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THE EFFECT OF GOOD CORPORATE GOVERNANCE ON THE FINANCIAL PERFORMANCE OF BANKS LISTED ON THE INDONESIA STOCK EXCHANGE

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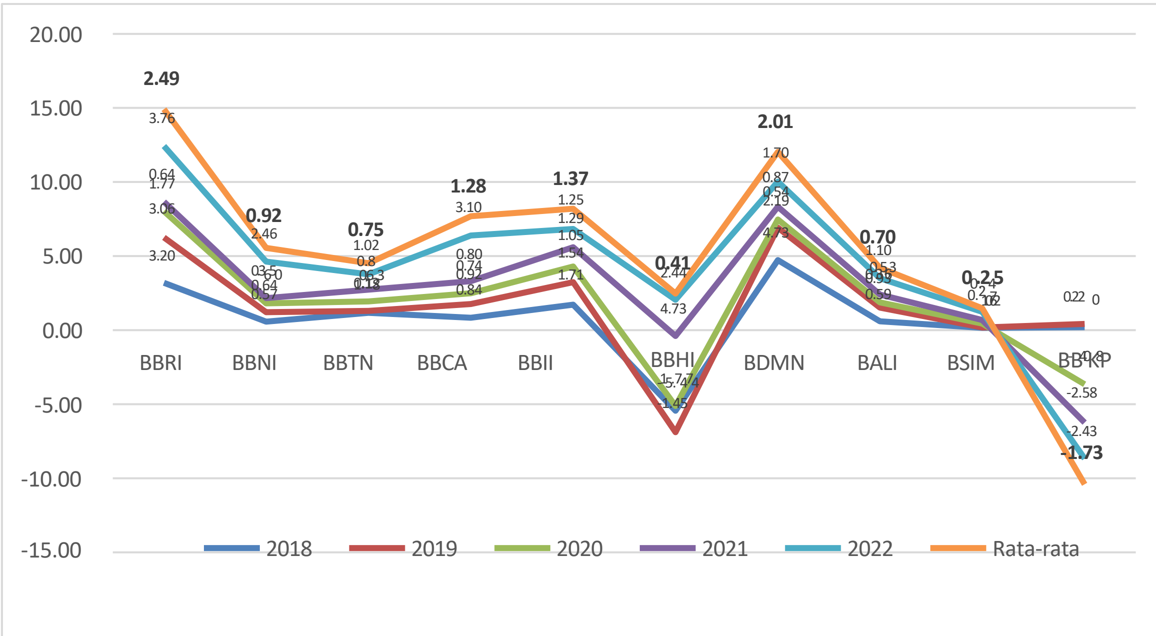
ABSTRACT
The purpose of this study is to obtain empirical evidence of the, Managerial's Ownership, Institutional Ownership, independent board of commissioners, board of directors, and audit committee on the Banking Company firm's performance listed on the Indonesia Stock Exchange. The sampling technique used purposive sampling, the research samples obtained totaled 6 companies with a research period from 2018-2022 so that there were 30 units of analysis. The research design was quantitative descriptive. The analysis technique in this research is multiple regression analysis method. The results showed that Managerial's Ownership and Audit Committee has a significant positive effect, Institutional Ownership, independent board of commissioners, board of directors has no effect on firm's perfromance. The implication of this research is that companies must pay attention to that Managerial's Ownership and Audit Committee and those that can affect profitabilty so that company performance can increase.
Keywords : ROA, Managerial's Ownership, Institutional Ownership, independent board of commissioners, board of directors.

INTRODUCTION
Banks are industries that in their business activities rely on public trust so that the level of bank health needs to be maintained. Bank health maintenance can be carried out, among others, maintaining liquidity in order to fulfill its obligations to all parties who withdraw their deposits at any time. Banks are financial institutions that play a very important role in the stability and development of economic growth. Readiness to fulfill obligations at any time is becoming increasingly important in the sense that considering the role of banks as institutions that function to facilitate payment traffic. The rapid development of banking and the high level of complexity can increase the risks that banks will face in Indonesia, the ability of managers to keep the secrets of customers entrusted to them and the security of money or other assets entrusted to banks (Nurhidayah, 2020).

Bank Indonesia enforces regulations on bank health. Bank health can be interpreted as the ability of a bank to carry out banking operations normally and be able to fulfill all its obligations properly with procedures in accordance with applicable bank regulations. With the regulation on bank health, it is expected that banks are in a healthy state so as not to harm the people associated with banking. Weak implementation *Good Corporate Governance* (GCG) is the main trigger in the event of a financial scandal. Cases of fraud, embezzlement, burglary, and corruption committed by bank personnel themselves occur a lot in Indonesia. The number of banking cases in Indonesia has made many parties begin to think that the implementation of GCG is a necessity in the business world as a barometer of a company's accountability (Sianipar and Wiksuana, 2019).

Graph 1.*Return On Assets of* Banking Companies for the Period 2018‒2022



Source: Indonesia Stock Exchange (data processed for 2018-2022)

In the chart above, you can see the highest average ROA value for the period 2018 to 2022 owned by PT Bank Rakyat Indonesia Tbk. with an ROA value of 2.49%. The higher the *Return on Assets* (ROA), the higher the net profit generated from each rupiah of funds embedded in total assets. By knowing ROA, we can assess whether the company has been efficient in using its assets in operating activities to generate profits. While the lowest average ROA value owned by PT Bank KB Bukopoin Tbk. of -1.73% shows that the overall invested capital has not been able to generate profits.

In this case, the researcher will conduct research on *Good Cororate Governance* (consisting of managerial ownership, institutional ownership, independent board of commissioners, board of directors, and audit committee) to the company's financial performance. Previous studies have been conducted *Good Corporate Governance* to the financial performance of banking companies such as research conducted by, Ibrahim *et al*., (2019); Indrati and Handayani (2022); and Alfian, (2020) mentioned that Managerial Ownership has a positive effect on Profitability. However, it is not in line with research Karamoy and Tulung (2020); Fuad Alamsyah and Yulianti (2022) which found that Managerial Ownership negatively affected profitability. True *et al*. (2018); Suryanto (2019); Yusrizal and Suharti (2020) found that managerial ownership had no effect on financial performance.

Abduh and Ellen (2018); Solekhah and David (2020) which found that institutional ownership had no effect on profitability. However, it is not in line with the research conducted by Muhammad and Damayanti (2020), Indrati and Handayani (2022)and Alfian (2020) mentioned that Institutional Ownership has a positive effect on profitability. While the research conducted by Leksono and Vhalery (2018)and Fuad Alamsyah and Yulianti (2022) argues that Institutional

Ownership negatively affects Profitability. Abduh and Ellen (2018); Revelation (2018) Finding that the Independent Board of Commissioners has no significant effect on financial performance. However Research conducted by Pujakusum (2019); Muhammad and Damayanti (2020) mentioned that the Independent Board of Commissioners has a positive effect on Profitability. While the research conducted by Honi *et al.* (2020); and argued that the Independent Board of Commissioners negatively affected financial performance.

Lumbanraja (2021); Intia and Azizah (2021); which found the Board of Directors had no effect on financial performance. Research conducted by Pujakusum (2019); Setyawan B, (2019); found that the Board of Directors positively influences financial performance. While the research conducted by Honi *et al*. (2020)and Fitrianingsih and Asfaro (2022) mentioned that the Board of Directors negatively affects profitability. Pujakusum (2019); and Anik *et al*., (2021) mentioned that the Audit Committee has a positive effect on Financial Performance. While research conducted by and Purwanto *et al*., (2015) found that the Audit Committee negatively affected Financial Performance. True *et al.* (2018); Suryanto (2019); Wiariningsih *et al*. (2019); Yusrizal and Suharti (2020); Vomit and Murdijaningsih (2020) It found that the Audit Committee did not have a significant impact on financial performance.

The research gap in this study is based on the inconsistency of the influence of Managerial Ownership, Institutional Ownership, Independent Board of Commissioners, Board of Directors, and Audit Committee on Financial Performance conducted by previous researchers. Therefore, in this study try to find out and review whether there is a significant influence. This research was conducted on banking sector companies listed on the Indonesia Stock Exchange because there are complete annual financial reports.

Based on the phenomenon and *research gap*, the author is interested in taking the title in writing this thesis, namely "The Effect of *"Good Corporate Governance* on the Financial Performance of Banking Companies Listed on the Indonesia Stock Exchange".

Theoretical Foundation

Agency Theory

Agency Theory first coined by Jensen and Meckling. *Agency Theory* states that differences in interests between management and capital owners can cause a conflict of interest. Management who is positioned as the owner's agent, should strive for the prosperity of the owner, but if there is a possibility that the company's management accepts the risk, then the company's management will tend to care about its interests (Jensen & Meckling, 1986).

Managerial Ownership

Managerial ownership is the number of shares owned by company management, this ownership is a minority and represents shareholders and shows the implementation of other corporate governance and to produce good performance as well. Managerial ownership can be measured by the percentage of ownership of the board of commissioners, directors and managers to the number of ordinary shares (Hariadi et al., 2022).

Institutional Ownership

Institutional Ownership is the ownership of shares by the government, financial institutions, incorporated institutions, foreign institutions, trust funds and other institutions at the end of the year (Sartono, 2017).

Independent Board of Commissioners

Independent commissioners are all commissioners who do not have a substantial business interest in the company. Independent commissioners who have at least 30% of the total number of commissioners have complied with GCG guidelines in order to maintain independence, effective, precise, and fast decision making (Wiariningsih, Junaidi and Panjaitan, 2019).

Board of Directors

The board of directors has important tasks in the form of management and operations to achieve the company's goals in achieving percentage (Hasnati, 2014).

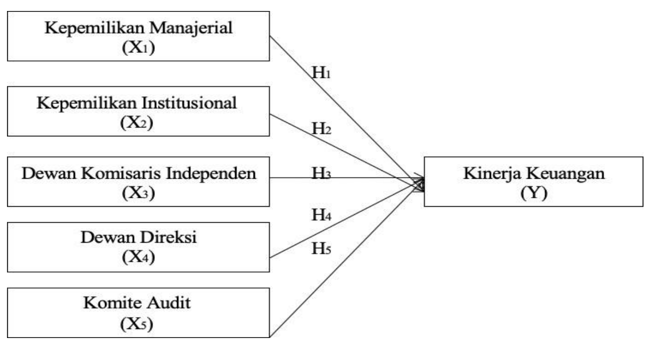
Audit Committee

The audit committee is formed by the board of commissioners as an assistant or person who strengthens the functions of the board of commissioners and assists the board of commissioners in carrying out functions from supervision or financial reporting, implementation *Good Corporate Governance* in the company and the implementation of audits and risk management of the company (Setiawan and Setiadi, 2020).

***Return on Assets* (ROA)**

Return On Assets is a measuring tool to be able to assess the level of effectiveness of a company in generating net profit through available assets (Husna and Satria, 2019).

Conceptual Framework



HYPOTHESIS

H_1: Managerial Ownership has a significant positive effect on Financial Performance
H_2: Institutional Ownership has a significant positive effect on Financial Performance
H_3: The Board of Commissioners has a significant positive effect on Financial Performance
H_4: Board of Directors Significantly Positive Effect on Financial Performance
H5: Audit Committee has a significant positive effect on Financial Performance

RESEARCH METHODS

The object of research was carried out on Banking Companies listed on the Indonesia Stock Exchange in the 2018-2022 period. Data collection using *purposive sampling* techniques where research samples were obtained as many as 6 companies. The research method used is a descriptive method with a quantitative approach using multiple regression analysis Classical assumption tests are carried out before hypothesis testing so that the test results meet the criteria of BLUE (Best Linear Unbiased Estimated). After that, hypothesis testing was carried out with statistical t tests, F tests, and determination coefficient analysis. The model used in this study can be formulated as follows:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 2X4 + \beta 3X5 + \varepsilon$$

Table 1. Operational Definition and Variable Measurement

Variable	Definition	Formula	Measu re
Managerial Ownership	The level of shareholding of management who actively participates in decision making.	KM = Number of shares owned by management / Total total shares (Sartono, 2017)	Ratio
Institutional Ownership	Share ownership owned by institutions such as banks, insurance companies, and outside companies (Sartono, 2017)	KI = Number of shares held by the institution / Total total shares (Sartono, 2017)	Ratio
Return on assets	Return on Assets is a comparison between profit after tax distributed with all company assets (Brigham and Houston, 2019).	ROA = profit after tax / total assets (Brigham and Houston, 2019)	Ratio
Independent Board of Commissione rs	DKI is the main member and organ responsible for the implementation of corporate governance (Sutedi, 2012).	DKI = Number of independent commissioners / Number of all members (Sutedi, 2012)	Ratio
Audit Committee	The audit committee is formed by the board of commissioners as an assistant or person who strengthens the functions of the board of commissioners (Setiawan and Setiadi, 2020)	KA = Number of Audit Committee Members (Sutedi, 2012)	Ratio
Board of Directors	The board of directors has important tasks in the form of management and operations to achieve the company's goals in achieving percentage (Hasnati, 2014).	DD=Σ Member of the board of directors (Sutedi, 2012)	Ratio

Source: data processed by authors from selected books.

RESULTS AND DISCUSSION

Results of Descriptive Statistical Analysis

Table 2. Descriptive Statistical Results

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	30	.001	.038	.01757	.012406
MILES	30	.0002	.0107	.004223	.0033271
KI	30	.0555	.2220	.136693	.0604243
Jakarta	30	.29	.70	.5533	.11186
DD	30	5.00	12.00	9.6333	2.56614
KA	30	3.00	8.00	4.6333	1.60781
Valid N (listwise)	30				

Source : SPSS 25.0 Data Processing Results

Test the hypothesis

Coefficient of Determination (Adjusted R^2)

The oefficient of determination test aims to measure how far the ability of the independent variable to explain the variation of the dependent variable (Ghozali, 2018). shows that the variables KM, KI, KA, DKI, and DD can explain the ROA variable by 85.5% while the remaining 14.5% is explained by other variables outside the regression model of this study.

Partial Test (T-Test)

The t-value test is used to measure how far the influence of one independent variable individually in explaining the variation of the dependent variable (Ghozali, 2018). The results of t-value testing underlie the preparation of a research model which can be formulated as follows:

$$\mathbf{ROA = - 0.18 + 3.996KM - 0.020KI + 0.020DKI - 0.001DD + 0.020KA}$$

Table 7. t-Value Test Results

	Hypothesis	B	Sig	α	Result
H1	KM has a significant positive effect on ROA	3.996	.000	0.05	Accepted
H2	IP has no significant effect on ROA.	-.020	.548	0.05	Rejected
H3	DKI has no effect on ROA	-.020	.356	0.05	Rejected
H4	DD has no effect on ROA	-.001	.274	0.05	Rejected
H5	KA has a positive and significant effect on ROA	.004	.022	0.05	Accepted

Source : SPSS 25.0 Output (Data processed by author)

The Effect of Managerial Ownership on Profitability

Based on the results of the T Test, it was found that Managerial Ownership significant effect on Profitability proxied by *Returm on Asset* in banking companies listed on the Indonesia Stock Exchange for the period 2018-2022. This can be seen from the test results where the regression coefficient value is 3.996 with a significance value of 0.000 (0.000 > α 0.05), so the first hypothesis (H_1) which states that Managerial Ownership positive and significant effect on with *Returm on Asset* accepted (H_1 accepted).

Agency theory recognizes that ownership structure is related to monitoring. Agency theory suggests that a managerial ownership situation in which directors own shares and are directly involved in the day-to-day running of the company, minimizes conflicts of interest as well as agency issues (Jensen and Meckling, 1976). The ownership structure is widely recognized to provide incentives for large shareholders of management monitoring thereby minimizing agency costs (Maher and Andersson, 1999). The results of this study are in line with Ibrahim *et al*., (2019); Indrati and Handayani (2022); and Alfian, (2020) mentioned that Managerial Ownership has a positive effect on Profitability. However, it is not in line with research Karamoy and Tulung (2020); Fuad Alamsyah and Yulianti (2022) which found that Managerial Ownership negatively affected profitability. True *et al*. (2018); Suryanto (2019); Yusrizal and Suharti (2020) found that managerial ownership had no effect on financial performance.

The Effect of Institutional Ownership on Profitability

Based on the results of the T Test in table 4.10, it is found that Institutional ownership has no effect on Profitability proxied by Returm on Asset in banking companies listed on the Indonesia Stock Exchange for the period 2018-2022. This can be seen from the test results where the regression coefficient value is -0.020 with a significance value of 0.548 (0.548 > α 0.05), so that the second hypothesis (H_2) which states that Managerial Ownership significant effect on with *Returm on Asset* accepted (H_2 accepted). The insignificance of the influence between Institutional Ownership and *Return on Assets* in Banking companies because it is said that it has not been able to function fully as a mechanism to increase the efficiency of utilization of company assets (Indrati and Handayani, 2022). This can be because the value of institutional shareholding has not been high enough to affect the company's profitability more strongly. The results of this study are in line with Abduh and Ellen (2018); Solekhah and David (2020) which found that institutional ownership had no effect on profitability. However, it is not in line with the research conducted by Indrati and Handayani (2022)and Alfian (2020) mentioned that Institutional Ownership has a positive effect on profitability. While the research conducted by Leksono and Vhalery (2018)and Fuad Alamsyah and Yulianti (2022) argues that Institutional Ownership negatively affects Profitability.

The Effect of the Independent Board of Commissioners on Profitability

Based on the results of the T Test, it was found that Independent Board of Commissioners has no effect on Profitability proxied by *Return on Asset* in banking companies listed on the Indonesia Stock Exchange for the period 2018-2022. This can be seen from the test results where the regression coefficient value is 0.020 with a significance value of 0.356 (0.356 > α 0.05), so that the third hypothesis (H_3) which states that Independent Board of Commissioners significant effect on with *Return on Asset* accepted (H_3 rejected). The results of this study have not been able to support with *Theory Agency* which states that with the existence of an independent board of commissioners, supervision of the company will be carried out properly so as to minimize fraud (agency conflict) carried out by management in the company's financial reporting (Sahara, Hartini and Jayanti, 2020). The results of this study are in line with the findings Abduh and Ellen (2018); Revelation (2018); Yusrizal and Suharti (2020) found that the independent board of commissioners had no significant effect on profitability. However Research conducted by Pujakusum (2019); Abdullah and Tursoy (2023); Muhammad and Damayanti (2020) mentioned that the Independent Board of Commissioners has a positive effect on Profitability.

The Effect of the Board of Directors on Profitability

Based on the results of the T Test, it was found that Board of Directors significant effect on Profitability proxied by *Return on Asset* in banking companies listed on the Indonesia Stock Exchange for the period 2018-2022. This can be seen from the test results where the regression coefficient value is -0.001 with a significance value of 0.274 (0.274 > α 0.05), so that the fourth hypothesis (H_4) which states that Board of Directors has no significant effect on with *Return on Asset* accepted (H_4 rejected)No effect of the Board of Directors on *Return on Assets* That is, when there is an addition of members of the board of directors in the company can result in negligence in carrying out its responsibilities because it assumes that there is still another board of directors that will correct the mistakes made by one of the board of directors who has made a mistake (Lumbanraja, 2021). The results of this study are in line with the results of research from Lumbanraja (2021); Intia and Azizah (2021); which found the Board of Directors had no effect on profitability. Research conducted by Pujakusum (2019); Setyawan B, (2019); Abdullah and Tursoy (2023) found that the Board of Directors positively affects profitability.

The Effect of the Audit Committee on Profitability

Based on the results of the T Test in table 4, it is found that Audit Committee significant effect on Profitability proxied by *Return on Asset* in banking companies listed on the Indonesia Stock Exchange for the period 2018-2022. This can be seen from the test results where the regression coefficient value is 0.004 with a significance value of 0.022 (0.022 > α 0.05), so that the fifth hypothesis (H_5) which states that Audit Committee positive and significant effect on with *Return on Asset* accepted (H_5 accepted). This is in line with the agency theory put forward Jensen and Meckling (1976) which states that agency theory is the relationship between company owners and shareholders. The Principal, who is a party of the company, strives to give confidence to agents or shareholders for decision making for the company and supervises and evaluates agents for all decisions and actions taken for the company. The results of this study are in line with the results of research conducted by Irawati et al., 2019); Pujakusum (2019); and Anik *et al*., (2021) mentioned that the Audit Committee has a positive effect on Financial Performance. While the research conducted by Leksono and Vhalery (2018); and Purwanto *et al*., (2015) found that the Audit Committee negatively affected Financial Performance.

CONCLUSION

This study aims to examine independent variables consisting of that Managerial Ownership, Institutional Ownership, Independent Board of Commissioners, Board of Directors and Audit Committee *on Return on Assets*. The coefficient of determination of this study shows at 85.5%, which means that the independent variable is only able to explain the dependent variable with 85.5%, while the remaining 14.5% is influenced by other factors outside this model.

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