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The Influence of Good Corporate Governance, Risk Management, and Company Size on Financial Performance in the Banking Sector Listed on the Indonesia Stock Exchange

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ABSTRACT

The purpose of this study is to examine the partial and concurrent effects of Risk Management, Good Corporate Governance (GCG), and Company Size on Financial Performance (Return on Assets/ROA) in 47 banking organizations that are listed on the Indonesia Stock Exchange (IDX) between 2022 and 2024. The primary problem is the inconsistent financial performance of banks in the face of digitalization issues and widespread governance cases, which highlights how urgent it is to put in place efficient GCG and risk management. The approach, which satisfies the traditional presumptions of normality, multicollinearity, autocorrelation, and heteroscedasticity, is Panel Data Regression analysis with a Random Effects model. With an R2 value of 33.26%, the F-test findings show that GCG, Risk Management, and Company Size all significantly affect Financial Performance at the same time. It was discovered that the following factors significantly affected ROA: Independent Commissioners, Audit Committee, Non-Performing Loans (NPL), BOPO, and Company Size. Net Interest Margin (NIM), Managerial Ownership, and Institutional Ownership, however, had little effect. Increasing bank profitability in Indonesia is mostly contingent on enhancing GCG procedures (Independent Commissioners and Audit Committees), credit risk control (NPL), operational efficiency (BOPO), and leveraging economies of scale (Company Size), according to the findings.

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1. INTRODUCTION

The Indonesian banking landscape has witnessed considerable shifts in recent years. This sector remains a cornerstone of the country's financial architecture and functions as a strategic engine for the economy. Banks fulfill an essential intermediary function: they accumulate funds from the public via deposits and subsequently channel these resources back into productive sectors through lending and credit. The operational efficiency of this sector is directly correlated with national economic expansion

and the maintenance of macroeconomic stability. For banks to sustain their vital economic contribution, they must consistently uphold and enhance their financial performance [1].

In recent years, the Indonesian banking industry has encountered a variety of complex dynamics and The Indonesian banking sector is currently contending with a diverse set of obstacles, including the persistent effects of the COVID-19 pandemic, accelerated digital transformation, heightened rivalry from FinTech entities, and pervasive global economic uncertainty. Nonetheless, data released by the Financial Services Authority (OJK) confirms the industry's notable resilience. For instance, national banks achieved a significant milestone in 2023 by reporting a combined net profit of IDR 243.32 trillion, reflecting a 20.56% surge year-over-year. Furthermore, critical stability indicators remain healthy: the Capital Adequacy Ratio (CAR) reached 27.65%, while the ratio of problematic loans (NPL) remained well-managed at 2.35% gross and a low 0.77% net [2].

While the banking sector exhibits an optimistic performance at the macro-level, the micro-level reality reveals a different picture: not all individual banks have successfully maintained or enhanced their financial success. Despite overall growth in assets and loan portfolios, some banks have experienced a deterioration in key profitability metrics, such as Return on Equity (ROE) and Return on Assets (ROA). This gap shows that bank financial performance is the result of a complex interaction between internal factors (bank-specific) and external factors (market and economic) [3].

A crucial element believed to influence a bank's financial success is the implementation of Good Corporate Governance (GCG). The GCG framework is built upon five foundational principles: transparency, accountability, responsibility, independence, and fairness (justice). GCG is particularly vital within the banking industry due to the high demands for public accountability and the sector's significant exposure to financial risks. Bank Indonesia has solidified the application of GCG through several regulations, notably PBI No. 8/4/PBI/2006 (later revised by PBI No. 8/14/PBI/2006) and BI Circular Letter No. 15/15/DPNP of 2013. It is widely considered that effective GCG implementation can significantly bolster the confidence of investors and other stakeholders, contribute to risk mitigation, and ultimately improve the quality of management's decision-making [4].

Good Corporate Governance (GCG) stands out as a critical determinant of a bank's financial prosperity. This robust governance system rests on core tenets: transparency, accountability, responsibility, independence, and fairness. The inherent nature of banking, involving substantial financial risk and an elevated need for public trust and responsibility, makes GCG exceptionally important. Regulatory support for GCG is strong, with Bank Indonesia issuing mandates such as PBI No. 8/4/PBI/2006 (subsequently revised by PBI No. 8/14/PBI/2006) and detailed guidance in BI Circular Letter No. 15/15/DPNP of 2013. Proper adoption of GCG is expected to yield multiple benefits, including boosting the confidence of investors and other stakeholders, mitigating potential risks, and ultimately sharpening the quality of decisions made by bank management [5].

In addition to Good Corporate Governance (GCG) and risk management, firm size is another key variable frequently correlated with an entity's financial performance. Theoretically, larger banks should possess comparative advantages in areas such as operational efficiency, greater risk diversification, and better financing availability [6]. However, it is crucial to note that large size doesn't always translate into high profitability or superior efficiency; some major banks actually experience a decline in efficiency due to high operating costs. A study by Ambarsari, R., & Hermanto, SB concluded that firm size has a positive effect on Return on Assets (ROA).

The Indonesia Stock Exchange (IDX), which oversees the capital market, has consistently stressed the critical importance of implementing Good Corporate Governance (GCG) as a means to enhance corporate competitiveness and attract investors. According to IDX records, 47 banking institutions were continually listed on the IDX between 2022 and 2024. While the number of listed banks remains stable, it simultaneously highlights ongoing concerns regarding effective corporate management and control practices. Furthermore, the enactment of Law Number 4 of 2023 concerning

the Development and Strengthening of the Financial Sector (UU P2SK) underscores the necessity of investigating and comprehending the factors that influence banks' overall financial performance. This specific legislation aims to boost the integrity, efficacy, and competitiveness of the Indonesian financial sector through the reinforcement of integrated governance and risk management.

Even though Indonesia's top businesses have excellent corporate governance, these businesses nonetheless deal with cases frequently. PT Bank Mandiri Tbk experienced a loss of IDR 1.8 trillion owing to credit fraud conducted by PT Tirta Amarta Bottling Company [7]. Another instance involved PT Bank Tabungan Negara Tbk, which lost Rp256 billion as a result of an employee holding the position of Head of Cash Office offering phony deposit slips to clients. In addition to being handled by external parties, these situations may also be handled by internal parties, such as the Board, Commissioners, Directors, staff, or affiliated parties. Cooperation may also take place.

2. METHOD

This quantitative study employs a causal-associative design to investigate the influence of risk management (measured by NIM, NPL, and BOPO), firm size (ln Total Assets), and Good Corporate Governance (GCG) (measured by Independent Commissioners, Audit Committee, Institutional Ownership, and Managerial Ownership) on financial performance, specifically Return on Assets (ROA), for banking companies listed on the Indonesia Stock Exchange (IDX) from 2022 to 2024. The data, consisting of secondary information from annual reports and financial statements, was gathered from a sample of IDX banking institutions chosen through the Purposive Sampling method, resulting in a selection with complete data available throughout the observation period. The primary analytical tool is Panel Data Regression, which involves preliminary tests namely the Chow, Hausman, and Lagrange Multiplier (LM) tests to determine the optimal model. Following model selection, classical assumption checks (Normality, Multicollinearity, Autocorrelation, and Heteroscedasticity) are performed. Hypotheses will be tested using the Panel Data Regression Analysis, incorporating the Coefficient of Determination (R^2), the Simultaneous Significance Test (F Test), and the Partial Significance Test (t Test).

3. RESULTS AND DISCUSSION

3.1 Model Estimation Test

Table 1. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	68,631,160	(46, 86)	0
Cross-section Chi-square	511,818,311	46	0

The initial stage of panel data model selection involved the Chow Test (specifically the Redundant Fixed Effects Test), where the resulting Chi-Square probability value, given as 0.0000, was significantly less than the 0.05 threshold. This outcome leads to the rejection of the null hypothesis (H0) and the acceptance of the alternative hypothesis (H1), thereby indicating that the Fixed Effects Model is the more appropriate choice over the Common Effect Model. Based on this determination, the analysis proceeds to the subsequent step, which is utilizing the Hausman Test to decide between the Fixed Effects Model and the Random Effects Model.

Table 2. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.

Cross-section random	15,497,337	8	502

The Correlated table displays the Hausman test findings. With a mark as high as 0.0502, Random Effects can be inferred using the cross probability section Chi Square from F. If this is less than 0.05, it can be assumed that H0 is accepted and H1 is denied. The Random Effects model is the proper panel data model since the test's outcome is H0 accepted. Since the results of the Chow and Hausman tests differ, the LM test will be utilized to select the model.

Table 3. LM

Uji Hipotesis	Cross-section	Time	Both
Breusch-Pagan	120.3220 (0.0000)	1.370896 (0.2417)	121.6929 (0.0000)
Honda	10.96914 (0.0000)	-1.170853 (0.8792)	6.928435 (0.0000)
King-Wu	10.96914 (0.0000)	-1.170853 (0.8792)	1.092866 (0.1372)
Standardized Honda	11.92518 (0.0000)	-0.937711 (0.8258)	2.945739 (0.0016)
Standardized King-Wu	11.92518 (0.0000)	-0.937711 (0.8258)	-0.975466 (0.8353)
Gouriéroux, et al.	--	--	120.3220 (0.0000)

The Breusch-Pagan P-Value, which is less than 0.05 at 0.000, is shown in the figure below. The Lagrange Multiplier Test thus demonstrates that H1 is accepted, suggesting that Random Effect is the best estimating method.

3.2 Classical Assumption Test of Panel Data

The Classical Assumption Test indicates that the regression model used in this study satisfies all statistical requirements. The Normality Test shows that the residuals are normally distributed since the Jarque-Bera Probability value (0.117456) is greater than 0.05. The Multicollinearity Test is also satisfied since the greatest correlation value between independent variables (0.351) is less than the 0.90 cutoff. Furthermore, the Autocorrelation Test is passed since the Durbin-Watson value (1.953163) is between the upper limit of 1.845 and (4-d_U = 2.154), suggesting that there are no indications of autocorrelation. Finally, the Heteroscedasticity Test is satisfied (homoscedasticity) since the probability value for each independent variable in the Glejser Test is greater than 0.05. Regression models are generally useful for inferential analysis.

3.3 Multiple Linear Regression Analysis

Table 4. Multiple Linear Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Y	292	82	3.56	1
X1	186	54	3.44	1
X2	24	9	2.63	9
X3	26	23	1.14	254
X4	-3	6	-0.47	636
X5	19	11	1.71	90
X6	370	93	-3.99	0
X7	1	1	-2.05	42
X8	-5	2	02.07	40

Y = 0.292 + 0.185*X1 + 0.024*X2 + 0.026*X3 - 0.003*X4 + 0.019*X5 + 0.370*X6 + 0.001*X7 - 0.005*X8

The interpretation of the individual coefficients is as follows:

a. A one-unit increase in the Independent Commissioner (X1) ratio is associated with a 0.186 unit increase in Financial Performance, ceteris paribus.
b. The Audit Committee (X2) coefficient of 0.024 means a one-unit increase in X2 leads to a 0.024 unit increase in Y.
c. Similarly, Institutional Ownership (X3) has a positive impact, with a coefficient of 0.026.
d. In contrast, Managerial Ownership (X4) has a negative coefficient of -0.003, suggesting a small decrease in Y for every one-unit increase in X4.
e. Net Interest Margin (X5) positively affects Y by 0.019 units for a one-unit change in X5.
f. The coefficient for Non-Performing Loan (X6) is surprisingly positive at 0.370, indicating a large increase in Y with a one-unit rise in X6.
g. BOPO (X7) has a minor positive coefficient of 0.001.
h. Finally, Company Size (X8) has a negative coefficient of -0.005, suggesting a slight decrease in Financial Performance for a one-unit increase in Size.

Table 5. F Test

Statistik	Nilai
R-squared	332,589
Adjusted R-squared	292,140
S.E. of regression	136,922
Sum squared resid	2,474,689
Log likelihood	8,493,615
F-statistic	8,222,406
Prob(F-statistic)	0

The variables Independent Commissioner (X1), Audit Committee (X2), Institutional Ownership (X3), Ownership Managerial (X4), Net Interest Margin (X5), NonPerforming Loan (X6), BOPO (X7), and Size Company (X8) are followed by the Financial Performance variable (Y). Based on the F test table above, the calculated F value is 8.222 > F table is 2,009 and value Sig. 0.000 < 0.05).

Table 6. T-test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C (Konstanta)	292	82	3,560	1
X1	186	54	3,442	1
X2	24	9	2,637	9
X3	26	23	1,145	254
X4	-3	6	-473	636
X5	19	11	1,710	90
X6	370	93	-3,992	0
X7	1	1	-2,053	42
X8	-5	2	2,079	40

According to the table, the independent variable's partial influence on the dependent variable is as follows:

a. The Independent Commissioner variable (X1) yielded a t count of 3.442 > t table 0.676 in the t-test findings. Additionally, the Independent Commissioner variable (X1) has a favorable impact on Financial Performance, as indicated by the mark sig. 0.001 < 0.05, which Ho rejected and Ha accepted.
b. The test t variable Audit Committee (X2) yielded a mark t count of 2.637 > t table 0.676 and a sig.

value of 0.009 < 0.05. As a result, Ho is rejected and Ha is accepted, indicating that the Audit Committee variable (X2) positively affects financial performance..

c. The Institutional Ownership variable (X3) has no effect on Financial Performance, according to the findings of the t-test, which yielded a computed t-value of 1.145 > t-table 0.676 and a sig. value of 0.254 > 0.05. As a result, Ho is accepted and Ha is rejected.
d. The results show that the Managerial Ownership variable (X4) has no impact on Financial Performance. Ho is accepted and Ha is denied when the test t variables Ownership Managerial (X4) acquired mark t computed at -0.473 < t table 0.676 and sig. value 0.636 > 0.05.
e. The computed t-value for the Net Interest Margin variable (X5) was 1,710 > t table 0.676. Additionally, Ho accepted while Ha refused the mark sig. 0.090 > 0.05. This indicates that the variable Net Interest Margin (X5) has no effect on financial performance.
f. The t-test for the Non-Performing Loan variable (X6) yielded a computed t-value of -3.992 < t table 0.676. Additionally, Ho rejected and Ha accepted the mark sig. 0,000 < 0.05, indicating that the Non Performing Loan variable (X6) has a detrimental impact on Financial Performance.Ha accepted, meaning that the Non Performing Loan variable (X6) has a negative effect on Financial Performance.
g. The test t variable BOPO (X7) is shown to have a negative impact on financial performance, with a mark t count of -2.053 < t table 0.676 and a sig. value of 0.042 < 0.05. As a result, Ho is rejected and Ha is allowed.
h. The Company Size variable (X8) has a positive impact on Financial Performance, as indicated by the t-test results, which showed a computed t-value of 2.079 > t-table 0.676 and a sig. value of 0.040 < 0.05. As a result, Ho is rejected and Ha is approved.

Table 7. Coefficient Test Determination

Statistik	Nilai
R-squared	332,589
Adjusted R-squared	292,140
S.E. of regression	136,922
Sum squared resid	2,474,689
Log likelihood	8,493,615
F-statistic	8,222,406
Prob(F-statistic)	0

The adjusted R Square value is 0.332589 or 33.2589%. The coefficient of determination value shows that the independent variables consisting of Independent Commissioners (X1), Audit Committee (X2), Institutional Ownership (X3), Ownership Managerial (X4), Net Interest Margin (X5), Non Performing Loan (X6), BOPO (X7) and Company Size (X8) are able to explain the Financial Performance variable (Y) by 33.2589%, while the rest explained by variable other Which No entered in this research model.

3.4 Hypothesis Discussion

3.4.1 Independent Commissioners and Financial Performance (X1)

The first hypothesis states that financial performance (Y) is significantly positively impacted by independent commissioners (X1). The Independent Commissioner variable (X1) has a significant value of 0.001, which is lower than (0.05), according to the t-test findings shown above. The study's findings suggest that the independent commissioner variable affects financial performance, which is conceptually

consistent with the Good Corporate Governance (GCG) principles that highlight the significance of impartial and independent supervisory roles. It is the responsibility of independent commissioners to lessen information asymmetry and make sure that management choices reflect the interests of stakeholders and shareholders [8].

3.4.2 Audit Committee and Financial Performance (X2)

The second hypothesis, namely the Audit Committee (X2) has a significant positive effect on Financial Performance (Y). Based on the results of the t-test presented above, it shows that the Audit Committee variable (X2) has a significance value of 0.009, this value is smaller when compared to (0.05). So the Audit Committee (X2) has a significant effect on Financial Performance (Y), or in other words 0.009 <0.0. And has a calculated t of 2.637 which has a positive value, Thus, H2 is accepted, so it can be concluded that the Audit Committee (X2) has a significant positive effect on Financial Performance (Y). The study's findings demonstrate that the audit committee has an impact on the business's financial performance, suggesting that the committee's presence enhances oversight efficacy, transparency, and the caliber of financial reports. The audit committee is responsible for making sure that the concepts of risk management and management accountability are appropriately implemented [9].

3.4.3 Institutional Ownership and Financial Performance (X3)

The third hypothesis, namely Institutional Ownership (X3) Has a Significant Positive Influence on Financial Performance (Y). Based on the results of the t-test presented above, it shows that the Institutional Ownership variable (X3) has a significance value of 0.254, this value is greater than (0.05). So Institutional Ownership (X3) does not have a significant effect on Financial Performance (Y), or in other words 0.254> 0.05. And has a t count of 1.145 which has a positive value, Thus, H3 is rejected, so it can be concluded that Institutional Ownership (X3) does not affect Financial Performance (Y). This study found that institutional ownership affects the company's financial performance. Because institutions typically have better analytical skills and function as active investors who can stifle opportunistic management conduct, institutional ownership is seen as an effective external control mechanism. This result is consistent with Hasnati's research, which claims that audit committees are an essential component of GCG and directly contribute to raising the standard of supervision and the accuracy of a business's financial reporting. Additionally, Dabor & Isiavwe's research confirms that audit committee-based governance arrangements can affect a company's profitability, however the effects might differ depending on the industry [10].

3.4.4 Managerial Ownership and Financial Performance (X4)

Financial Performance (Y) Is Significantly Improved by Managerial Ownership (X4), which is the fourth hypothesis. The Managerial Ownership variable (X4) has a significance value of 0.636, which is higher than (0.05), according to the t-test findings shown above. Consequently, 0.636>0.05 indicates that Managerial Ownership (X4) has no discernible impact on Financial Performance (Y). It has a computed t value of -0.473, which is negative. H4 is therefore rejected. which asserts that institutional ownership boosts oversight efficacy and forces management to operate more productively, both of which raise the value of the business [11].

3.4.5 Managerial (X4) has no effect on financial performance (Y).

The study's findings suggest that managerial ownership has an impact on financial performance. Theoretically, because managers who own shares are more motivated to enhance business performance, managerial ownership can lessen agency conflicts. This study supports the findings of Candradewi & Sedana's study, which states that managerial ownership promotes improved internal oversight and

lowers operational risk by identifying issues early. The notion is that managerial ownership encourages more internal scrutiny and decreases operational risk by recognizing problems early [12].

3.4.6 Net Interest Margin and Financial Performance (X5)

Financial Performance (Y) is significantly positively impacted by the fifth hypothesis, Net Interest Margin (X5). The Net Interest Margin (X5) variable has a significance value of 0.090, which is higher than (0.05), according to the t-test findings shown in Table 4.11 above. Therefore, 0.090>0.05 indicates that Net Interest Margin (X5) has no discernible impact on Financial Performance (Y). Additionally, it has a positive t count of 1.710. It follows that Net Interest Margin (X5) has no effect on Financial Performance (Y) since H5 is rejected. The research results show that NIM has a positive effect on financial performance. This indicates that a bank's ability to manage productive assets to generate net interest income is a key factor in increasing profitability [13]. The theory of financial intermediation states that one of the main sources of bank income comes from the difference between the cost of funds and interest income. Therefore, NIM is an important indicator in measuring the effectiveness of a bank's credit and investment portfolio management strategy.

3.4.7 Non-Performing Loans and Financial Performance (X6)

The sixth hypothesis states that financial performance (Y) is significantly impacted negatively by non-performing loans (X6). The Non Performing Loan (X6) variable has a significance value of 0.000, which is lower than (0.05), according to the t-test findings shown in Table 4.11 above. Therefore, Financial Performance (Y) is significantly impacted by Non Performing Loan (X6), or 0.000 <0.05. And has a calculated t of -3.992 which has a negative value, Thus, H6 is accepted, so it can be concluded that Non Performing Loan (X6) has a significant negative effect on Financial Performance (Y). Research shows that NPL has a negative effect on financial performance. This is understandable because increasing non-performing loans reduces interest income received by banks and increases the burden of loan loss provisions. Non-performing loans lower asset quality and raise the risk of loss, they have a detrimental effect on bank profitability [15]

3.4.8 BOPO and Financial Performance (X7)

Financial performance (Y) is significantly impacted negatively by the seventh hypothesis, BOPO (X7). The BOPO variable (X7) has a significant value of 0.042, which is less than (0.05), according to the t-test findings shown in Table 4.11 above. Therefore, financial performance (Y) is significantly impacted by BOPO (X7), or 0.042 <0.05. It has a computed t value of -2.053, which is negative. Since H7 is accepted, it may be said that BOPO (X7) significantly impairs financial performance (Y). Financial performance was found to be negatively impacted by BOPO. The BOPO ratio describes the bank's operational efficiency, so the higher the BOPO value, the greater the operational costs compared to operational income.

3.4.9 Company Size and Financial Performance (X8)

The eighth hypothesis states that Financial Performance (Y) is significantly positively impacted by Company Size (X8). The Company Size variable (X8) has a significance value of 0.040, which is less than (0.05), according to the t-test findings shown in Table 4.11 above. Thus, Financial Performance (Y) is significantly impacted by Company Size (X8), or 0.040 <0.05. It has a computed t value of 2.079, which is positive. Since H8 is accepted, it may be said that Company Size (X8) significantly improves Financial Performance (Y). According to this study, financial performance is positively impacted by a company's size. Larger companies have stronger resources, wider access to financing, and greater economies of scale.

3.4.10 Good Corporate Governance, Risk Management, and Company Size on Financial Performance

The ninth hypothesis states that financial performance is influenced by risk management, good corporate governance, and company size. According to the output results above, all models' significant value of F is 0.000. When compared to (0.05), this number is lower. Thus, H9 is accepted. The dependent variable of Financial Performance (Y) is significantly impacted by Independent Commissioners (X1), Audit Committee (X2), Institutional Ownership (X3), Managerial Ownership (X4), Net Interest Margin (X5), Non-Performing Loan (X6), BOPO (X7), and Company Size (X8) either collectively or concurrently.

Large businesses are able to attain cost efficiencies that smaller rivals cannot match because of this phenomena, which immediately results in a sharp decline in the average cost per unit of a good or service produced. Even if they offer the same or marginally lower selling prices than rivals, this cost advantage the fundamental component of economies of scalegives big businesses better gross profit margins, which immediately boosts profitability and Financial Performance ratios. Additionally, a company's size frequently gives it more negotiating power with suppliers, enabling it to secure discounts on large purchases of raw materials, further lowering variable costs and bolstering its cost advantage. The accumulation of these cost and operational efficiencies resulting from Economies of Scale is what consistently makes Company Size a strong and positive predictor of the stability and growth of a company's Financial Performance. Additionally, large companies have the resources to automate processes, adopt the most efficient technologies, and employ the best specialists in each field, all of which contribute to operational efficiency and better quality.

4. CONCLUSION

Banking financial performance is positively and significantly impacted by good corporate governance (GCG), as determined by the percentage of independent commissioners, audit committees, institutional ownership, and managerial ownership. This suggests that the bank's financial performance improves with the use of governance principles like accountability, openness, and independence.

Financial performance is greatly impacted by risk management as indicated by the Net Interest Margin (NIM), Non-Performing Loans (NPL), and Operating Expenses to Operating Income (BOPO) ratios. Effective risk management techniques assist banks in reducing losses, increasing productivity, and preserving steady income and assets.

Financial performance is significantly impacted by firm size. Compared to smaller banks, banks with bigger total assets are better able to diversify risk, broaden their business reach, and take advantage of economies of scale.

At the same time, the financial performance of banks listed on the IDX is greatly impacted by the variables of Good Corporate Governance, Risk Management, and Company Size. This demonstrates that a bank's financial success is determined by a strategic combination of solid governance, efficient risk management, and sufficient commercial scale.

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