) concluded that the presence of independent boards of commissioners contributed positively to improving a company's financial performance.

Based on previous research, the audit committee's influence on financial performance also shows mixed results. Research by (Rizki & Wuryani, 2021) stated that the audit committee has influence on ROA. This is supported by the findings (Bahari, 2024) also concluded that the audit committee has no significant effect on ROA. Conversely, according to (Titania & Taqwa, 2023), the audit committee plays a positive role in influencing a company's financial performance.

Good Corporate Governance (GCG) has been shown to significantly influence the financial performance of banking companies (Affes &

Jarboui, 2023; Ferriswara et al., 2022). Overall, the findings indicate that effective good corporate governance practices are associated with a company's financial performance.

However, certain governance mechanisms, including the independent board of commissioners, the audit committee, and external audit quality, have not consistently exhibit a statistically significant influence on financial performance. It is anticipated that stakeholders, including investors and regulators, will use the study's findings as a guide when deciding how to implement GCG and assess the financial performance of Indonesian banking firms.

METHODS

This study uses quantitative data and is correlational in nature. Based on the correlation coefficient, this kind of data is used in this research is annual financial report bank which listed on Indonesia Stock Exchange for the years 2019–2024 were used as secondary data in this study. Secondary data for this study was sourced from yearly financial reports of banking organizations listed on the Indonesia Stock Exchange between 2019 and 2024. The goals of this research are to evaluate board characteristic, audit committee to ROA as one of indicator company performance with detail variable operational in Table 1.

RESULTS

The selection of the research regression model was based on the Chow, Hausman, and Lagrange Multiplier tests, which must be carried out in order to identify the best model before performing multiple regression analysis on panel data. The Fixed Effect Model was chosen for the Chow test and the Hausman test.

Table 1. Variable operational definition

No.	Variable	Definition	Formula	Source
Dependent Variable				
1.	ROA	Return on assets	Net income / total assets	IDX
Independent Variable				
2.	DIR	Number of directors	Number of directors	IDX
3.	COM	Number of commissioners	Number of commissioners	IDX
4.	AUD	Number of audit committee	Number of audit committee	IDX

Source: Data by the author, 2026.

Table 2. Model estimation test results

No.	Method	Testing	Results
1.	Chow Test	Fixed Effect Model And Common Effect Model	FEM
2.	Hausman test	Random Effect Model And Fixed Effect Model	FEM
3.	Lagrange Multiplier Test	Common Effect Model And Random Effect Model	REM

Source: Data by the author, 2026.

Therefore, it can be concluded that the best approach for this research is the Fixed Effect Model (FEM). This study tests the proposed hypotheses using the Fixed Effect Model (FEM)

H1: The Board of Directors positively influence financial outcomes as evaluated by the Return on Assets (ROA) metric.

H2: The Independent Board of Commissioners positively influence financial outcomes as evaluated by the Return on Assets (ROA) metric.

H3: The Audit Committee positively influence financial outcomes as evaluated by the Return on Assets (ROA) metric.

H4: Good Corporate Governance positively influence financial outcomes as evaluated by the Return on Assets (ROA) metric.

The Fixed Effect Model (FEM) estimation yields regression coefficients of -0.291701 with a probability of 0.0101 for the Board of Directors, 0.016300 for the Independent Board of Commissioners with probability 0.1424, and -0.206107 for the Audit Committee with probability 0.0826.

Table 3. Fixed effect model test results (coefficient, t-test, F-test results)

Dependent Variable: Y Method: Panel Least
Squares Date: 07/02/25 Time:
15:46 Sample: 2019 2024
Periods included: 6
Cross-sections included: 8
Total panel (balanced) observations: 48

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.699035	1.043202	4.504435	0.0001
Board of Directors	-0.291701	0.107607	-2.710813	0.0101
Independent Commissioners	0.016300	0.010876	1.498734	0.1424
Audit Committee	-0.206107	0.115537	-1.783900	0.0826
		Effects Specification		
Cross-section fixed (dummy variables)				
R-squared	0.757990	Mean dependent var		1.819863
Adjusted R-squared	0.692582	SD dependent var		0.747956
SE of regression	0.414706	Akaike info criterion		1.275556
Sum squared residual	6.363298	Schwarz criterion		1.704373
Log likelihood	-19.61335	Hannan-Quinn criter.		1.437607
F-statistic	11.58865	Durbin-Watson stat		1.179744
Prob(F-statistic)	0.000000			

Source: Eviews 13, 2026.

Table 4. Resume coefficient, t-test, F-test results)

	Coefficient	Significance (Partial t Statistic)	Significance (Partial Probability Test)	Significance (Simultaneous F Test)
Board of Director	-0.291701	-2.710813	-0.0101 (*)(**)	
Independent Commissioners	0.016300	1.498734	0.1424	
Audit Committee	-0.206107	-1.783900	-0.0826 (**)	
The adjusted R square				69.2582%

Source: Eviews 13, 2026.

Notes: **p<0.05, and *p<0.1 indicate statistical significance at the 15%, and 10% level, respectively (two-tailed).

The independent variable's partial influence on the dependent variable is shown Board of Directors (β = -0.291701) and significant effect (t-stat = -2.710813, p = 0.0101) calculated t-statistic of 2.710813, exceeding the critical t-table value of 2.012896 and the significance value of 0.0101 is below the significance level 0.05 and 0,10 threshold, indicating that the Board of Directors has a statistically significant negative effect on Return on Assets (ROA).

In contrast, the Independent Board of Commissioners exhibits a positive significant effect (β = 0.016300) and (t-stat = 1.498734, p = 0.1424). This is evidenced by a calculated t-statistic of 1.498734, which is lower than the critical t-table value of 2.012896, and a significance value of 0.1424, which exceeds the 0.05 and 0.10 significance level.

Similarly, the Audit Committee demonstrates a negative effect (β = -0.206107) and (t-stat = -1.783900, p = 0.0826) with insignificance level 0.05 but significance level on 0,10 threshold to ROA. The calculated F value is 11.58865, which is greater than the f table value of 2.816466, and the sig value is 0.00000, which is less than 0.05. This indicates that the variables of the Board of Directors, Independent Board of Commissioners, and Audit Committee significantly impact Return on Assets.

The Return on Assets variable of Banking in Indonesia for the period 2019–2024 can be explained by the independent variables of the Board of Directors, the Independent Board of Commissioners, and the Audit Committee by 69.2582%, according to the coefficient of The adjusted R square. Other variables not included in this research model account for the remaining 30.7418%.

DISCUSSION

This study determines the impact of the Board of Director, Independent Board of Commissioner, and Audit Committee to ROA as one indicator of financial performance. This research determine hypothesis H1 The Board of Directors positively influences on Return on Assets (ROA) is rejected, that the Board of Directors has been shown significant but negative influence on Return on Assets (ROA). The results indicate H1 that the Board of Directors has a significant negative influence on Return on Assets (ROA).

This finding suggests that an increase in the size of the Board of Directors does not necessarily improve a company's financial performance. A larger board may increase coordination complexity, slow the decision-making process, and raise corporate governance costs, thereby reducing operational efficiency. These findings are consistent with those of (Ramdani, R., Mai et al., 2023; Pratama et al., 2025) who also reported a negative relationship between board size and ROA in the Indonesian banking industry.

Furthermore Mahesky & Rosadi (2024) found that a larger board size reduces cost efficiency, while Hartanto et al. (2024) demonstrated that higher agency costs have a negative impact on bank profitability. Banking companies are advised to continuously improve the effectiveness of their Board of Directors. This can be achieved through leadership training, improving managerial competency, and strengthening the Board's strategic role in business decision-making.

H2 mention if The Board of Commissioners positive significant influence on Return on Assets (ROA) is rejected. Result of research show that the Independent Board of Commissioners does not have a significant effect on ROA but have positive impact, an evaluation needs to be carried out. The supervisory function is carried out by Independent Commissioners. Banks need to ensure that their role is truly independent and makes a real contribution to oversight and decision-making that supports financial performance.

The Board of Commissioners can enhance the quality of corporate governance, regulatory compliance, and corporate transparency. However, these improvements tend to contribute more to the company's long-term stability than to short-term profitability (Marsanda et al., 2025). Refer to resources dependency theory, the Board of Commissioners have important role and primarily focuses on monitoring management performance, ensuring compliance with regulations, and promoting sound governance practices (Yasra, S. K., & Priharta, A., 2025). In other side Kartawinata et al. (2026) based on Resource Dependence Theory and Agency Theory, concluded that board effectiveness depends more on members' competence, diversity, and governance quality than merely on board structure.

Last hypothesis H3 mention if Audit Committee positively significant influence on Return on Assets (ROA) is also rejected. Result the analysis shows that the Audit Committee has negative and no significant impact on Return on Assets (ROA). Increased oversight activities may require additional monitoring, compliance, and governance costs, which can reduce short-term profitability while enhancing long-term financial stability and governance quality.

Furthermore, the effectiveness of the Audit Committee depends more on the financial expertise, independence, and quality of its members than merely on the committee's size or existence. This explanation is supported by Haditiya et al. (2025), who found that the Audit Committee had no significant and negative influence on ROA in Indonesian banking companies.

Board of Directors, the Board of Independent Commissioners, and the Audit Committee have been shown to influence ROA. Therefore, banking companies need to build better synergy among the elements of Good Corporate Governance, especially variable Board of Directors, the Board of Independent Commissioners, and the Audit Committee to ensure more effective corporate management and support ROA as financial performance refer (Wang & Cao, 2022).

Good Corporate Governance (GCG) is implemented through various corporate governance mechanisms designed to ensure accountability, transparency, responsibility, independence, and fairness in corporate management. In the banking sector, the Board of Directors, the Board of Independent Commissioners, and the Audit Committee are widely recognized as key governance mechanisms that reflect the effectiveness of GCG implementation (Napitupulu et. al., 2023).

The findings of this study can serve as a basis for bank management and regulators in developing more targeted governance policies. Focusing on strengthening the role of the Board of Directors and optimizing the supervisory function should be a priority in designing an effective Good Corporate Governance system.

For investors, because the research results show that the Board of Directors has a significant influence on Return on Assets (ROA), investors should consider the performance and composition of the Board of Directors when conducting fundamental analysis of banking companies. Professional and experienced people tend to be able to drive better financial performance.

CONCLUSION

These findings emphasize that effective Good Corporate Governance should be viewed as an integrated governance system rather than as isolated governance components. Strengthening coordination among the Board of Directors, the Independent Board of Commissioners, and the Audit Committee is therefore essential to support more effective strategic decision-making, stronger oversight, and sustainable improvements in financial performance.

It is advised that future researchers incorporate additional GCG variables, such as management ownership, firm size, institutional ownership, frequency of board of directors/commissioners meetings, or business size, to enhance the research findings and identify a more comprehensive impact on financial performance. To obtain more general and representative results, future researchers are advised to use a longer research period and cover more banking companies, both conventional and sharia.

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