JAFM: Journal of Accounting and Finance Management
E-ISSN: 2721-3013
P-ISSN: 2721-3005
https://dinastires.org/JAFM dinasti.info@gmail.com +62 811 7404 455
DOI: https://doi.org/10.38035/jafm.v6i6

The Effect of Governance Mechanisms and Ownership Structure on the Financial Performance of Banking Companies on the Indonesian Stock Exchange

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Abstract: This study aims to analyze the effect of *Good Corporate Governance*, which consists of the board of directors, independent commissioners, and audit committees, as well as the effect of ownership structure, which consists of managerial ownership and institutional ownership, on financial performance. The population used is all banking sector companies listed on the Indonesia Stock Exchange from 2020 to 2024. The sampling technique used was *purposive sampling* with the criteria of companies that published complete financial reports, experienced profits, and had complete data in accordance with the research variables during the period from 2020 to 2024, as well as companies that had complete data in accordance with the research variables. The sample obtained was 110 observations. The data source used was secondary data, with the data collection method using documentation. The data analysis technique used was panel data linear regression using e-views version 12. The results showed that the board of directors had a significant effect on financial performance, independent commissioners had no significant effect on financial performance, the audit committee had a significant effect on financial performance, managerial ownership had a significant effect on financial performance, and institutional ownership had a significant effect on financial performance.

Keywords: Board of Directors, Independent Commissioners, Audit Committee, Managerial Ownership, Institutional Ownership, and Financial Performance

INTRODUCTION

In the era of globalization, the increasingly dynamic business environment has led to increased competition between companies in various industrial sectors, including the banking sector. This competition not only occurs between domestic banks but also involves foreign financial institutions that have advantages in terms of technology, capital, and management. This condition requires every company to be able to formulate and implement the right strategies in order to survive and develop sustainably (Wendy & Harnida, 2020). Companies are required to manage their resources effectively and efficiently in order to achieve organizational goals, namely to improve performance and maintain competitiveness amid the uncertainty of the global business environment (Barney & Hesterly, 2019).

Financial performance is a key indicator in assessing the health and success of a company. Financial performance is generally assessed through financial ratio analysis, which reflects a company's ability to manage resources and generate profits (Munawir, 2017). Financial performance also plays an important role for investors as a basis for investment decisions (Irma, 2019). In addition, for management, financial performance measurement is a means of evaluation for formulating future company strategies and policies (Febrina & Sri, 2022).

One indicator that is widely used to measure banking financial performance is Return on Assets (ROA). ROA shows a company's ability to generate profits from its total assets and reflects the effectiveness of management in utilizing company assets (Apriliana & Zulfikar, 2024). The higher the ROA value, the better the company's financial performance, whereas a low ROA indicates that the company's assets have not been utilized optimally (Pahlawan et al., 2018).

Based on data from the Financial Services Authority (OJK), the ROA value of Indonesian banks fluctuated significantly during the 2018–2024 period. In 2018, the banking ROA was recorded at 2.55%, then decreased to 2.47% in 2019 (Financial Services Authority, 2025). A sharper decline occurred in 2020, when ROA fell to 1.59% due to the global economic slowdown, increased credit risk, and credit restructuring policies that impacted the decline in banking interest income (Financial Services Authority, 2025). This condition shows that the banking sector faces heavy pressure in maintaining its financial performance.

In 2021, banking ROA began to show signs of recovery to 1.84% in line with improving economic activity and policy stimulus from the government and Bank Indonesia (Financial Services Authority, 2025). The upward trend continued in 2022 with ROA reaching 2.01%, although it had not yet fully returned to pre-pandemic levels (Financial Services Authority, 2025). In 2023, ROA increased significantly to 2.74%, reflecting the banking sector's success in managing credit risk and optimizing productive assets (Financial Services Authority, 2025). However, in 2024, ROA declined again to 2.71%, indicating ongoing challenges related to global economic dynamics, interest rate adjustments, and prudent banking policies (Financial Services Authority, 2025).

These fluctuations in ROA show that the financial performance of banks is not only influenced by external factors, but also by internal factors within the company. One internal factor that is considered to play an important role is the implementation of Good Corporate Governance (GCG). Good corporate governance is necessary to ensure transparency, accountability, and effective supervision in the management of companies (Sitanggang, 2021). The implementation of GCG in the banking sector has been specifically regulated through POJK Number 17/POJK.03/2023, which emphasizes the role of the board of directors, independent commissioners, and the audit committee in maintaining the quality of decision-making and financial performance stability (Financial Services Authority, 2023).

Various cases that have occurred in the national banking industry indicate that the implementation of GCG has not been fully optimized. Cases of internal fraud, conflicts of interest among shareholders, and weak risk management supervision at several national banks reflect the continuing weaknesses in corporate governance mechanisms (Infobanknews, 2023). These conditions have the potential to reduce financial performance and undermine public confidence in the banking industry (Pasardana.id, 2024).

In addition to governance mechanisms, ownership structure also plays a role in influencing a company's financial performance. Managerial ownership is believed to align the interests of management with shareholders, thereby reducing agency conflicts (Wendy & Harnida, 2020). On the other hand, institutional ownership functions as an external oversight mechanism that encourages more effective management control (Wahyuni & Erawati, 2019). A large proportion of institutional ownership can also increase disciplinary pressure on management to improve the company's financial performance (Lifaldi et al., 2023).

Several studies discussing the influence of the board of directors, independent commissioners, audit committees, managerial ownership, and institutional ownership on company performance have also been conducted by previous researchers. Research; Wendy & Harnida (2020); Khoirunnisa & Karina (2021); Haryani & Susilawati (2023); Pramudityo & Sofie (2023); and Musallam (2024) states that the size of the board of directors affects financial performance, Rahardjo & Wuryani (2021); Febrina & Sri (2022); Yuliyanti & Cahyonowati (2023); and Apriliana & Zulfikar (2024) state that the size of the board of directors does not affect financial performance.

Research ; Oktaviani (2020) ; Setiawan & Setiadi (2020); Wendy & Harnida (2020) ;; Siska et al., (2021) ; Haryani & Susilawati (2023);; Yuliyanti & Cahyonowati (2023) ; and Apriliana & Zulfikar (2024) state that independent commissioners have an influence on financial performance, but research Hadyan & Andhaniwati (2021) ; Laksono & Kusumaningtias (2021) ; Rahardjo & Wuryani (2021) ; Sitanggang (2021) ; Arimby & Astuti (2023) ; Pramudityo & Sofie (2023) ; Septiana & Aris (2023) ; and Kamilah et al., (2025) states that independent commissioners have no effect on financial performance.

Research ; Sitanggang (2021) , Febrina & Sri (2022) , Arimby & Astuti (2023) ; and Kamilah et al., (2025) state that the audit committee has an effect on financial performance, but this differs from Oktaviani (2020) ; Khoirunnisa & Karina (2021) ; Laksono & Kusumaningtias (2021) ; Rahardjo & Wuryani (2021) ; Pramudityo & Sofie (2023) ; Septiana & Aris (2023) ; Titania & Taqwa (2023) ; Yuliyanti & Cahyonowati (2023) ; and Apriliana & Zulfikar (2024) state that the audit committee has no effect on financial performance. Research ; Sembiring (2020) ; Setiawan & Setiadi (2020) ; Wendy & Harnida (2020) ; Hadyan & Andhaniwati (2021) ; Mary et al., (2024) states that managerial ownership has an effect on financial performance, in contrast to the results of research by ; Siska et al., (2021) ; Sitanggang (2021) ; Febrina & Sri (2022) ; Yuliyanti & Cahyonowati (2023) which states that managerial ownership does not affect financial performance.

Research ; Nurhidayah (2020) ; Setiawan & Setiadi (2020) ; Sitanggang (2021) ; Mutairi & Bakar (2022) ; Haryani & Susilawati (2023) ; and Apriliana & Zulfikar (2024) state that institutional ownership affects financial performance, but this differs from the results of the research by ; Wendy & Harnida (2020) ; Hadyan & Andhaniwati (2021) ; Khoirunnisa & Karina (2021) ; Rahardjo & Wuryani (2021) ; Siska et al., (2021) ; Arimby & Astuti (2023); Pramudityo & Sofie (2023) ; Yuliyanti & Cahyonowati (2023) ; and Mary et al., (2024) state that institutional ownership does not affect financial performance.

Based on empirical phenomena and the inconsistency of previous research results, this study aims to analyze the effect of corporate governance mechanisms and ownership structure on the financial performance of banking companies listed on the Indonesia Stock Exchange. This study is based on the Agency Theory proposed by Jensen & Meckling (1976), which explains that corporate governance mechanisms and ownership structure serve to reduce conflicts of interest between principals and agents. By examining the phenomenon of ROA fluctuations and banking governance issues, this study is expected to provide empirical contributions to the development of corporate governance studies and serve as a consideration for regulators and banking management in improving financial performance in a sustainable manner.

METHOD

This study uses a quantitative approach with a causal research type, which aims to test the cause-and-effect relationship between variables through statistical analysis. This approach is in line with the positivism paradigm, which emphasizes testing hypotheses based on measurable empirical data. The data used in this study is secondary data obtained from annual financial reports and annual reports of banking sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2020–2024.

The purpose of this study is to analyze the effect of corporate governance mechanisms and ownership structure on banking financial performance. Financial performance is the dependent variable measured using *Return on Assets* (ROA). The independent variables in this study consist of corporate governance mechanisms and ownership structure. Corporate governance mechanisms are measured through the size of the board of directors, which is expressed by the number of board members, the proportion of independent commissioners calculated based on the percentage of independent commissioners to the total board of commissioners, and the number of audit committee members owned by the company. Ownership structure is measured through managerial ownership and institutional ownership, which are calculated based on the percentage of shares owned by management and institutions relative to total outstanding shares. All measurement indicators are obtained from the financial statements and annual reports of banking companies during the research period.

The population in this study was all conventional banking companies listed on the Indonesia Stock Exchange during the 2020–2024 period, namely 46 companies. The sampling technique used was purposive sampling, which is a technique for determining samples based on certain criteria in accordance with the research objectives (Sugiyono, 2019). The sampling criteria used included: (1) conventional banking companies listed on the IDX during the 2020–2024 period, (2) companies that published complete financial reports during the observation period, (3) companies that earned profits during the research period, and (4) companies that had complete data in accordance with the research variables. Based on these criteria, a sample of 22 banking companies was obtained, resulting in a total of 110 observations (22 companies × 5 years).

The data analysis technique used in this study was panel data regression with the help of EViews software version 12. Panel data analysis combines cross-sectional data and time-series data, thereby providing greater data variation and improving the accuracy of model estimation. The use of panel data also allows researchers to observe the dynamics of changes in research variables between companies and between time periods simultaneously.

The selection of the panel data regression model was carried out through several stages of testing, namely the Chow Test to determine the best model between the Common Effect Model and the Fixed Effect Model, and the Hausman Test to determine the selection between the Fixed Effect Model and the Random Effect Model (Ghozali & Ratmono, 2018). The selected regression model was then used to test the research hypothesis.

RESULTS AND DISCUSSION

This study uses panel data analysis techniques, considering three alternative approaches in the estimation process. The approaches used include *the Common Effect Model* (CEM) or *Pooled Least Squares, Fixed Effect* Model (FEM), and *Random Effect Model* (REM). The most appropriate model is determined through a series of tests conducted in stages to obtain a model that fits the characteristics of the research data.

Chow Test

The Chow test was used to determine the most appropriate model between *the Common Effect Model* (CEM) and *the Fixed Effect Model* (FEM) in panel data analysis. The results of the Chow test are presented in the following table:

Table 1. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.132918	(21.83)	0.0081
Cross-section Chi-square	47.471338	21	0.0008

Source: Primary data processed, 2025

The Chow Test results aim to determine the most appropriate estimation model between *the Common Effect Model* (CEM) and *the Fixed Effect Model* (FEM). The test results show that the *Chi-square* probability value of 0.0008 is smaller than the significance level of 0.05, so it can be concluded that *the Fixed Effect Model* is more appropriate to use than *the Common Effect Model.*

Hausman Test

The test used to determine and select the most appropriate model between *the Fixed Effect Model* and *the Random Effect Model* was conducted by referring to the following hypothesis testing:

Table 2. Hausman Test Results

TestiSummary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	7.946364	5	0.1592

Source: Processed secondary data, 2025

The Hausman test results were used to determine the most appropriate model between *the Fixed Effect Model* (FEM) and *the Random Effect Model* (REM). Based on the test results, the *Chi-Square* probability value of 0.1592 is greater than the significance level of 0.05. This finding indicates that *the Random Effect Model* is more appropriate to use than *the Fixed Effect Model*. Therefore, the panel data regression model applied in this study is the *Random Effect Model* approach, as it is assumed that individual differences between companies are random and not correlated with the independent variables in the model.

Lagrange Multiplier Test

The Lagrange Multiplier Test is a test to determine whether the model used is a common effect or random effect. This test is conducted as follows:

Table 3. Lagrange Multiplier Test Results

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	5.102363	1.591975	6.694338
	(0.0239)	(0.2070)	(0.0097)

Source: Processed secondary data, 2025

The results of the *Breusch-Pagan Lagrange* Multiplier (LM) test used to determine the best model between the *Common Effect* Model (CEM) and *the Random Effect Model* (REM). The probability value of 0.0097 is smaller than the significance level of 0.05. This indicates that the *Random Effect* model is more appropriate to use than the *Common Effect* model. This means that the panel data regression model in this study uses the *Random Effect Model* approach because it is considered to be able to better describe the variation in data between companies and over time.

Table 4. Overview of Panel Data Regression Model Selection Testing

Type of Test	Model Compared	Probability	Decision	Selected Model

Chow Test	CEM vs FEM	0.0008	If prob < 0.05 → reject CEM	FEM
Hausman Test	FEM vs REM	0.1592	If prob > 0.05 → accept REM	REM
Lagrange Multiplier Test	CEM vs REM	0.0097	If prob < 0.05 → reject CEM	REM

Source: Processed data, 2025

Based on these three tests, the best model used in this study is *the Random Effect Model* (REM) because it meets the model selection criteria with appropriate probability values in the tests conducted.

Panel Data Linear Regression Analysis

From the previous model suitability test selection, the test results from the two selected panel regression model estimation approaches can be seen in the following table:

Table 5. Panel Data Linear Regression Analysis Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.014814	0.047198	0.313858	0.7543
DD	0.460178	0.056558	8.136366	0.0000
DKI	0.018808	0.042031	0.447491	0.6555
KA	0.156904	0.040680	3.857005	0.0002
KM	0.290807	0.062300	4.667827	0.0000
KI	0.093684	0.046706	2.005822	0.0475

Source: Processed secondary data, 2025

Based on Table 5, the linear regression equation model can be written as follows:

$$Y = 0.460\ DD + 0.019\ DKI + 0.157\ KA + 0.291\ KM + 0.094\ KI$$

The linear regression equation model above can be interpreted as follows:

1. The board of directors variable (DD) has a regression coefficient of 0.460 with a significance value of 0.0000 < 0.05, which indicates that the board of directors has a positive and significant effect on financial performance. This indicates that if DD increases by 1, it will increase ROA by 0.460. This means that the more members of the board of directors, the more the company's financial performance tends to improve because decision-making becomes more effective and efficient.
2. The independent board of commissioners (DKI) variable has a regression coefficient of 0.019 with a significance value of 0.6555 > 0.05, which means that the independent board of commissioners does not have a significant effect on financial performance. This indicates that if DKI increases by 1, it will increase ROA by 0.019. This means that the existence of independent commissioners is not yet optimal in carrying out their supervisory function over company management.
3. The audit committee (KA) variable has a regression coefficient of 0.157 with a significance value of 0.0002 < 0.05, which indicates that the audit committee has a positive and significant effect on financial performance. This shows that if KA increases by 1, it will increase ROA by 0.157. This means that the more effective the role of the audit committee in monitoring and ensuring the reliability of financial reports, the better the company's financial performance will be.
4. The managerial ownership (MO) variable has a regression coefficient of 0.291 with a significance value of 0.0000 < 0.05, indicating a positive and significant influence of on financial performance. This shows that if KM increases by 1, it will increase ROA by 0.291. This means that the higher the proportion of share ownership by managers, the greater the

management's incentive to improve financial performance due to the alignment of interests between managers and shareholders.

5. The institutional ownership (IO) variable has a regression coefficient of 0.094 with a significance value of 0.0475 < 0.05, which means it has a positive and significant effect on financial performance. This indicates that if KI increases by 1, it will increase ROA by 0.094. This means that the greater the ownership by institutions, the stronger the supervisory function over management, thereby increasing the efficiency and profitability of the company.

Coefficient of Determination

The coefficient of determination is used to assess the extent to which the model can explain the dependent variable. The following are the results of the coefficient of determination:

Table 6. Coefficient of Determination Results

Dependent Variable: Financial Performance			
Weighted Statistics			
R-squared	0.640679	Mean dependent var	0.288965
Adjusted R-squared	0.633019	S.D. dependent variable	0.807359
S.E. of regression	0.329913	Sum of squared residuals	11.31966
F-statistic	89.75386	Durbin-Watson statistic	1.985562
Probability of F-statistic	0.00000		

Source: Processed secondary data, 2025

The R-squared value of 0.640679 indicates that 64.07 percent of the variation in financial performance can be explained by the variables of the board of directors (DD), independent board of commissioners (DKI), audit committee (KA), managerial ownership (KM), and institutional ownership (KI). Meanwhile, the remaining 35.93 percent is influenced by other factors outside the scope of this study. The coefficient of determination indicates that the regression model used has a fairly good ability to explain the variation in the company's financial performance.

Hypothesis Testing

Hypothesis testing was conducted to analyze the partial effect of the variables of the board of directors (DD), independent board of commissioners (DKI), audit committee (KA), managerial ownership (KM), and institutional ownership (KI) on financial performance. The results of the t-test can be seen in the following table:

Table 7. Hypothesis Test Results

Dependent Variable: Financial Performance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.014814	0.047198	0.313858	0.7543
DD	0.460178	0.056558	8.136366	0.0000
DKI	0.018808	0.042031	0.447491	0.6555
KA	0.156904	0.040680	3.857005	0.0002
KM	0.290807	0.062300	4.667827	0.0000
KI	0.093684	0.046706	2.005822	0.0475

Source: Processed secondary data, 2025

The t-value for the effect of the board of directors variable on financial performance is 8.136 with a significance value of 0.0000. This significance value is less than 0.05 (0.0000 < 0.05). The decision is to accept the alternative hypothesis, meaning that the board of directors has a significant effect on financial performance. These results show that the more members there are on the board of directors, the more effective the decision-making and strategic oversight processes become, thereby increasing the company's profitability. This indicates that **hypothesis one (H1) can be accepted**.

The t-value for the effect of the independent board of commissioners variable on financial performance is 0.447 with a significance value of 0.6555. This significance value is greater than 0.05 (0.6555 > 0.05). The decision is to reject the alternative hypothesis, meaning that the independent board of commissioners does not have a significant effect on financial performance. These results indicate that the role of independent commissioners in performing their supervisory function over management is not yet fully effective in encouraging improvements in the company's financial performance. This means that **hypothesis two (H2) is rejected**.

The t-value for the effect of the audit committee variable on financial performance is 3.857 with a significance value of 0.0002. This significance value is less than 0.05 (0.0002 < 0.05). The decision is to accept the alternative hypothesis, meaning that the audit committee has a significant effect on financial performance. These results indicate that an effective audit committee in supervising and ensuring the quality of financial reports can improve the transparency and reliability of financial information, thereby contributing to the improvement of the company's financial performance. This indicates that **hypothesis three (H3) can be accepted**.

The t-value for the effect of managerial ownership on financial performance is 4.668 with a significance value of 0.0000. This significance value is less than 0.05 (0.0000 < 0.05). The decision is to accept the alternative hypothesis, meaning that managerial ownership has a significant effect on financial performance. This finding shows that the higher the share ownership by management, the greater their incentive to improve company performance due to the alignment of interests between managers and shareholders. This indicates that **hypothesis four (H4) can be accepted**.

The t-value for the effect of institutional ownership on financial performance is 2.006 with a significance value of 0.0475. This significance value is less than 0.05 (0.0475 < 0.05). The decision is to accept the alternative hypothesis, meaning that institutional ownership has a significant effect on financial performance. These results indicate that the greater the proportion of ownership by institutions, the stronger the supervision of management, which in turn can increase the efficiency and profitability of the company. This means that **hypothesis five (H5) can be accepted**.

Discussion

The Influence of the Board of Directors on the Financial Performance of Banking Sector Companies on the Indonesia Stock Exchange in 2020–2024

The results of the analysis show that the board of directors has a significant effect on the financial performance of banking sector companies, indicating that the effectiveness of the board of directors' role is very important in ensuring the achievement of the company's financial objectives. A well-functioning board of directors is able to direct business strategies, optimize the use of resources, and ensure that the implementation of operational policies runs efficiently and in line with the company's vision. This has a direct impact on increasing the profitability, operational efficiency, and competitiveness of banking companies in the financial market. A competent board of directors is also able to anticipate financial risks and maintain the stability of the company amid the complex dynamics of the banking industry.

These results are in line with *the agency theory* proposed by Jensen and Meckling (1976), which explains that the board of directors acts as an agent mandated by shareholders (principals) to manage the company in order to maximize its value. In this context, the effectiveness of the board of directors reflects their ability to align the interests of management and shareholders through appropriate oversight and decision-making mechanisms. With a good governance system and policies oriented towards improving financial performance, the board of directors can reduce potential agency conflicts, increase transparency, and strengthen investor confidence in the company's performance. Therefore, the more effective the role of the board of directors, the higher the level of financial performance achieved by banking companies listed on the Indonesia Stock Exchange during the 2020-2024 period. These results support the findings of studies conducted by ; Wendy & Harnida (2020) ; Khoirunnisa & Karina (2021) ; Haryani & Susilawati (2023) ; Pramudityo & Sofie (2023) ; ; Musallam (2024) which states that a company's success in achieving good financial performance is greatly influenced by the effectiveness of the board of directors.

The Influence of Independent Commissioners on the Financial Performance of Banking Sector Companies on the Indonesia Stock Exchange in 2020–2024

The analysis results show that independent commissioners do not have a significant effect on the financial performance of banking sector companies, indicating that the presence of independent commissioners has not been fully able to improve the effectiveness of supervision and strategic decision-making that directly impacts financial performance. Although in theory, independent boards of commissioners play an important role in ensuring the implementation of *good corporate governance* principles, in practice, their supervisory function is often merely a formality and is not followed by concrete actions that can improve the company's operational efficiency and profitability. This may be due to several factors, such as the limited authority of independent commissioners to influence managerial decisions, lack of access to in-depth internal information, or the potential for conflicts of interest that hinder independence in the oversight process.

These results are in line with *agency theory*, which explains the potential for conflicts of interest between management (agents) and shareholders (principals). In this context, independent boards of commissioners should function as a control mechanism to reduce such conflicts through oversight of management actions. However, if the effectiveness of oversight is low, then the control function over management does not work optimally, thus failing to have a real impact on improving financial performance. The existence of independent boards of commissioners in some companies is often merely a formality to comply with regulatory requirements without being followed by an active role in carrying out the oversight function. Many of them are not directly involved in supervisory activities, rarely attend strategic meetings, or do not have sufficient access to in-depth information about company operations. These conditions render the role of independent commissioners ineffective in exerting pressure or providing direction to management, so that their presence has not been able to contribute significantly to improving the financial performance of banking companies listed on the Indonesia Stock Exchange during the 2020–2024 period. These results support the findings of studies conducted by ; Laksono & Kusumaningtias (2021) ; Rahardjo & Wuryani (2021) ; Sitanggang (2021) ; Arimby & Astuti (2023) ; Pramudityo & Sofie (2023) ; ; and Kamilah et al., (2025) which states that independent boards of commissioners do not have a significant effect on financial performance.

The Influence of Audit Committees on the Financial Performance of Banking Sector Companies on the Indonesia Stock Exchange in 2020–2024

The results of the analysis showing that the audit committee has a significant effect on the financial performance of banking sector companies indicate that the existence and effectiveness of the audit committee function plays an important role in maintaining the quality of *corporate governance*. An audit committee that performs its duties optimally is able to strengthen the internal control system, ensure transparency in financial reporting, and improve compliance with regulations applicable in the banking sector. This has a direct impact on improving the reliability of financial reports, better risk management, and increasing stakeholder confidence in company performance. A competent audit committee can contribute to identifying potential irregularities and fraud early on, thereby minimizing financial losses and maintaining the stability of the company's financial performance.

These results are in line with *the agency theory* proposed by Jensen and Meckling (1976), which explains that audit committees act as a supervisory mechanism that helps shareholders reduce information asymmetry and conflicts of interest between management and capital owners. Audit committees are a key element in ensuring that financial reports are prepared accurately and reflect the company's actual condition. With a good oversight system, decisions can be made more objectively and accountably, thereby encouraging improved performance and operational efficiency of the company. Therefore, the more effective the role and independence of the audit committee in carrying out its oversight and evaluation functions, the higher the level of financial performance achieved by banking companies listed on the Indonesia Stock Exchange during the 2020–2024 period. These results support the findings of research ; Sitanggang (2021) ; Febrina & Sri (2022) , Arimby & Astuti (2023) , and Kamilah et al., (2025) , which state that the audit committee has a significant effect on improving financial performance.

The Influence of Managerial Ownership on the Financial Performance of Banking Sector Companies on the Indonesia Stock Exchange in 2020–2024

The results of the analysis show that managerial ownership has a significant effect on the financial performance of banking sector companies, indicating that management involvement as shareholders plays an important role in improving the effectiveness of company management. Managers who own shares in the company not only act as managers but also as owners who have a direct interest in the results of the decisions made. This condition encourages management to act more cautiously, efficiently, and with a focus on increasing long-term profitability. With management share ownership, the potential for conflict between owners and managers can be minimized because both parties have the same goal, which is to maximize company value. This has a positive impact on improving operational efficiency, decision-making quality, and achieving better financial performance in banking companies.

These results are in line with *the agency* theory proposed by Jensen and Meckling (1976), which explains that managerial ownership can be a mechanism *for aligning interests* between agents (managers) and principals (shareholders). With management holding shares, the financial incentives they receive will depend on the overall success of the company. This encourages management to strive to improve the company's performance through strategies that are oriented towards efficiency and profitability. Therefore, the greater the proportion of managerial ownership, the stronger the commitment and motivation of management to achieve optimal financial performance in the banking sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. These results support the findings of the following studies ; Sembiring (2020) ; Setiawan & Setiadi (2020) ; Wendy & Harnida (2020) ; Hadyan & Andhaniwati (2021) ; Mary et al., (2024) which states that managerial ownership has a significant effect on financial performance.

The Effect of Institutional Ownership on the Financial Performance of Banking Sector Companies on the Indonesia Stock Exchange in 2020–2024

The results of the analysis show that institutional ownership has a significant effect on the financial performance of banking sector companies, indicating that the presence of institutional investors plays an important role in strengthening the supervisory function of management. Ownership by institutions generally has a positive influence because they have better analytical capabilities, adequate resources, and a strategic interest in ensuring that companies are managed efficiently and transparently. With pressure and oversight from institutional investors, management tends to be more disciplined in decision-making, avoid opportunistic behavior, and focus on increasing profitability and company value. This shows that a high proportion of institutional ownership can strengthen corporate governance and maintain financial stability amid the dynamics of the banking sector.

These results are in line with *the agency theory* proposed by Jensen and Meckling (1976), in which institutional ownership acts as a control mechanism to reduce conflicts of interest between managers (agents) and shareholders (principals). In this context, institutional investors function as external parties that can pressure management to act in the interests of shareholders through active supervision and involvement in the strategic decision-making process. This means that increased institutional ownership creates incentives for management to improve the transparency, accountability, and operational efficiency of the company. Therefore, high institutional ownership can strengthen governance and have a positive impact on improving the financial performance of banking companies listed on the Indonesia Stock Exchange during the 2020–2024 period. The results of this study support the results of the following studies ; Nurhidayah (2020) ; Setiawan & Setiadi (2020) ; Sitanggang (2021) ; Mutairi & Bakar (2022) , Haryani & Susilawati (2023) ; Apriliana & Zulfikar (2024) which states that institutional ownership has a significant effect on financial performance.

CONCLUSION

Based on the results of the analysis in the previous chapter regarding the influence of the board of directors (DD), independent board of commissioners (DKI), audit committee (KA), managerial ownership (KM), and institutional ownership (KI) on financial performance in banking sector companies listed on the Indonesia Stock Exchange for the period 2020–2024, the following conclusions can be drawn:

1. The Board of Directors (DD) has a significant effect on the financial performance of companies proxied by *Return On Asset* (ROA) in the banking sector.
2. The Independent Board of Commissioners (IBC) does not significantly affect the financial performance of companies, as proxied by *Return on Assets* (ROA) in the banking sector.
3. The Audit Committee (AC) has a significant effect on the financial performance of companies, as proxied by *Return on Assets* (ROA) in the banking sector.
4. Managerial Ownership (MO) has a significant effect on the financial performance of companies, as proxied by *Return on Assets* (ROA) in the banking sector.
5. Institutional Ownership (IO) also has a significant effect on the financial performance of companies as proxied by *Return On Assets* (ROA) in the banking sector.

Research Limitations

This study has several limitations. First, the study only focuses on banking sector companies listed on the Indonesia Stock Exchange, so the results cannot be generalized to other industrial sectors with different characteristics and governance systems. Second, the 2020–2024 research period has the potential to be influenced by certain economic conditions, including the impact of the COVID-19 pandemic and monetary policy dynamics, which may affect banking financial performance. Third, the use of secondary data in the form of financial reports and annual reports means that this study does not cover non-financial factors, such as leadership style and organizational culture. Fourth, panel data regression analysis emphasizes statistical relationships, so it does not fully capture the dynamics and qualitative aspects of corporate governance mechanisms.

Future Research Agenda

Based on the various limitations described above, future research should expand the object of study beyond the banking sector to include other industries listed on the Indonesia Stock Exchange so that the research results have stronger generalizability. In addition, the observation period can be extended to capture long-term financial performance dynamics and minimize the influence of short-term economic factors, such as the COVID-19 pandemic and economic policy fluctuations. Future research is also recommended to add other variables relevant to corporate governance, such as meeting frequency, external audit quality, and compensation structure, in order to gain a more comprehensive understanding of the factors that affect financial performance. The use of more diverse analytical methods, such as dynamic regression or structural equation modeling (SEM), can also be considered to examine deeper causal relationships

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