The Effect of Good Corporate Governance On Financial Performance In Indonesian Conventional Banking

Yanti[1], Rohma Septiawati[2], Fista Apriani Sujaya[3], Meliana Puspitasari[4], Aulia Nurendayani[5]
University of Buana Perjuangan Karawang
yanti@ubpkarawang.ac.id

Abstract— This study aims to determine the effect of good corporate governance on financial performance in conventional banking for the period 2018-2020. The population of this study is traditional banks, totaling 44 banks. Sample selection through the purposive sampling method. Thirty-two banks meet the criteria as research samples so that the research data is 96. The data analysis technique used is classical assumption test and then hypothesis testing. The statistical method used is multiple linear regression analysis. This study shows that institutional ownership has no significant effect on Banking Financial Performance. In contrast, the board of directors has a substantial impact on the banking financial performance. Together, the independent board of commissioners, the board of directors, the audit committee, and leverage (equity debt) significantly affect banking financial performance.

Keywords: Cooperate Governance, Financial Performance

I. INTRODUCTION

Corporate governance is described as having legitimacy, accountability, and competence in policy and service delivery while respecting the law and human rights (Tjahjadi, 2021). The Cadbury report can easily understand the concept, which states how corporate governance manages and controls the company's work activities (Cadbury, 2002) —and based on the characteristics or quality values (Puspitaningrum, 2012). The concept of corporate governance for banking began in the early 2000s when globalization was introduced, which demanded transparency, accountability, and good performance from corporate executives and reflected the requirements of Corporate Governance (CG) (Paniagua, 2018). Priority CG at GCC started to gain momentum in the early 2000s due to a chain of unforeseen incidents in the business arena. Recently emerged and attracted the attention of each, whether they are investors or company professionals (Campa, 2019). Sound governance principles, including risk management, efficiency level, and GCG. The need for the application of these three things helps the bank identify problems that occur in the bank's financial system in depth so that the point of the problem can be identified early so that the bank can take steps to follow up and improve the system appropriately and efficiently.

Governance defines a set of rules and procedures that ensure that managers use quality management principles (Madaleno, 2020). These principles include accountability, responsibility, transparency, independence, and fairness (Paniagua, Corporate governance and financial performance: (Paniagua, Corporate governance and financial performance: The role of ownership and board structure, 2018). The essence of company management is to ensure that the direction of the principal shareholders, management wealth is implemented. Indicators in good corporate governance include Institutional Owners, Independent Commissioners, the Board of Directors, the Audit Committee (Rossoni, 2019), and the measure of PAF which is the basic of company management ability in terms of financial performance (Yanti, Pasupati, & Husain, 2022). The implementation of Good Corporate Governance is closely related to financial performance in banking. As for the parties that play a role in economic performance, the Board of Directors, KAP, Managerial Ownership, and the Board of Commissioners affect the implementation of Good Corporate Governance (Puspitaningrum, 2012).

The performance measurement system plays an essential role because it is a concern as a source of financial information displayed in financial reports by internal operations (Al-ahdal, 2020). This type of information is helpful for the decision-making process to extract the best decisions for planning, directing, and controlling (Madaleno, 2020). The choice of performance evaluation depends on the organization's goals, the method of calculation is clear to compare, and this is achieved by the people involved in the organization (Paniagua, 2018). Governance principles as an essential tool for the development of good governance practices. This study describes the interrelationships and interrelationships of corporate governance mechanisms and the financial performance of the development of good governance practices. This study describes the interrelationships and interrelated mechanisms of corporate governance and financial performance.

In the corporate governance literature, many studies have been conducted to investigate the relationship between corporate performance and good corporate governance in both developed and developing countries (Campa, 2019). For example, one stream of literature finds that corporate governance is positively related to firm performance (Cheng, 2021). On the other hand, other studies have shown a negative relationship between corporate governance and strong performance (Ozdemir, 2021). However, there is still minimal research that focuses on the impact of corporate governance on Indonesia's

banking performance based on the author's best knowledge. Therefore, this study examines the relationship between corporate governance and corporate performance in conventional banks. In addition, this study aims to fill the gap in the literature review by conducting the relationship between corporate governance and financial performance, especially in conventional banks in Indonesia.

II. LITERATURE REVIEW

Agency Theory

The agency theory (agency) expressed by R.A. Supriyono (2018) is a concept that has a description of the relationship between the principal (contract giver) and agent (contract recipient), the principle of contracting an agent to serve the wishes or intentions of the asset so that the investment can give the agent the power to make decisions until that goal causes problems in the community. Between the two parties. Identifying the concept of representation is the capacity for conflict of interest between many stakeholders in the company. Management with a particular interest tends to make an income statement based on the company's objectives and not the principal. Overcoming this situation requires a control system that can balance the differences in interests between the two parties (Azkiyah, 2019:11).According to El-Chaarani (2014), management tools are needed for company management to reduce conflicts of interest or representation. Various procedures are used, namely Good Corporate Governance. Good Corporate Governance acts as a system to provide guidelines and a basis for connecting the most important differences, the first being the interests of managers and stakeholders (Perdani, 2016:20-21).

Financial performance

Financial performance is an assessment of the company's performance in terms of financial performance. A financial performance assessment is carried out to determine whether management has achieved project implementation or previously planned objectives (Saygili, 2021). Performance monitoring is critical to assess the effectiveness of management in company management (Campa, 2019). Bank performance appraisal covers all operational and non-functional aspects of the bank. The banking system highlights the success of banks in raising public funds and returning them by implementing planned management (Campa, 2019). Financial performance assessment is carried out to determine whether the administration has achieved project implementation or the previously planned objectives (Mahoney, 2007). Apart from that, performance appraisal is critical to assess the effectiveness of management in managing the company (Cheng, 2021).

Cooperate Governance

Corporate Governance is a set of systems that regulate and run the company to improve management skills and experience ethics, transparency, integrity, cleanliness, and stability to realize the goals. Based on the Forum for Corporate Governance in Indonesia (FCGI), Corporate Governance is a regulatory instrument that plans relationships between shareholders, company directors, creditors, government, employees, and other internal and external stakeholders, which are related based on their rights and obligations or in other terms the system who guides and runs the company (Tjahjadi, 2021). Business management has basic principles in its implementation, namely transparency, accountability, responsibility, independence, fairness (Tjahjadi, 2021)

The implementation of Good Corporate Governance affects company controllers. The performance of GCG is closely related to the relationship between various organs within the company (Paniagua, 2018). GCG can be done if there is a classification of shares and responsibilities among company assets related to factors related to GCG, namely internal and external factors (Al-ahdal, 2020). Internal factors are factors that are needed within the company, while external factors are factors that are necessary outside the company. Various elements in corporate governance can guarantee the benefits of Good Corporate Governance, namely Corporate Governance-Internal Company, namely elements that originate from within the company and make the factors continue to be needed in the company. Company. The company's internal elements are shareholders, directors, board of commissioners, managers, employees/labor unions, remuneration system based on performance, audit committee(Al-ahdal, 2020). Furthermore, Corporate Governance – External of the company, namely elements that originate from outside the company and factors are often needed outside the company, called Corporate Governance – External Company. Factors arising from outside the company include the law and a set of rules, investment, information-giving institutions, public accountability, institutions that favor the interests of the public, not class, loan providers, institutions with legal ratification tasks, elements that are often needed outside the company, namely: regulations rather than code of conduct, fairness, countable, legal guarantees (Al-ahdal, 2020).

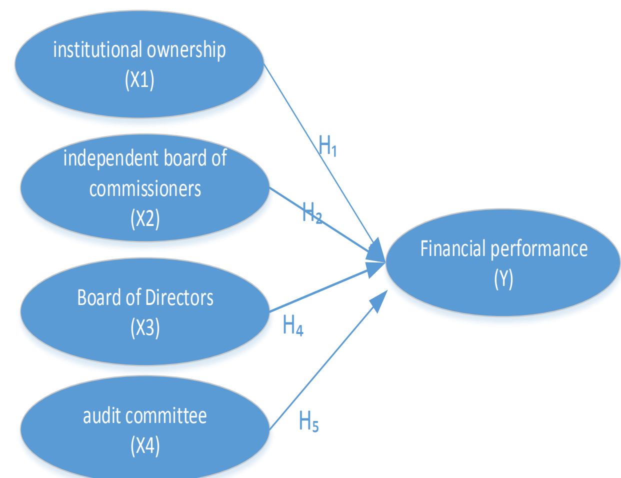

Fig. 1. Research Model

III. RESEARCH HYPOTHESIS

1. The Effect of Institutional Ownership on Financial Performance

Institutional ownership is a factor that can affect a company's operations (Paniagua, 2018). With a more

significant number of institutional investors, it can motivate increased oversight of the management process because the entity as a whole has its investment component, which leads to solid and regulatory solid efforts that can inhibit behavior, opportunistic managers to the interests of each commander may be interrelated (Vu, 2018). This can have a positive impact on company performance. The larger the assets, the stronger the voice and influence of the entity, increasing the value of the company to improve its financial performance (Cheng, 2021). This is supported by research (Paniagua, 2018) that the relationship between institutional ownership and financial performance (ROA) has a positive and significant effect, while the results of the institutional ownership test by (García-Ramos, 2020) state that institutional ownership has a positive and insignificant impact on bank financial performance (ROA)

H1: There is a significant influence between institutional ownership on the Financial Performance of Conventional Banking

2. Influence of Independent Board of Commissioners on Financial Performance

Independent Commissioners are members of the board of directors who do not have funds, management, finance, or family relationships with controlling shareowners, members of the board of directors, and board of directors (Ghosh, 2018). According to the researcher's view, as the main organ in the implementation of Good Corporate Governance, the board of commissioners is obliged to carry out its functions (Tjahjadi, 2021). A good board of commissioners in the company will have a good effect on the company's financial performance because the board of commissioners can provide advice to managers to improve the ability of commissioners so that they are effective in their work. This is supported by the results of research (Ames, 2018) that the results of the independent board of commissioners test have a significant and positive influence on financial performance, while the results of research conducted by Aiman & Rahayu (2019), Hamidah et al., (2013), and Santoso (2015).) the results of the study show that the Independent Board of Commissioners variable has a negative and insignificant effect on the Financial Performance of the Bank. Based on the description above, the proposed hypothesis is:

H2 : There is a significant influence between the Board of Commissioners on the Financial Performance of Conventional Banking

3. Influence of the Board of Directors on Financial Performance

The Board of Directors is the company leader who the stakeholders appoint to represent their interests in the company. The problem with several banks in Indonesia is the limited function of the board of directors, as evidenced by the lack of transparency between the board of directors and stakeholders. The board of directors is responsible for corporate governance and monitoring the company's business behavior to assess whether the business is operating correctly (García-Ramos, 2020). In addition, the board of directors is responsible for developing and implementing communication plans. Investment or stakeholder communication strategy (Ozdemir, 2021), is supported by research results (Ghosh, 2018) , showing that the Board of Directors variable has a positive and significant influence on the Banking Financial Performance variable. According to (Ozdemir, 2021), it indicates that the Board of Directors does not affect financial performance, then the following hypothesis can be formulated

H3 : There is a significant influence between the Board of Directors on the Financial Performance of Conventional Banking

4. Influence of the Audit Committee on Financial Performance

The audit committee is a committee with the format of the board of commissioners to oversee corporate governance (Abbasi, 2020). For corporate executives, the audit committee is crucial because it is a corporate governance system and assumes that it is a liaison between stakeholders and the board of commissioners and directors to deal with control (Abbasi, 2020). This is supported by research results (Ararat, 2021) and research that the audit committee variable significantly influences financial performance. According to the study (Al-ahdal, 2020), the Audit Committee positively and substantially affects economic performance. the following proposed hypothesis

H4 : There is a significant influence between the audit committee on the Financial Performance of Conventional Banking.

IV. METHOD

This study uses a quantitative method with the population in this study being conventional banking listed on the Indonesia Stock Exchange from 2018 to 2020 as many as 44 banks. The sampling method is using a purposive sampling method with a sample of 32 samples

Table 1 Research sample criteria

Company Criteria	Quantity
Total Conventional Banking	44
banks that meet the criteria	32
years of research	3
banks that meet the criteria for completeness of data based on the observed data	96

V. RESULT

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.038	0.413		2.513	0.014
	(X1)KINS	0.082	0.577	0.015	0.143	0.887

a. Dependent Variable: (Y)ROA

Based on the output results above, the simple linear regression equation model is as follows: ROA = 1.038 + 0.082 (KINS), and it means that the constant value is -1.038 and the regression coefficient of Institutional Ownership (KINS) on Banking Financial

Performance (ROA) is 0.082. The table concluded that the t value is 0.143 with a significance level of 0.887. Because the calculated significance value is greater than the specified significance value (0.887 > 0.05), it concluded that Institutional Ownership has no significant effect on Banking Financial Performance (ROA).

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.034	0.537		1.925	0.057
	(X2)KOIN	0.107	0.931	0.012	0.115	0.908

a. Dependent Variable: (Y)ROA

Based on the output results above, the simple linear regression equation model is as follows: ROA = 1.034 + 0.107 (KOIN) and it means that the constant value is 1.034 and the regression coefficient of the Board of Independent Commissioners (KOIN) on Banking Financial Performance (ROA) is 0.107. The table concluded that the t value is 0.143 with a significance level of 0.887. Because the calculated significance value is greater than the specified significance value (0.887 > 0.05), it concluded that the Independent Board of Commissioners has no significant effect on Banking Financial Performance (ROA).

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.167	0.287		0.581	0.563
	(X3)DDIR	0.132	0.038	0.335	3.442	0.001

a. Dependent Variable: (Y)ROA

Based on the output results above, the simple linear regression equation model is as follows: ROA = 0.167 + 0.132 (DDIR) and it can be seen that the constant value is 0.167 and the Board of Directors regression coefficient (DDIR) on Banking Financial Performance (ROA) is 0.132. Based on the table, it can be seen that the t value is 3.442 with a significance level of 0.001. Because the calculated significance value is smaller than the specified significance value (0.001 < 0.05), it can be seen that the Board of Directors has a significant effect on Banking Financial Performance (ROA).

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.975	0.393		2.482	0.015
	(X4)KOMA	0.031	0.097	0.033	0.317	0.752

a. Dependent Variable: (Y)ROA

Based on the output results above, the simple linear regression equation model is as follows: ROA = 0.167 + 0.132 (DDIR), and it means that the constant value is 0.167 and the Board of Director's regression coefficient (DDIR) on Banking Financial Performance (ROA) is 0.132. Based on the table, it concluded that the t value is 3.442 with a significance level of 0.001 because the calculated significance value is smaller than the specified significance value (0.001 < 0.05), it concluded that the Board of Directors has a significant effect on Banking Financial Performance (ROA).

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.146	0.7		1.638	0.105		
	(X1)KINS	-0.697	0.546	-0.125	-1.276	0.205	0.907	1.103
	(X2)KOIN	0.25	0.865	0.028	0.289	0.773	0.939	1.065
	(X3)DDIR	0.157	0.04	0.396	3.936	0.000	0.853	1.173
	(X4)KOMA	0.015	0.095	0.016	0.155	0.877	0.842	1.188
	(X5)DER	-0.148	0.043	-0.332	-3.402	0.001	0.905	1.105

a. Dependent Variable: (Y)ROA

Based on the table above, the following regression equation can be arranged:
ROA = 1.146 + (-0.697 KINS) + (0.250 COINS) + (0.157 DDIR) + (0.015 KOMA) + (-0.148 DER)

VI. CONCLUSION

1. Institutional ownership has no significant effect on financial performance (ROA); with the results, the t value is 0.143 with a significance level of 0.887. Because the calculated significance value is greater than the specified significance value (0.887 > 0.05), it concluded that Institutional Ownership has no significant effect on Banking Financial Performance (ROA). Therefore, based on the hypothesis test results, it can be supposed that the Institutional Ownership variable does not affect Banking Financial Performance (ROA).
2. The Independent Board of Commissioners does not significantly influence the Financial Performance of the Bank; it means that the t value is 0.143 with a significance level of 0.887. Because the calculated significance value is greater than the specified significance value (0.887 > 0.05), it concluded that the Independent Board of Commissioners has no significant effect on Banking Financial Performance (ROA, therefore, based on the hypothesis test results, it concluded that the Independent Board of Commissioners variable does not affect Banking Financial Performance (ROA).
3. The Board of Directors has a significant influence on Banking Financial Performance; it means that the t value is 3.442 with a significance level of 0.001 because the calculated significance value is smaller than the specified significance value (0.001 < 0.05), it means that the Board of Directors has a significant effect on Banking Financial Performance (ROA). Therefore, based on the hypothesis test results, it concluded that the variable of the Board of Directors has a positive and significant effect on Banking Financial Performance (ROA).
4. The Audit Committee has no significant influence on the Financial Performance of the Bank; it means that

the t value is 0.317 with a significance level of 0.752. Because the calculated significance value is greater than the specified significance value (0.752 > 0.05), it concluded that the Audit Committee has no significant effect on Banking Financial Performance (ROA). Therefore, based on the hypothesis test results, the Audit Committee variable does not affect Banking Financial Performance (ROA).

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