

Financial Performance Of Banking Companies: Examining The Relationship Between Good Corporate Governance, Leverage, And Firm Size (An Empirical Study On Banking Companies Listed On The Indonesia Stock Exchange During The 2020–2024 Period)

Adinda Rama¹, Wiwik Tiswiyanti², Eko Prasetyo³

^{1,2,3}Accounting Study Program, Faculty of Economics and Business, Jambi University

Corresponding Email: adindarama491@gmail.com

Abstract

This study aims to examine the relationship between good corporate governance, proxied by the board of directors, board of commissioners, independent commissioners, audit committee, and institutional ownership, as well as leverage and firm size, and the financial performance of banking companies, measured by Return on Equity (ROE), listed on the Indonesia Stock Exchange during the 2020–2024 period. This study employs a quantitative approach using panel data obtained from the annual reports and financial statements of 47 banking companies over the observation period, resulting in 230 firm-year observations. Data were analyzed using panel data regression, with the Random Effect Model (REM) selected as the most appropriate model based on the Chow, Hausman, and Lagrange Multiplier tests.

The results indicate that, simultaneously, the board of directors, board of commissioners, independent commissioners, audit committee, institutional ownership, leverage, and firm size do not have a significant relationship with ROE. Partially, the board of directors and audit committee are positively and significantly associated with ROE, whereas independent commissioners and leverage are negatively and significantly associated with ROE. Meanwhile, the board of commissioners, institutional ownership, and firm size do not exhibit a significant relationship with ROE. Additional analysis reveals that the COVID-19 pandemic is a significant external factor associated with banking financial performance, as indicated by the increased significance of the model after the

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inclusion of a pandemic dummy variable. The findings suggest that the board of directors and audit committee are corporate governance mechanisms positively associated with banking financial performance, while external factors such as the COVID-19 pandemic and broader macroeconomic conditions remain important considerations in the analysis of banking profitability.

Keywords: Financial Performance, Board of Directors, Board of Commissioners, Independent Commissioners, Audit Committee, Institutional Ownership, Leverage, Firm Size

INTRODUCTION

In the modern era, banks play a crucial role in Indonesia's economy, as their activities have become integral to meeting the financial needs of society. Banks are financial institutions that mobilize funds from the public in the form of deposits and redistribute them through loans and other financial services to support economic activities and improve the welfare of the community (Onoyi & Windayati, 2021). Cases occurring within the banking sector indicate that corporate financial performance may deteriorate due to the misuse of authority, including the unauthorized withdrawal of customers' funds and fraudulent activities committed by internal parties such as employees, managers, and directors. These practices can harm both customers and shareholders and are often associated with the inadequate implementation of Good Corporate Governance (GCG) principles (Fitriyani, 2021).

The implementation of corporate governance practices in Indonesia is overseen by the National Committee on Governance Policy (KNKG). According to the General Guidelines for Good Corporate Governance issued by KNKG (2014), inadequate implementation of Good Corporate Governance (GCG) has been recognized as one of the primary factors associated with financial scandals, fraud, embezzlement, data breaches, and corruption cases involving banking personnel in Indonesia. The implementation of Good Corporate Governance (GCG) in the banking sector is expected to be associated with banking performance, as companies that effectively implement GCG tend to operate more efficiently and demonstrate greater competitiveness (Nusantara *et al.*, 2023).

Several cases have occurred in the Indonesian banking sector that highlight concerns regarding the implementation of Good Corporate Governance (GCG). One notable case involved Bank BJB, which was linked to allegations of corruption in

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advertising procurement during the 2021–2023 period, resulting in potential state losses estimated at approximately IDR 222 billion (Antaranews.com, 2025). Another case involved Bank Jatim, where alleged credit manipulation amounting to IDR 569 billion was reported at its Jakarta Branch Office during the 2023–2024 period (Antaranews.com, 2025). In addition, a bank employee at Bank 9 Jambi's Kerinci Branch was implicated in the unauthorized withdrawal of customer funds totaling IDR 7.1 billion in March 2025 (Detik.com, 2025). Furthermore, a corruption case involving a Bank BRI employee, which resulted in losses of IDR 1 billion in May 2019, further illustrates that the implementation of GCG in Indonesia has not yet been fully optimized. These cases reflect weaknesses in the oversight functions performed by auditors and boards of commissioners, as well as shortcomings in financial reporting practices (Nusantara *et al.*, 2023).

In addition to corporate governance, a firm's financing structure, as reflected by its level of leverage, is also associated with financial performance. The use of debt that is not managed effectively may increase financial risk and weaken a bank's financial condition. According to Anandamaya (2021) *leverage is a measure used to assess the extent to which a company's activities are financed through external funding with the objective of enhancing profitability. However, the use of debt also entails fixed obligations, particularly interest expenses, which may increase the financial burden borne by the company.*

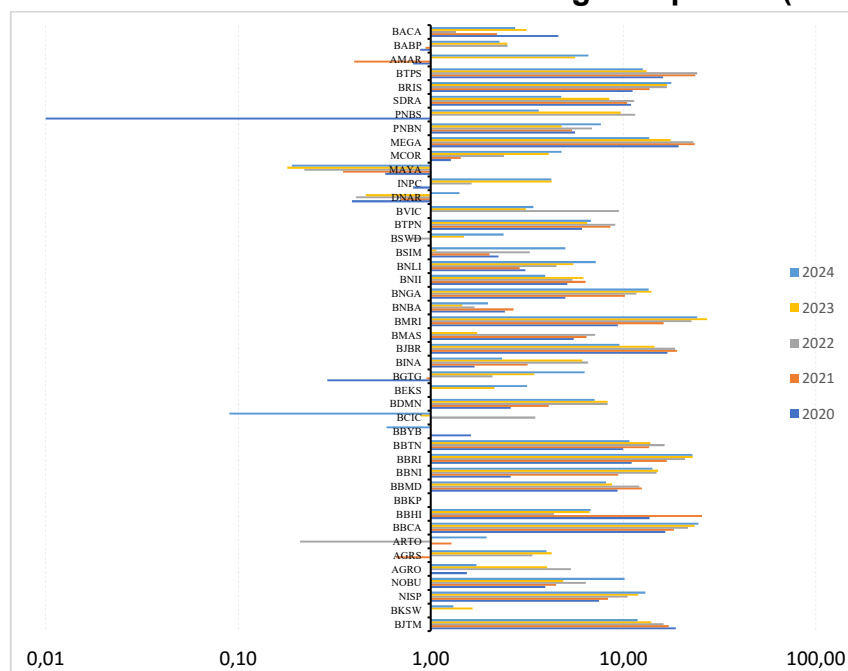
Firm size is another factor associated with financial performance. Large banking institutions generally exhibit greater operational complexity, thereby requiring stronger governance and monitoring mechanisms to maintain optimal financial performance. Wulandari & Tan (2023) stated that firm size is a factor associated with improved financial performance. This condition is supported by the availability of adequate resources, enabling firms to manage and utilize their assets more efficiently in meeting customer demands and expanding market share.

Financial performance reflects a company's success or failure in managing its resources effectively. In corporate operations, organizational effectiveness can be enhanced through the separation of ownership and management functions. Such a separation allows each party to perform its respective responsibilities more efficiently, thereby supporting better organizational performance and the achievement of corporate objectives. However, the separation between owners and managers may also give rise to conflicts of interest due to differences in their respective goals and priorities (Anandamaya, 2021).



The ineffective implementation of Good Corporate Governance (GCG) may not only result in direct financial losses but also reduce the level of trust among stakeholders, including customers and investors. Such conditions are associated with a decline in the financial performance of banking institutions, which may be reflected in lower profitability levels (HR & Dewi, 2022). One of the financial ratios commonly used to assess financial performance is Return on Equity (ROE).

Figure 1. Financial Performance of Banking Companies (ROE)



Based on the Return on Equity (ROE) data of banking companies during the 2020–2024 period, the profitability performance of the banking sector exhibited a fluctuating trend over time. Overall, these findings indicate that banking profitability remained unstable throughout the observation period and did not demonstrate a consistent pattern of growth. This condition suggests the existence of variations in performance among banks, which may be associated with both firm-specific factors and broader macroeconomic conditions.

In addition, numerous previous studies have examined the determinants of corporate financial performance; however, their findings remain inconclusive, resulting in a research gap. Considering the banking-related cases, fluctuations in financial performance, and

inconsistencies in prior research findings, this study seeks to examine the factors associated with financial performance. Accordingly, the study is entitled “FINANCIAL PERFORMANCE OF BANKING COMPANIES: EXAMINING THE RELATIONSHIP OF GOOD CORPORATE GOVERNANCE, LEVERAGE, AND FIRM SIZE”.

Objectives

Based on the background and research issues discussed above, this study aims to examine the relationship between corporate governance mechanisms, leverage, firm size, and the financial performance of banking companies listed on the Indonesia Stock Exchange. Specifically, this study aims to:

1. Examine the simultaneous relationship of the board of directors, board of commissioners, independent commissioners, audit committee, institutional ownership, leverage, and firm size with the financial performance of banking companies listed on the Indonesia Stock Exchange.
2. Examine the relationship between the board of directors and the financial performance of banking companies listed on the Indonesia Stock Exchange.
3. Examine the relationship between the board of commissioners and the financial performance of banking companies listed on the Indonesia Stock Exchange.
4. Examine the relationship between independent commissioners and the financial performance of banking companies listed on the Indonesia Stock Exchange.
5. Examine the relationship between the audit committee and the financial performance of banking companies listed on the Indonesia Stock Exchange.
6. Examine the relationship between institutional ownership and the financial performance of banking companies listed on the Indonesia Stock Exchange.
7. Examine the relationship between leverage and the financial performance of banking companies listed on the Indonesia Stock Exchange.
8. Examine the relationship between firm size and the financial performance of banking companies listed on the Indonesia Stock Exchange.



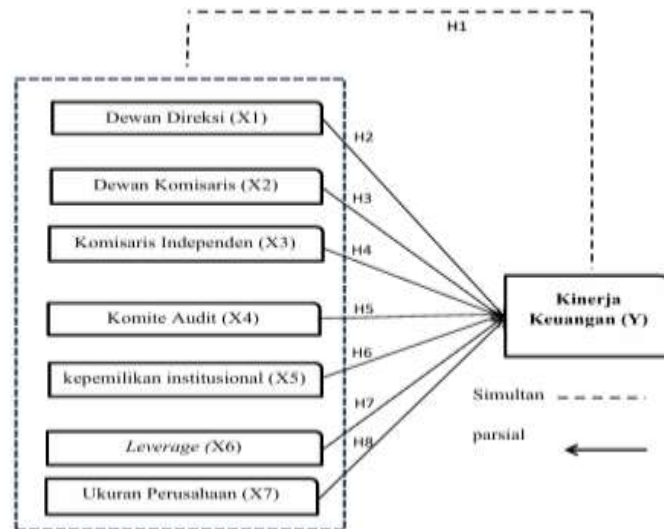


Figure 2. Research Framework

Research Hypotheses

Based on the theoretical framework and previous studies, the hypotheses of this study are formulated as follows:

- H1:** The board of directors, board of commissioners, independent commissioners, audit committee, institutional ownership, leverage, and firm size are significantly associated with financial performance.
- H2:** The board of directors is significantly associated with financial performance.
- H3:** The board of commissioners is significantly associated with financial performance.
- H4:** Independent commissioners are significantly associated with financial performance.
- H5:** The audit committee is significantly associated with financial performance.
- H6:** Institutional ownership is significantly associated with financial performance.
- H7:** Leverage is significantly associated with financial performance.
- H8:** Firm size is significantly associated with financial performance.

RESEARCH METHODOLOGY

Population and Sample

The population of this study consists of all banking companies listed on the Indonesia Stock Exchange (IDX), totaling 47 companies as of 2024. This study employs a census sampling technique, whereby all members of the population are included as the research sample. Consequently, the sample comprises 47 banking companies. The observation period covers five years, from 2020 to 2024, resulting in a total of 235 firm-

year observations. However, several companies conducted their Initial Public Offering (IPO) in 2020 and 2021, resulting in incomplete data availability for the entire five-year period. Therefore, the effective sample used in the analysis consists of 230 observations out of the 235 observations initially identified.

Data were collected using the documentation method by gathering information on the board of directors, board of commissioners, independent commissioners, audit committee, institutional ownership, leverage, and firm size. The data were obtained from the annual reports and financial statements of the sample companies for the 2020–2024 period, which were downloaded from the official Indonesia Stock Exchange (IDX) website.

Operational Definition of Variables

The dependent variable in this study is Financial Performance (Y). The independent variables consist of Good Corporate Governance (GCG), proxied by the Board of Directors (X_1), Board of Commissioners (X_2), Independent Commissioners (X_3), Audit Committee (X_4), and Institutional Ownership (X_5). Leverage, which reflects the proportion of a company's debt relative to its total assets, serves as the sixth independent variable (X_6). Firm Size, which measures the scale of a company based on its total assets, is employed as the seventh independent variable (X_7).

Data Analysis Method

This study utilizes panel data, which combine time-series and cross-sectional data. Hypothesis testing is conducted using panel data regression models, with Stata 19 employed as the data analysis software. The use of panel data regression in this study aims to examine the relationship between each independent variable and financial performance while controlling for the other independent variables included in the model. Accordingly, the estimated regression coefficients represent the statistical association between each independent variable and financial performance, holding other factors constant.



RESULTS AND DISCUSSION**Classical Assumption Tests****Table 1. Multicollinearity Test Results**

Variable	VIF	1/VIF
x2	5.45	0.183452
x1	3.75	0.266881
x4	2.72	0.367972
x7	1.26	0.794698
x3	1.25	0.802633
x6	1.16	0.859129
x5	1.09	0.917151
Mean VIF	2.38	

Source: Stata 19 Output, 2026

Table 1 presents the results of the multicollinearity test. The findings indicate that all independent variables have Variance Inflation Factor (VIF) values below the threshold of 10 and tolerance values above 0.10. The highest VIF value is observed for the board of commissioners variable (X_2) at 5.45 (tolerance = 0.1835), followed by the board of directors (X_1) at 3.75 (tolerance = 0.2669), audit committee (X_4) at 2.72 (tolerance = 0.3680), firm size (X_7) at 1.26 (tolerance = 0.7947), independent commissioners (X_3) at 1.25 (tolerance = 0.8026), leverage (X_6) at 1.16 (tolerance = 0.8591), and institutional ownership (X_5) at 1.09 (tolerance = 0.9172). In addition, the Mean VIF value of 2.38 is well below the critical threshold of 10. Therefore, it can be concluded that there is no evidence of multicollinearity among the independent variables, indicating that the regression model is suitable for further analysis.

Descriptive Statistics**Table 2. Descriptive Statistics**

Variable	Obs	Mean	Std. dev.	Min	Max
y	230	2.486913	19.55694	-154.6	27.31
id	235	24	13.59361	1	47
x1	230	6.530435	2.667356	3	12
x2	230	4.917391	2.279039	2	11
x3	230	.5853187	.1205066	.3333333	1
x4	230	3.878261	1.223124	2	9
x5	230	78.13205	16.68997	30	99.88483
x6	230	72.92687	20.56334	7.491844	91.88871
x7	230	16.88795	2.128196	11.62807	21.61001

Source: Stata 19 Output, 2026

Table 2 presents the descriptive statistics of the variables used in this study. The dependent variable, Return on Equity (ROE), has a mean value of 2.4869 and a standard deviation of 19.5569, indicating substantial variation in the financial performance of the sample firms. The ROE values range from -154.6000 to 27.3100. Among the corporate governance variables, the board of directors (X_1) has an average value of 6.5304 (SD = 2.6674), while the board of commissioners (X_2) has a mean of 4.9174 (SD = 2.2790). Independent commissioners (X_3) exhibit an average proportion of 0.5853 (SD = 0.1205), whereas the audit committee (X_4) records a mean value of 3.8783 (SD = 1.2231). Institutional ownership (X_5) has an average of 78.1321% (SD = 16.6900). Furthermore, leverage (X_6) shows a mean value of 72.9269% (SD = 20.5633), while firm size (X_7), measured by the natural logarithm of total assets, has an average value of 16.8880 (SD = 2.1282). Overall, the descriptive statistics indicate considerable variation in both corporate governance characteristics and financial performance across the sample firms.

Panel Data Regression Analysis

Panel Data Model Selection

The selection of the appropriate panel data model was conducted through three stages of testing. First, the Chow test was employed to determine the most suitable model between the Common Effect Model (CEM) and the Fixed Effect Model (FEM). Second, the Hausman test was performed to compare the Fixed Effect Model (FEM) and the Random Effect Model (REM). Third, the Lagrange Multiplier (LM) test was used to compare the Random Effect Model (REM) and the Common Effect Model (CEM).

Table 3. Panel Data Model Selection Results

Tahap Pengujian	Model	Probabilitas	Model Terpilih
Uji Chow	CEM vs FEM	0,0000	<i>Fixed Effect Model</i>
Uji Hausman	FEM vs REM	0,2002	<i>Random Effect Model</i>
Uji Lagrange Multiplier	REM vs CEM	0,0000	<i>Random Effect Model</i>

Source: Stata 19 Output, 2026

Based on the results of the three model selection tests, the Random Effect Model (REM) was identified as the most appropriate estimation model for this study. The Chow



test indicated that the Fixed Effect Model was preferable to the Common Effect Model, while the Hausman test suggested that the Random Effect Model was more suitable than the Fixed Effect Model. Furthermore, the Lagrange Multiplier test confirmed that the Random Effect Model was superior to the Common Effect Model. Therefore, all subsequent panel data regression analyses were conducted using the Random Effect Model (REM).

Panel Data Regression Analysis

Table 4. Random Effect Model Regression Results

Random-effects GLS regression				Number of obs	=	230
Group variable: id				Number of groups	=	47
R-squared:				Obs per group:		
Within = 0.0613				min	=	3
Between = 0.0459				avg	=	4.9
Overall = 0.0524				max	=	5
corr(u_i, X) = 0 (assumed)				Wald chi2(7)	=	12.98
				Prob > chi2	=	0.0727
y	Coefficient	Std. err.	z	P> z	[95% conf. interval]	
x1	2.052085	1.007599	2.04	0.042	.0772284	4.026942
x2	-2.00275	1.300843	-1.54	0.124	-4.552355	.5468558
x3	-24.74758	11.21715	-2.21	0.027	-46.73278	-2.762374
x4	2.868078	1.718488	1.67	0.095	-.5000957	6.236252
x5	-.0385613	.1055506	-0.37	0.715	-.2454367	.1683141
x6	-.1710782	.083704	-2.04	0.041	-.335135	-.0070215
x7	-.0103869	.9397019	-0.01	0.991	-1.852169	1.831395
_cons	17.89551	20.62644	0.87	0.386	-22.53157	58.32259
sigma_u	14.160627					
sigma_e	12.981189					
rho	.54337276	(fraction of variance due to u_i)				

Source: Stata 19 Output, 2026

Based on the estimation results of the Random Effect Model (REM) presented in Table 4, the panel data regression equation can be expressed as follows:

$$Y = 17,8955 + 2,0521X_1 - 2,0028X_2 - 24,7476X_3 + 2,8681X_4 - 0,0386X_5 - 0,1711X_6 - 0,0104X_7$$

The panel data regression equation can be interpreted as follows:

- 1) **Constant (_cons).** The constant value of 17.8955 indicates that when all independent variables (Board of Directors, Board of Commissioners, Independent Commissioners, Audit Committee, Institutional Ownership, Leverage, and Firm Size) are held at zero, the estimated ROE of the sample banking companies is 17.8955.
- 2) **Board of Directors (X₁).** The positive coefficient of 2.0521 indicates a positive association between the board of directors and ROE. This finding suggests that a



larger board of directors tends to be associated with higher financial performance, ceteris paribus.

- 3) **Board of Commissioners (X_2)**. The coefficient of -2.0028 indicates a negative association between the board of commissioners and ROE. This suggests that a larger board of commissioners tends to be associated with lower financial performance, ceteris paribus.
- 4) **Independent Commissioners (X_3)**. The coefficient of -24.7476 indicates a negative association between the proportion of independent commissioners and ROE. This finding suggests that a higher proportion of independent commissioners tends to be associated with lower financial performance, ceteris paribus.
- 5) **Audit Committee (X_4)**. The positive coefficient of 2.8681 indicates a positive association between the audit committee and ROE. This suggests that a larger audit committee tends to be associated with higher financial performance, ceteris paribus.
- 6) **Institutional Ownership (X_5)**. The coefficient of -0.0386 indicates a negative association between institutional ownership and ROE. This finding suggests that a higher level of institutional ownership tends to be associated with lower financial performance, ceteris paribus.
- 7) **Leverage (X_6)**. The coefficient of -0.1711 indicates a negative association between leverage and ROE. This suggests that higher leverage tends to be associated with lower financial performance, ceteris paribus.
- 8) **Firm Size (X_7)**. The coefficient of -0.0104 indicates a negative association between firm size and ROE. This finding suggests that larger firms tend to be associated with lower financial performance, ceteris paribus.

Additional Analysis (Dummy Variable Test)

Pandemic Period Dummy Variable Test

Table 5. Estimation Results of the Pandemic Dummy Variable

Random-effects GLS regression		Number of obs =		230	
Group variable: id		Number of groups =		47	
R-squared:		Obs per group:			
Within = 0.0911		min =		3	
Between = 0.0353		avg =		4.9	
Overall = 0.0567		max =		5	
corr(u_i, X) = 0 (assumed)		Wald chi2(8) =		18.86	
		Prob > chi2 =		0.0156	
y	Coefficient	Std. err.	z	P> z	[95% conf. interval]
x1	1.811467	1.084447	1.80	0.071	-.1572133, 3.780148
x2	-2.13709	1.289141	-1.66	0.097	-4.663759, .3895797
x3	-24.07629	11.1089	-2.17	0.030	-45.84934, -2.303242
x4	3.463829	1.71782	2.02	0.044	.0961644, 6.829894
x5	-.063151	.1052174	-0.35	0.730	-.2425174, .1699872
x6	-.1169282	.0866699	-1.35	0.177	-.2867982, .0529417
x7	-.444982	.9563297	-0.47	0.642	-2.319354, 1.42939
pandemi	-4.435629	1.877957	-2.36	0.018	-8.116356, -.7549015
_cons	22.34868	20.67742	1.08	0.280	-18.17831, 62.87568
sigma_u	14.364186				
sigma_e	12.814958				
rho	.55681599	(fraction of variance due to u_i)			

Source: Stata 19 Output, 2026



Based on Table 5, the Random Effect Model (REM) estimation with the inclusion of the pandemic dummy variable provides several noteworthy findings. First, the Wald $\chi^2(8)$ value increased to 18.86 with a Prob > χ^2 of 0.0156 (< 0.05), indicating that the model became statistically significant after controlling for the pandemic period. Second, the pandemic dummy variable exhibits a negative coefficient of -4.4356 with a significance level of 0.018 (< 0.05), suggesting that the COVID-19 pandemic period (2020–2021) was negatively and significantly associated with the Return on Equity (ROE) of banking companies compared with the non-pandemic period.

Third, the inclusion of the pandemic dummy variable increased the Within R^2 from 6.13% to 9.11%, indicating that the pandemic period is associated with additional variation in ROE across firms over time. Fourth, the Audit Committee variable (X_4), which was not statistically significant in the main model ($p = 0.095$), became significant after the inclusion of the pandemic dummy variable ($p = 0.044$). This finding suggests that the relationship between the audit committee and financial performance becomes more apparent after controlling for pandemic-related conditions. In contrast, the Leverage variable (X_6), which was significant in the main model ($p = 0.041$), became insignificant after the inclusion of the pandemic dummy variable ($p = 0.177$), suggesting that the relationship between leverage and ROE may be associated with conditions prevailing during the pandemic period.

Non-Pandemic Period Dummy Variable Test

Table 6. Estimation Results of the Non-Pandemic Dummy Variable

Random-effects GLS regression	Number of obs	=	230
Group variable: id	Number of groups	=	47
R-squared:	Obs per group:		
Within = 0.0911	min =		3
Between = 0.0353	avg =		4.9
Overall = 0.0567	max =		5
corr(u_i, X) = 0 (assumed)	Wald chi2(8)	=	18.86
	Prob > chi2	=	0.0156

y	Coefficient	Std. err.	z	P> z	[95% conf. interval]	
x1	1.811467	1.004447	1.80	0.071	-.1572133	3.780148
x2	-2.13709	1.289141	-1.66	0.097	-4.663759	.3895797
x3	-24.07629	11.1089	-2.17	0.030	-45.84934	-2.303242
x4	3.463029	1.71782	2.02	0.044	.0961644	6.829894
x5	-.0363151	.1052174	-0.35	0.730	-.2425374	.1699072
x6	-.1169282	.0866699	-1.35	0.177	-.2867982	.0529417
x7	-.444982	.9563297	-0.47	0.642	-2.319354	1.42939
nonpandemi	4.435629	1.877957	2.36	0.018	.7549015	8.116356
_cons	17.91305	20.61029	0.87	0.385	-22.48237	58.30848

sigma_u	14.364186
sigma_e	12.814958
rho	.55681599
(fraction of variance due to u_i)	

Source: Stata 19 Output, 2026



Based on Table 6, the Random Effect Model (REM) estimation with the inclusion of the non-pandemic dummy variable yields findings that are consistent with the previous pandemic dummy analysis. First, the Wald $\chi^2(8)$ value of 18.86 with a Prob > χ^2 of 0.0156 (< 0.05) indicates that all independent variables are jointly and significantly associated with ROE after controlling for differences between the pandemic and non-pandemic periods.

Second, the non-pandemic dummy variable has a positive coefficient of 4.4356 with a significance level of 0.018 (< 0.05), indicating that the non-pandemic period (2022–2024) is positively and significantly associated with ROE compared to the pandemic period (2020–2021). This finding suggests that banking companies tended to exhibit higher profitability during the non-pandemic period than during the pandemic period. Third, the increase in the Within R^2 value from 6.13% to 9.11% indicates that the inclusion of the dummy variable improves the model's explanatory power in capturing variations in ROE over time. Overall, the non-pandemic dummy analysis reinforces the previous findings, suggesting that differences between the pandemic and non-pandemic periods are significantly associated with variations in the financial performance of banking companies.

Hypothesis Testing

Simultaneous Test (Wald Test)

Table 7. Results of the Simultaneous Test (Wald Test)

Random-effects GLS regression	Number of obs	=	230
Group variable: id	Number of groups	=	47
R-squared:	Obs per group:		
Within = 0.0613	min =		3
Between = 0.0459	avg =		4.9
Overall = 0.0524	max =		5
corr(u_i, X) = 0 (assumed)	Wald $\chi^2(7)$	=	12.98
	Prob > χ^2	=	0.0727

Source: Stata 19 Output, 2026

Based on Table 7, the Random Effect Model estimation results show a Wald $\chi^2(7)$ value of 12.98 with a Prob > χ^2 value of 0.0727. Since the probability value exceeds the significance level of $\alpha = 0.05$ ($0.0727 > 0.05$), the null hypothesis cannot be rejected. These results indicate that the independent variables, namely the board of directors (X_1), board of commissioners (X_2), independent commissioners (X_3), audit committee (X_4), institutional ownership (X_5), leverage (X_6), and firm size (X_7), are not jointly significantly

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associated with Return on Equity (ROE) among banking companies listed on the Indonesia Stock Exchange during the 2020–2024 period.

However, when the pandemic dummy variable is included in the model (Table 5), the Wald $\chi^2(8)$ value increases to 18.86 with a Prob > χ^2 value of 0.0156, which is below the significance level of $\alpha = 0.05$. This finding indicates that the independent variables are jointly and significantly associated with ROE after controlling for the COVID-19 pandemic period. Therefore, the pandemic represents an important external factor that should be considered when examining the financial performance of banking companies during the 2020–2024 period.

Partial Test (t-Test)

Table 8. Results of the Partial Test (t-Test)

y	Coefficient	Std. err.	z	P> z	[95% conf. interval]	
x1	2.052085	1.007599	2.04	0.042	.0772284	4.026942
x2	-2.00275	1.300843	-1.54	0.124	-4.552355	.5468558
x3	-24.74758	11.21715	-2.21	0.027	-46.73278	-2.762374
x4	2.868078	1.718488	1.67	0.095	-.5000957	6.236252
x5	-.0385613	.1055506	-0.37	0.715	-.2454367	.1683141
x6	-.1710782	.083704	-2.04	0.041	-.335135	-.0070215
x7	-.0103869	.9397019	-0.01	0.991	-1.852169	1.831395
_cons	17.89551	20.62644	0.87	0.386	-22.53157	58.32259
sigma_u	14.160627					
sigma_e	12.981189					
rho	.54337276	(fraction of variance due to u_i)				

Source: Stata 19 Output, 2026

Based on Table 8, the partial test results for each variable can be explained as follows:

- 1) Board of Directors (X_1). The board of directors variable has a coefficient of 2.0521 with a probability value of 0.042 (< 0.05). Therefore, H_2 is supported. The results indicate that the board of directors is positively and significantly associated with the ROE of banking companies listed on the Indonesia Stock Exchange during the 2020–2024 period.
- 2) Board of Commissioners (X_2). The board of commissioners variable has a coefficient of -2.0028 with a probability value of 0.124 (> 0.05). Therefore, H_3 is not supported. The results indicate that the board of commissioners is not significantly associated with the ROE of banking companies listed on the Indonesia Stock Exchange during the 2020–2024 period.



- 3) Independent Commissioners (X_3). The independent commissioners variable has a coefficient of -24.7476 with a probability value of 0.027 (< 0.05). Therefore, H_4 is supported. The results indicate that independent commissioners are negatively and significantly associated with the ROE of banking companies listed on the Indonesia Stock Exchange during the 2020–2024 period.
- 4) Audit Committee (X_4). The audit committee variable has a coefficient of 2.8681 with a probability value of 0.095 (< 0.10). Therefore, H_5 is supported at the 10% significance level. The results indicate that the audit committee is positively associated with ROE. After controlling for the pandemic period, this relationship becomes significant at the 5% significance level ($p = 0.044$), suggesting that the association between the audit committee and financial performance becomes more evident after pandemic-related conditions are taken into account.
- 5) Institutional Ownership (X_5). The institutional ownership variable has a coefficient of -0.0386 with a probability value of 0.715 (> 0.05). Therefore, H_6 is not supported. The results indicate that institutional ownership is not significantly associated with the ROE of banking companies listed on the Indonesia Stock Exchange during the 2020–2024 period.
- 6) Leverage (X_6). The leverage variable has a coefficient of -0.1711 with a probability value of 0.041 (< 0.05). Therefore, H_7 is supported. The results indicate that leverage is negatively and significantly associated with the ROE of banking companies listed on the Indonesia Stock Exchange during the 2020–2024 period.
- 7) Firm Size (X_7). The firm size variable has a coefficient of -0.0104 with a probability value of 0.991 (> 0.05). Therefore, H_8 is not supported. The results indicate that firm size is not significantly associated with the ROE of banking companies listed on the Indonesia Stock Exchange during the 2020–2024 period.

Coefficient of Determination (R^2)

Table 9. Results of the Coefficient of Determination (R^2) Test

Random-effects GLS regression	Number of obs	=	230
Group variable: id	Number of groups	=	47
R-squared:	Obs per group:		
Within = 0.0613	min =		3
Between = 0.0459	avg =		4.9
Overall = 0.0524	max =		5
corr(u_i, X) = 0 (assumed)	Wald chi2(7)	=	12.98
	Prob > chi2	=	0.0727

Source: Stata 19 Output, 2026



Based on Table 9, the Random Effect Model estimation results show an Overall R^2 value of 0.0524, or 5.24%. This indicates that the independent variables, namely the board of directors (X_1), board of commissioners (X_2), independent commissioners (X_3), audit committee (X_4), institutional ownership (X_5), leverage (X_6), and firm size (X_7), collectively explain 5.24% of the variation in the dependent variable, Return on Equity (ROE). The remaining 94.76% is associated with other factors not included in the model.

The Within R^2 value of 0.0613 (6.13%) indicates that the model has limited explanatory power in capturing variations in ROE within the same company over time. Meanwhile, the Between R^2 value of 0.0459 (4.59%) suggests that the model also has limited ability to explain differences in ROE across companies. The relatively low R^2 values are not uncommon in corporate governance studies involving panel data, particularly in the banking sector, where financial performance is associated with a wide range of internal and external factors that may not be fully captured by the variables included in the model. Furthermore, in the model incorporating the pandemic dummy variable, the Overall R^2 increased to 5.67%, while the Within R^2 rose to 9.11%. These results suggest that the COVID-19 pandemic period is associated with additional variation in ROE and represents an important factor to consider when examining the financial performance of banking companies.

DISCUSSION

1. The Simultaneous Relationship of the Board of Directors, Board of Commissioners, Independent Commissioners, Audit Committee, Institutional Ownership, Leverage, and Firm Size with Return on Equity (ROE)

The results indicate that the board of directors, board of commissioners, independent commissioners, audit committee, institutional ownership, leverage, and firm size are not jointly and significantly associated with the ROE of banking companies listed on the Indonesia Stock Exchange during the 2020–2024 period. This finding suggests that banking financial performance is associated not only with corporate governance mechanisms and firm-specific characteristics but also with external factors, such as macroeconomic conditions and interest rate policies. These findings are consistent with those reported by Cahyadi and Mardanugraha (2024) and Nasution et al. (2023), who found that macroeconomic factors are significantly associated with banking profitability. Furthermore, the observation period, which encompasses both the COVID-19 pandemic and the post-pandemic recovery period, may also be associated with variations in banking financial performance. Additional analysis using

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a pandemic dummy variable indicates that the pandemic period represents a significant structural factor associated with ROE during the study period.

2. The Relationship between the Board of Directors and Return on Equity (ROE)

The results reveal that the board of directors is positively and significantly associated with ROE. This finding suggests that a larger board of directors may enhance the company's capacity for strategic decision-making, operational oversight, and policy formulation, which is associated with better financial performance. This result is consistent with the findings of Dhone and Dara (2022) and Ramadeni and Dewi (2023), who reported a significant relationship between the board of directors and corporate financial performance.

3. The Relationship between the Board of Commissioners and Return on Equity (ROE)

The results indicate that the board of commissioners is not significantly associated with ROE. This finding suggests that the number of commissioners does not necessarily reflect the effectiveness of supervisory functions in improving company profitability. In practice, the existence of a board of commissioners may be more strongly driven by regulatory compliance requirements than by the optimization of supervisory effectiveness. In addition, a larger board may create coordination and communication challenges that reduce monitoring effectiveness. These findings are consistent with Rahardjo and Wuryani (2021) and Arjuniadi and Nisa (2022), but differ from those reported by Sitompul and Harefa (2021) and Ambarwati et al. (2022).

4. The Relationship between Independent Commissioners and Return on Equity (ROE)

The results show that independent commissioners are negatively and significantly associated with ROE. This finding suggests that a higher proportion of independent commissioners is not necessarily accompanied by higher profitability. One possible explanation is that independent commissioners place greater emphasis on monitoring and regulatory compliance functions, which may not be directly associated with short-term profitability improvements. This finding is consistent with Gemilang and Wiyono (2022) and Nusantara et al. (2023), who also reported a significant relationship between independent commissioners and financial performance.

5. The Relationship between the Audit Committee and Return on Equity (ROE)

The results indicate that the audit committee is positively and significantly associated with ROE at the 10% significance level. This finding suggests that the audit committee may support the effectiveness of oversight mechanisms, improve the quality



of financial reporting, and strengthen corporate governance practices, all of which are associated with better financial performance. This relationship becomes stronger after controlling for the pandemic period, indicating that the role of the audit committee may be more observable under relatively stable operating conditions. These findings are consistent with those reported by Sitompul and Harefa (2021) and Nusantara et al. (2023).

6. The Relationship between Institutional Ownership and Return on Equity (ROE)

The results indicate that institutional ownership is not significantly associated with ROE. This finding suggests that a higher proportion of institutional share ownership does not necessarily translate into more effective monitoring capable of improving financial performance. Although institutional investors generally possess the capacity to monitor management activities, profitability remains dependent on the overall effectiveness of corporate management. These findings are consistent with Ernawati and Santoso (2021) and Wulandari and Tan (2023), but differ from those reported by Anandamaya (2021) and Fatimah and Annisa (2023).

7. The Relationship between Leverage and Return on Equity (ROE)

The results indicate that leverage is negatively and significantly associated with ROE. This finding suggests that higher levels of debt are associated with lower profitability due to the increased financial obligations borne by the company. This result is consistent with the findings of Ernawati and Santoso (2021) and Arjuniadi and Nisa (2022), who also found a significant relationship between leverage and financial performance.

8. The Relationship between Firm Size and Return on Equity (ROE)

The results indicate that firm size is not significantly associated with ROE. This finding suggests that larger asset holdings do not automatically translate into higher profitability when those assets are not utilized efficiently. As firms grow in size, operational complexity and management costs may also increase. Therefore, the effectiveness of asset utilization appears to be more important than the scale of assets itself. These findings are consistent with Ambarwati et al. (2022) and Wulandari and Tan (2023), but differ from those reported by Anandamaya (2021) and Fatimah and Annisa (2023).



CONCLUSION, LIMITATIONS, AND FUTURE RESEARCH

Conclusion

This study examined the relationship between good corporate governance, proxied by the board of directors, board of commissioners, independent commissioners, audit committee, and institutional ownership, as well as leverage and firm size, and the financial performance of banking companies, measured by Return on Equity (ROE), listed on the Indonesia Stock Exchange during the 2020–2024 period.

The results indicate that, simultaneously, all independent variables are not significantly associated with ROE. Partially, the board of directors and audit committee are positively and significantly associated with ROE, while independent commissioners and leverage are negatively and significantly associated with ROE. In contrast, the board of commissioners, institutional ownership, and firm size do not exhibit significant associations with ROE. The findings suggest that certain corporate governance mechanisms, particularly the board of directors and audit committee, are associated with banking financial performance. Furthermore, additional analysis indicates that the COVID-19 pandemic represents an important external factor associated with variations in banking profitability during the study period.

Limitations

This study has several limitations. First, it does not incorporate control variables commonly used in banking financial performance research, such as Capital Adequacy Ratio (CAR), Non-Performing Loans (NPL), Net Interest Margin (NIM), Loan-to-Deposit Ratio (LDR), and Operating Expenses to Operating Income (BOPO). The exclusion of these variables may lead to omitted variable bias and limit the model's ability to explain variations in the ROE of banking companies. Second, the relatively low coefficient of determination indicates that a substantial proportion of the variation in ROE is associated with factors outside the scope of the model.

Future Research

Future studies are encouraged to incorporate additional control variables that are relevant to the banking industry, extend the observation period, and consider macroeconomic and external factors, including pandemic-related conditions. Such efforts may provide a more comprehensive understanding of the factors associated with the financial performance of banking companies.



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