Analysis of determinants of banking company's financial performance during the covid-19 pandemic

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Abstract

During the Covid-19 pandemic, the banking sector was extremely susceptible to losses because so many debtors from diverse industrial sectors were afflicted by Covid-19 and had difficulty meeting their obligations. This study aims to examine the impact of Good Corporate Governance, capital structure, and company size on the 2020 financial performance of Indonesia Stock Exchange-listed banking companies. In this study, the independent board of commissioners, board of directors, audit committee, Debt to Asset Ratio (DAR), Debt to Equity Ratio (DER), and company size are the independent variables. In this study, the dependent variable is the company's financial performance (ROA). This study employed a technique of purposive sampling to collect 46 samples. The method of analysis employed is multiple linear regression analysis. The results show that the independent board of commissioners, Debt to Equity Ratio, and company size positively affect financial performance. The Board of directors and audit committee has no significant effect on financial performance. Meanwhile, the Debt to Asset Ratio harms financial performance.

Keywords: Audit Committee; Board of Directors; Company Size; Independent Board of Commissioners; Leverage.

Abstrak

Pada masa pandemi Covid-19 kondisi sektor perbankan sangat rentan mengalami kerugian karena para debitur berbagai sektor industri banyak yang terdampak Covid-19 sehingga mengalami kendala dalam melaksanakan kewajibannya. Penelitian ini bertujuan menganalisis pengaruh Good Corporate Governance, struktur modal, dan ukuran perusahaan terhadap kinerja keuangan perusahaan perbankan yang terdaftar di Bursa Efek Indonesia tahun 2020. Variabel independen dalam penelitian ini adalah dewan komisaris independen, dewan direksi, komite audit, Debt to Asset Ratio (DAR), Debt to Equity Ratio (DER), dan ukuran perusahaan. Sedangkan variabel dependen dalam penelitian ini yaitu kinerja keuangan perusahaan (ROA). Teknik pengambilan sampel dalam penelitian ini menggunakan purposive sampling yang menghasilkan 46 sampel. Metode analisis yang digunakan yaitu analisis regresi linear berganda. Hasil menunjukkan bahwa dewan komisaris independen, Debt to Equity Ratio, dan ukuran perusahaan berpengaruh positif terhadap kinerja keuangan. Dewan direksi dan komite audit tidak berpengaruh signifikan terhadap kinerja keuangan. Sedangkan, Debt to Asset Ratio berpengaruh negatif terhadap kinerja keuangan.

Kata kunci: Dewan Direksi; Dewan Komisaris Independen; Komite Audit; Leverage; Ukuran Perusahaan.

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INTRODUCTION

Banking is one of the financial sectors that contribute significantly to a nation's economic growth. Not only is the bank a place to borrow and store money, but it is also necessary for various financial activities. When conducting financial transactions, almost every sector of the economy requires the assistance of a bank. In both developed and developing countries, numerous literature reviews have been conducted to assess the potential impact of Covid-19 on banks. During the Covid-19 pandemic, a large number of debitors from a variety of industrial sectors were afflicted with Covid-19, making the banking industry extremely susceptible to obstacles in meeting their obligations. This undoubtedly affects the efficiency of banks. In spite of this, banks play an essential role as intermediaries for numerous industrial sectors and must continue to perform admirably. Rababah *et al.* (2020) have shown that the Covid-19 pandemic has negatively affected the performance of several industrial sectors in China.

The purpose of financial performance analysis is to determine the extent to which a company is able to conduct operations effectively (Jofre-Campuzano & Coenders, 2022). To evaluate the performance of a business, i.e., to compare ratios between businesses in the same industry. The objective is to assist investors in understanding the health of companies within a particular industry group and identifying the most lucrative and financially beneficial investments. If a company is able to achieve its profit goal, it can enhance its performance. Profit permits the company to pay dividends to shareholders, accelerate its expansion, and maintain profitability. The financial performance reflected in a company's financial statements provides information about the company's current and historical financial position and can be used to forecast the company's future financial position (Haryanto, 2014).

Devi *et al.* (2020) conducted research in Indonesia on the impact of the Covid-19 pandemic on various IDX-listed industrial sectors, including consumer goods, real estate, plantation, building construction, finance, trade, services, and investment. The results of this study indicate that the financial sector is one of the most affected industries and that company performance has declined. Today's challenge for Indonesian banks is to enhance their financial performance. The government has announced policies intended to improve economic conditions, such as enhancing the performance of banks in response to the pandemic. The Financial Services Authority Regulations No.11/POJK. 03/2020 and No.12/POJK. 03/2020, published on March 13, 2020, are among the measures taken to combat economic instability caused by the Covid-19 pandemic (Disemadi & Shaleh, 2020). In addition, the government

announced new normal-era policy regulations on June 1, 2020, as part of the Large-Scale Social Restrictions (PSBB) policy (Muhyiddin, 2020). This policy allows various industrial sectors to resume economic activity while maintaining a focus on health protocols. It is hoped that the economic sector will recover and the Covid-19 chain will be broken as a result of this policy (Agung & Susilawati, 2021).

This pandemic reminds us of the importance of business continuity, which requires companies to pay attention to all affected internal and external stakeholders, from shareholders and employees to end users. Poor corporate governance, including poor investment quality, widespread business diversification, numerous unsecured short-term loans, weak roles of directors and commissioners, inadequate audit systems, and a lack of transparency, contributed to the economic crisis of the late 1990s. In Indonesia, numerous efforts have been made to address governance flaws, such as the 1999 establishment of the National Committee for Good Corporate Governance (KNKG) at the direction of the economy's coordinating minister. Early in 2014, the Financial Services Authority (OJK) also released a Map of Corporate Governance in Indonesia.

This research is motivated by the phenomenon related to the lack of good corporate Governance that affects financial performance. This phenomenon for example, an insurance company went out of business due to the Covid-19 pandemic. The Financial Services Authority (OJK) said in its webinar (April 27, 2021) that the rise of various cases in insurance companies recently was caused by several companies that did not implement good corporate governance. He admitted that many insurance companies could not afford the Covid-19 pandemic. However, if the company has strong roots in good corporate governance, it can survive and produce a variety of high-quality insurance products. This research refers to the research conducted by Gunawan & Sutiono (2018). The difference between this research and previous research lies in the object of study, the year of research, and the variables of the study. This study used banking companies listed on the IDX for the 2020 period. Meanwhile, the previous study used cigarette industry companies listed on the IDX for the 2009-2015 period. The reason why researchers used banking companies in this study is that in that period, there was a decline in the company's financial performance in the banking sector. This study used three variables, namely Good Corporate Governance, Capital Structure, and Company Size. At the same time, the previous study used two variables, namely Good Corporate Governance and company size. Supriyono, Director of Insurance Supervision of the Financial Services Authority (OJK), explained that regulators attach great importance to the implementation of good corporate

governance because it is an important milestone for businesses doing business. This phenomenon shows that the company has not fully implemented GCG, so it has an impact on financial reporting and poor performance.

Based on the agency's theory, an independent board of commissioners is a mechanism that is expected to monitor and control conflicts of interest between controlling stakeholders and minority stakeholders. The independent board of commissioners is able to communicate the company's objectives to managers in improving the company's financial performance, especially during the Covid-19 pandemic. Because during this pandemic, the company needs to re-strategize to maintain its existence so that the level of supervision by independent commissioners of the company can improve its financial performance. An independent board of commissioners may act independently in the interests of the company so that the independent board of commissioners has the right to resist pressure from the line that has certain interests.

The importance of the board of directors in ensuring business continuity is growing. The board of directors must be proactive in fostering confidence and ensuring the continuity of business operations. The importance of effective communication in ensuring efficient decision-making is growing. In terms of financial sustainability, the board of directors may need to reconsider dividend payments, all capital expenditures, recruitment of new employees, and other types of meaningless expenses in order to defer them. In light of the fact that the supervisory responsibility of the board of directors is an aspect of good corporate governance, the board of directors must take special, proactive steps in response to Covid-19 in order to enhance the corporate reporting and information system it uses for supervision. This system will ensure that the board of directors has timely access to pertinent information regarding Covid-19 issues and their potential risks and effects on the company.

The Financial Services Authority requires companies listed on the Indonesia Stock Exchange to establish an audit committee. The audit committee consists of at least one independent commissioner who is the chairman of the audit committee and at least two other members from outside the issuer who are members of the independent board of commissioners. The requirement for a member of the audit committee is that one of the members of the audit committee must have an accounting or financial background. The regulation also provides for audit committee meetings that are at least once every three months or four times a year on a regular basis.

The implementation of good corporate governance is needed in the development of the 21st-century business world. The term corporate governance was introduced in 1922 in

England by the Cadbury Committee. The application of the concept of good corporate governance is important to see and measure corporate governance practices. Good corporate governance greatly affects the sustainability of the company. Some companies in Indonesia no longer continue their business due to implementing regulatory practices and poor implementation of corporate governance.

A company must have effective corporate governance in order to compete with other businesses. Implementing good corporate governance in order to provide users of financial statements with transparent company management. According to the National Committee on Governance (NCG, 2006), the five principles of Good Corporate Governance are transparency, accountability, responsibility, independence, and equality. One of the applications of the principle of responsibility is the principle that every company manager must be accountable for the actions taken while managing the organization. If the concept is properly implemented, the transparency of company management will continue to increase, and economic growth will continue to rise, making the concept profitable for many parties (Pakpahan *et al*., 2017). In their research on the effect of corporate governance on financial performance in Karachi, Pakistan, Awan & Jamali (2016) concluded that good corporate governance as measured by boards and audit committees has a significant impact on financial performance.

Researchers choose capital structure as an independent variable because capital structure is a very important factor for the growth and resilience of the company. The capital structure is influential for the achievement of the long-term goals of an enterprise. However, the company's funding decisions are a very complex process. There are several stages of variation and funding options that can affect the condition of the company in the future. Choosing the right source of funding is the main key in optimizing the company's capital structure. The capital structure significantly affects the cost and availability of capital, thus affecting the company's performance. Meanwhile, a suboptimal capital structure affects performance and increases the risk of business failure. The company needs an optimal capital structure to maximize profits and maintain the company's ability to face a competitive environment (Kristianti, 2018).

According to Saputro & Hapsari (2022), this study employs two capital structure variables, the Debt to Asset Ratio and the Debt to Equity Ratio. Insignificantly, the Debt to Asset Ratio increased by 2,8% (55,81% - 53,09%), indicating that after the Covid-19 pandemic, companies are less able to control their debt relative to their assets. In the meantime, the Debt Equity Ratio increased by an average of 53% (86,11 % - 33,49 %), which indicates that after

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the corona pandemic, the company's ability to control its debt relative to its own capital experienced a significant decline. There is no significant difference between the state of plantation and mining companies before and after the Covid-19 pandemic in terms of their ability to control debt in relation to their own assets and capital.

Additionally, company size as a dependent variable because company size affects the capital structure of the company. This is due to the fact that the size of the company can be determined by its total assets. Total assets can demonstrate the relative size of a company's wealth to describe the scale of its operations (Rochmah & Hidayati, 2018). The company's financing can be obtained through loans or obligations to third parties. The greater the debt owed by the company, the greater the risk of default. However, large businesses have a lower likelihood of bankruptcy than small businesses. Therefore, the larger the company, the greater the debt that can be associated with the company's low risk of bankruptcy (Angelina & Mustanda, 2016). A large company with large total assets indicates that the company has reached a mature stage, where the size of the company has shown positive value toward being considered to have good prospects over a relatively long period of time. This reflects that a relatively more stable company is able to generate profits than companies with low total assets (Haryanto, 2016). There is a positive and significant relationship between the size of the bank and its profitability of the bank; namely if the size of a bank is large, the profitability of the bank will also be large (Serly & Jennifer, 2021).

This research contributes by analyzing in greater depth the factors that influenced banking performance during the Covid-19 period. In the event that a similar crisis occurs in the future, banks will be better prepared to handle it. The profitability of banks is very important to research because of the large number of private banks that are established today, so that competition is getting tougher, and banks need to maintain their level of profitability.

LITERATURE REVIEW

Agency Theory

Agency theory is the theoretical basis for explaining corporate governance. Agency theory can explain the relationship that occurs between principals and agents. An agency relationship is a mutual contractual relationship between principals who hire an agent to perform services, after which it will assign decision-making duties to the agent (Jensen & Meckling, 1976). Good Corporate Governance is based on the agency theory developed by Jensen and Meckling in 1976. The principal is the party who owns the resources and mandates

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the agent to act on behalf of the principal, while the agent is the party who is given the mandate of the principal to manage the resources. The agent's obligation is to account for what the principal has entrusted to him and have decision-making authority that will affect the welfare of the principal. Various parties in carrying out their business, including the board of directors/management, controlling and non-controlling shareholders, creditors, government, employees, and the public, interact directly with the company. Resources are not only in the form of financial capital but also intellectual capital and skills, public services/infrastructure, and natural resources.

Signalling Theory

In economics and finance, signal theory was developed to account for the fact that corporate insiders typically have superior and more timely information than outside investors. Therefore, the manager is required to communicate with the owner regarding the status of the business. Disclosure of accounting information, such as financial statements, can serve as a means of transmitting these signals. Financial statements are utilized by various parties, including the company's management. Internal users have direct contact with their entities or companies and are aware of significant events, so their reliance on accounting data is less than that of external users. However, the greatest concern regarding financial statements comes from external users (outside management). This circumstance gave rise to a condition known as "information asymmetry." In this situation, there is a disparity between the management as the information provider and the shareholders and stakeholders in general as the information consumers (users). The existence of information asymmetry enables conflicts between principals and agents to abuse their own interests.

Publication of information is an obvious sign to investors that it is time to make investment decisions. When information is released, market participants interpret and analyze it to determine whether it is a positive or negative signal. When information disclosure is viewed as a positive signal, investors will be interested in stock trading; consequently, the market will respond, as reflected by changes in the volume of stock trading. An annual report is one type of information issued by companies that can be communicated to external parties (Jogiyanto, 2014). Broader disclosure will send positive signals to parties interested in the company (stakeholders) and shareholders, according to signal theory and the company's financial performance. The more information provided to stakeholders and shareholders, the greater their understanding of the company. This will impact stakeholder and shareholder confidence in the organization.

Good Corporate Governance

The Organization for Economic Cooperation and Development (OECD) describes several fundamental principles of corporate governance implementation: transparency, accountability, responsibility, independence, and fairness. This study focused on the independent board of commissioners, the board of directors, and the audit committee as dimensions of good corporate governance. Independent commissioners are board of commissioner members who have no financial, management, or ownership ties. Additionally, the independent board of commissioners plays an important role in overseeing the company (Zahra *et al*., 2016). The board of directors manages the company on behalf of the shareholders. The board of directors is accountable for ensuring that established goals are met. Additionally, the board of directors is responsible for implementing policies and strategies approved by the audit committee, maintaining the organizational structure, and ensuring that authority delegation is carried out effectively. The board of directors is also responsible for fostering stronger relationships with external banks. Banking relationships with external parties are indispensable for the collection and distribution of funds by banks (Anjani & Yadnya, 2017). By optimizing the company's internal control mechanism, the Audit Committee helps to reduce the Board of Commissioners' workload. Additionally, the audit committee serves as a liaison between the external auditors, the company, the board of directors, and the internal auditors.

Independent Board of Commissioners and Financial Performance

The membership of the board of commissioners has been governed by OJK Regulation No. 33/POJK/0.4/2014, which stipulates that at least 30 percent of the board of commissioners must consist of independent members. According to Adila (2016) the organization and formation of the board of commissioners has a significant impact on the efficacy of existing company activities. According to Thaharah & Asyik (2016) findings, independent board of commissioners variables impact company value. Sarafina & Saifi (2017) also demonstrate that the board of independent commissioners has a substantial impact on financial performance.

H_1: Independent board of commissioners has a significant positive effect on the financial performance

Board of Directors and Financial Performance

The board of directors holds the primary responsibility for managing the bank. The board of directors sets strategic directions, appoints management, establishes operational policies, and, most importantly, is responsible for ensuring the soundness of bank

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management. Customers and shareholders hold the board of directors accountable for the institution's neat, informative, and efficient administration. Board members usually delegate the daily management of banking to employees. However, board members are responsible for the consequences of unhealthy or careless policies and practices in lending, investment, internal fraud protection, and any other banking activities. The Board of Directors has full responsibility for the company (Hamid & Purbawangsa, 2022). The board of directors influences the company's performance in terms of managing existing information for use in company activities. Corporate governance is required in this case to limit the board of directors' policies so that they do not deviate from company goals. Gusty *et al*. (2021) show that the board of directors' size variable significantly affects banking companies' financial performance on the Indonesia Stock Exchange.

H_2: Board of directors has a significant positive effect on the financial performance.

Audit Committee and Financial Performance

The audit committee can be considered an extension of the board's risk management function. In complex organizations, the audit committee is an important tool for assisting management in identifying and treating risk areas. The audit committee is a committee that is responsible to the board of commissioners, where members are appointed and dismissed by the board of commissioners. The audit committee was formed to assist the board of commissioners in carrying out their duties and responsibilities. The audit committee consists of at least three people from outside the company and an independent commissioner who also serves as chairman of the audit committee (Thaharah & Asyik, 2016). The audit committee holds regular meetings with external and internal auditors, who assist the committee in evaluating financial statements and implementing policies to evaluate executive conduct. Thus, an increasing number of committee meetings will result in an improved mechanism for oversight that can motivate executives to perform their duties more effectively. As a result, a greater number of audit committee meetings leads to an improvement in the performance of the company (Al Farooque *et al*., 2020).

H_3: Audit committee has a significant positive effect on the financial performance.

Debt to Asset Ratio (DAR) and Financial Performance

The debt ratio is one of the leverage ratios used to see how much a company's funding comes from debt. The DAR value indicates the amount of total debt that can be guaranteed with total assets. The number of funds provided by creditors to the total assets owned by the

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company can be shown by DAR. The higher the use of debt, the higher the company's risk because debt can cause interest charges on the company.

Kristianti (2018) shows the results of research that DAR has a significant negative effect on ROA. A high DAR value for a company tends to produce a low ROA value and vice versa. These results indicate that increasing the proportion of debt to total assets will reduce the level of effectiveness of assets in generating profits. The increase in the proportion of debt to total assets creates an additional burden in the form of interest expense that must be borne by the company, which is a component of reducing profits. The increase in expenses due to the emergence of interest expenses will reduce profits it affects the value of ROA. Thus, an increase in the proportion of debt to assets will result in a decrease in ROA.

H_4: Debt to Asset Ratio (DAR) has a significant positive effect on the financial performance

Debt to Equity Ratio (DER) and Financial Performance

Debt to Equity Ratio shows the comparison between total debt and own capital. This ratio is used to determine the proportion of the number of funds provided by creditors and shareholders so that this ratio also functions to find out every rupiah of own capital that is used as collateral for the debt. DER is calculated by comparing the company's total debt to total equity. Kristianti (2018) shows the results of the study that DER has a significant positive effect on the value of ROA. A high DER value owned by a company tends to produce a high ROA and vice versa. When there is an increase in the proportion of debt to capital, total assets will also increase. When the company's total assets increase, the company will have a greater opportunity to make the most of its assets.

H_5: Debt to Equity Ratio has a significant positive effect on the financial performance

Company Size and Financial Performance

Company size is an important factor in determining a company's financial performance. Large companies have several competitive advantages that can have an impact on increasing their profitability of these companies, including companies having market power where large companies can set high prices for their products and cost savings (Azzahra & Nasib, 2019). Firm size has a positive influence on profitability as measured using Return on Assets. Company size plays an important role in determining the type of relationships a company enjoys within and outside its operating environment. The bigger a company, the greater the influence it has on its stakeholders (Balabola & Abiodun, 2013). Increasing the company size will also increase the company's financial performance. An increase in the

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number of assets owned by a company indicates an increase in the size of the company (Arisadi & Djazuli, 2013). Hastuti (2017) shows the partial results of the study that the company size variable has a significant effect on firm value in the textile and garment sector listed on the Indonesia Stock Exchange.

H_6: Company size has a significant positive effect on the company's financial performance

METHODS

This research was conducted by taking report data on the Indonesia Stock Exchange (IDX) through the website www.idx.co.id. The data was gathered from the historical financial reports of 2020 Indonesia Stock Exchange-listed banking companies. The quantitative methodology employed in this study is presented. This study's sample consisted of 47 banks listed on the Indonesia Stock Exchange. The sampling technique used to obtain the sample is purposive sampling.

Definition and Measurement of Variables

Independent Board of Commissioners (IBC)

The independent board of commissioners is a member who is not bound by the company's directors. As a result of not being bound, members can independently build business relationships with anyone without having to be influenced by the company's internals. The existence of this board of commissioners can create a good ecosystem within the company. The independence that is carried out causes the surrounding environment to be more just and subjective in assessing things. In addition, the focus is also on the interests of minority shareholders and company owners.

The independence that exists on this independent board of commissioners has the function of being fair to the majority and minority shareholders. The board of commissioners also has authority over what to decide (Larasati *et al*., 2017). The proportion used in this indicator is the number of independent commissioners owned by the company.

Board of Directors (BoD)

The composition of the board of directors is an important matter. A banking institution needs a good, strong, and knowledgeable board. It is very important that the board is able to encourage open discussion and, even more importantly, to tolerate conflict well because conflict implies that both sides are being considered. Therefore, shareholders should consider appointing board members by reviewing their qualifications, career, experience, expertise in the sector concerned, shareholder relations, and integrity (Rimardhani *et al*.,

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2016). Hendratni *et al*. (2018) uses the size of the board of directors as an indicator for measuring good corporate governance. The proportion used in this indicator is the number of members of the board of directors owned by the company.

Audit Committee (AC)

In carrying out its duties, the independent board of commissioners chairs the audit committee. The audit committee is the committee in charge of conducting an audit of the organization. Measurement of GCG in this study can be measured by the audit committee as an indicator of its assessment. The assessment indicator is how many audit committees the company currently has (Sulastri & Nurdiansyah, 2017).

Capital Structure - Debt to Asset Ratio (DAR)

The measurement considerations between the debt owned by the company and the company's assets can be seen by the size of the ratio. In debt to Asset Ratio (DAR) it can be seen how much debt can affect the existing assets of the company, even if the management of existing assets can be affected by debt. Jufrizen (2019), Kamal (2016), and Zulkarnaen (2018) use DAR to measure capital structure/leverage.

$$\mathrm{DAR} = \frac{\text{Total Liability}}{\text{Total Assets}} \quad (1)$$

Capital Structure - Debt to Equity Ratio (DER)

Debt to Equity Ratio is the ratio of debt to equity which is also known as the ratio of debt capital. The Debt to Equity Ratio is a financial ratio that compares the amount of debt to equity. Debt to Equity Ratio is used to determine the extent to which the company's equity is financed by liabilities. Violita & Sulasmiyati (2017), Priyatama & Pratini (2021) use DER to measure the capital structure.

$$\mathrm{DER} = \frac{\text{Total Liability}}{\text{Total Equity}} \quad (2)$$

Company Size (SIZE)

Company size is the size of the company, which can be measured through the total assets/amount of company assets by using the calculation of the value of L = logarithm of total assets. If the total assets of the company are getting bigger, the size of the company is getting bigger. Company size is also used in Ngatno *et al*. (2021), measured using the total assets owned by the company. The formula used in the company size variable is as follows:

$$SIZE = \log \textit{total asset} \quad (3)$$

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Profitability (ROA)

The dependent variable is the variable that is the result and is known to have an influence because of the independent variables. In this study, the dependent variable is company performance (Y), which is projected by the Return on Assets (ROA) indicator. ROA is a ratio used to assess the company's management's ability to earn profits as a whole. The greater the value of ROA in a company, the greater the level of profit that can be achieved by the company, and the better the position of the company in terms of utilizing its assets. ROA is a profitability ratio that shows how much profit is obtained from all the assets owned by the company. ROA is used by researchers as the dependent variable (Y). This ratio measures the company's effectiveness in generating profits by utilizing its assets. This ratio is the most important ratio among other profitability because ROA is a financial ratio that dominantly influences stock returns or the company's financial earning power. The Return on Assets (ROA) indicator is used in Rahayu (2016), Ginting (2019), and Larasati *et al.* (2017) in measuring company performance.

$$ROA = \frac{\text{Net Income}}{\text{Total Asset}} \times 100\% \quad \text{...} \quad (4)$$

Research Model

The independent variables in this study are good corporate governance, capital structure, and company size. The dependent variable in this study is the company's financial performance.

$$ROA = \alpha + \beta_1 BoD + \beta_2 BC + \beta_3 AC + \beta_4 DAR + \beta_5 DER + \beta_6 SIZE + \varepsilon \quad \text{.......................} \quad (5)$$

RESULTS AND DISCUSSION

Descriptive Analysis

The results of the descriptive analysis data in Table 1 show that the projected financial performance of banking companies with Return On Assets (ROA) has a minimum amount of -0,087 and a maximum of 0,062. Good Corporate Governance (GCG) with a proxy for the company's independent commissioners (IBC) has a value of 0,575. The Board of Directors (BoD) has a maximum value of 12 and an average of 4,30. The number of audit committees (AC) has a minimum value of 2 and a maximum of 12. Capital Structure as a proxy for the company's Debt to Asset Ratio (DAR) has a minimum value of 0,053 and a maximum value of 0.919. The Debt to Equity Ratio (DER) has an average value of 4,683. Company Size (SIZE) company has a minimum value of 5,571, and a maximum value of 13,151.

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Table 1. Descriptive Statistics Analysis

	N	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
ROA	46	-0,087	0,062	0,004	0,024
IBC	46	0,333	0,833	0,575	0,096
BoD	46	0	12	4,300	3,489
AC	46	2	12	4,170	2,080
DAR	46	0,053	0,919	0,739	0,218
DER	46	0,062	10,218	4,683	2,382
SIZE	46	5,571	13,151	8,499	1,820

Source: Processed data, 2022

The Influence of The Independent Board of Commissioners on Banking Financial Performance

Hypothesis one (H_1) predicts that the independent board of commissioners has a significant effect on the financial performance of banking companies. The results in Table 2 show that the independent board of commissioners has a positive and significant effect on the financial performance of banking companies proxied by ROA. The results of the t-test (partial) show that the significant value of the influence of the Independent Board of Commissioners (IBC) on financial performance (Y) is 0,015 <0,05. The regression coefficient shows that the value of the independent board of commissioners is 0,084, meaning that the board of independent commissioners positively affects the financial performance of banking companies. Based on these results, H_1 is accepted, which means that an independent board of commissioners can improve the financial performance of banking companies. Irwansyah (2019) stated in his research that a higher proportion of the membership of independent commissioners would have a significant positive effect on ROA. These results are also following the values contained in the principles of good corporate governance that the accountability of company financial reports, both in terms of policy, recording as well as a presentation by management, will reduce its intervention if the proportion of independent commissioners is large or increases along with the duties and responsibilities of the board commissioners as supervisors of the company's operations.

This research is in line with the research of Larasati *et al*. (2017), which states that the placement of independent commissioners in companies is not only a formality, but they carry out their regulatory duties and obligations. They can supervise and provide input to the directors in managing company resources. Zahra *et al*. (2016) explains that the board of independent commissioners has a positive and insignificant influence on the financial performance of banking companies. The independent board of commissioners has a significant role in the company's activities, so it is very influential on the policy in decision-making, which

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will influence the company's financial performance policy. This means that the more independent commissioners in a company, the stricter the supervision of managers and the board of directors will be to minimize fraudulent acts committed by managers against the company for their interests. Furthermore, the more independent commissioners will provide more input to the board of directors.

Table 2. Results of Regression Analysis

	B	t	Sig.
Constant	-0,063	-2,385	0,022
IBC	0,084	2,555	0,015
BoD	0,001	0,747	0,460
AC	0,000	-0,077	0,939
DAR	-0,57	-2,543	0,015
DER	0,004	2,072	0,045
SIZE	0,005	2,662	0,011
Adj. R^2		0,274	
F sig		0,000	

Source: Processed data, 2022

This finding is in line with agency theory which states that the existence of an independent board of commissioners is able to reduce agency conflicts that usually occur due to different interests between principals and agents in the company. The position of an independent commissioner is very important so that the decision-making of the board of commissioners can be objective in evaluating the performance of the company's management. From an agency perspective, the existence of an independent commissioner can also reduce conflicts of interest between shareholders and company management, as well as non-controlling shareholders.

The Influence of The Board of Directors on Banking Financial Performance

Hypothesis two (H_2) predicts that the board of directors has a significant effect on the financial performance of banking companies proxied by ROA. The results of the partial hypothesis test show that the board of directors has no significant effect on the financial performance of banking companies proxied by ROA. Table 2 shows the significance value of the influence of the board of directors (BoD) on financial performance (ROA) is $0,460 > 0,05$, H_2 is rejected, which means that the board of directors cannot improve the financial performance of banking companies.

This research is in line with Anjani & Yadnya (2017) which explains that the board of directors partially has no significant effect on profitability in banking companies listed on the IDX. The board of directors plays an essential role in the sustainability of the company, but the more the number of the board of directors, the more differences of opinion in determining

company policy, so there will often be difficulties in coordination and making the right decisions in carrying out better control functions to increase company profitability. Every company certainly has a board of directors that functions as a policy maker and provider of corporate strategy. However, more and more boards of directors will result in problems in coordinating fellow boards of directors when determining company strategy, and the occurrence of miscommunication will lead to a decrease in the ability of the board of directors to control company management (Supriyanti & Istikhoroh, 2021). According to Rimardhani *et al*. (2016), the number of board directors in a company cannot affect the size of ROA. The board of directors needs to coordinate and make the right decisions in implementing a better control function to increase the company's profitability. A large number of boards of directors will worsen company profitability because boards of directors tend to use fewer assets and other resources efficiently to optimize company profitability. The number of directors can cause other conflicts, such as prioritizing personal interests over company interests, in line with agency theory which states that company owners and managers often have different goals.

The Influence of The Audit Committee on Banking Financial Performance

Hypothesis three (H_3) predicts that the audit committee has a significant influence on the financial performance of banking companies. The results of the partial hypothesis test show that the audit committee has no significant effect on the financial performance of banking companies proxied by ROA. Table 2 shows the significance value of the influence of the audit committee (AC) on financial performance (ROA) is 0,939 > 0,05. Based on these results, H_3 is rejected, which means that the audit committee cannot improve the financial performance of banking companies. The results indicate that the audit committee in banking companies has not been able to fully perform the auditing function according to the expertise to see fraud in financial reports to analyze the profitability that can be obtained by banking companies. According to Rimardhani *et al*. (2016), the formation of an audit committee in a company is only on the basis of fulfilling regulations and the lack of optimal audit committees in carrying out the oversight and control functions of company management. Purno & Khafid (2013) states that the selection of audit committee members is only based on kinship position, so monitoring of the board of directors and managers is not optimal. In other words, the audit committee still has difficulty being independent and objective. The audit committee's authority is limited by the audit committee's function, which only assists the duties of the board of commissioners, so it does not have any executive authority regarding decision-making relating to the results of

the company's profitability. The authority of the audit committee is limited to recommending financial report improvements to the board of commissioners.

The audit committee's role is to assist the board of commissioners in overseeing company activities, such as supervising the company's internal controls. In addition, the audit committee also acts as a bridge between internal and external auditors. However, the existence of an audit committee only as a formality to comply with regulations in supervising companies is considered less effective. This proves that ineffective supervision will make the company's financial performance not increase. The results of this study are not significant because, based on agency theory, the audit committee is tasked with supervising the behavior of managers as managers. Most of the decisions taken by managers benefit management so that managers can act opportunistically or are usually interpreted as taking advantage of the opportunities that exist without adhering to certain principles, namely, using earnings management if the performance of financial statements shows a decline. In Indonesia, most of the roles of the audit committee in companies are not carried out properly because the audit committee was formed by the board of commissioners to comply with the regulations required by the Financial Services Authority. In addition, only people who are close to the company's management do not come from their professional expertise background, so a large number of company audit committee members will not be optimal in carrying out supervision. Therefore, a large number of audit committee members is not a guarantee that financial performance will increase.

The Influence of Debt to Asset Ratio (DAR) on Banking Financial Performance

Hypothesis four (H_4) predicts that the Debt to Asset Ratio has a significant effect on the financial performance of banking companies. The results of the partial hypothesis test show that the Debt to Asset Ratio has no significant effect on the financial performance of banking companies proxied by ROA. This is evidenced in Table 2 of the regression coefficient, which shows the result that the value of the variable Debt to Asset Ratio (DAR) is -0,057, meaning that the Debt to Asset Ratio is negative on the financial performance of banking companies. Furthermore, the significance value of the effect of DAR on ROA is $0,015 < 0,05$, H_4 rejected, which means that the Debt to Asset Ratio cannot improve the financial performance of banking companies.

The results of this study are in line with research conducted by Jufrizen (2019) which explains that the Debt to Asset Ratio has no effect on financial performance. Jufrizen said in his research that if the Debt to Asset Ratio increases, ROA will decrease. This is caused by the payment of costs incurred due to debt or loans, thereby reducing the company's profits.

Declining company profits cause the value of ROA to be low. Kamal (2016) explained in his research that the Debt to Asset Ratio has no effect on ROA in agricultural companies listed on the IDX 2009-2013. The decreased Debt to Asset Ratio can be caused by a decrease in total debt and ineffective asset management so that profits are not maximized so, and net income also decreases. From the measurement results, if the ratio is high, it means that funding with more debt will be more difficult for the company to obtain additional loans because it is feared that the company will not be able to cover its debts with its assets.

The research results of Zulkarnaen (2018) show that the Debt to Asset Ratio has no significant effect on Return on Assets. Because the average Debt to Asset Ratio value of each insurance company on the IDX is not too large, which indicates that the debt ratio is small, this results in no significant difference in the value of Return on Assets. The greater the Debt to Asset Ratio, the greater the level of dependence on outsiders and the impact, where more debt will make the company less healthy, which will have a negative impact on profits. This will reduce profitability.

The effect of the Debt to Asset Ratio on ROA is not significant because companies need debt as company capital, and the Debt to Asset Ratio value is not too large so that the company can still pay these debts, but if the Debt to Asset Ratio value increases, it will have an insignificant effect good for the company because the value of the company's debt will increase so that it will cause difficulties to pay off the debt. The results of this study are in line with research conducted by Jufrizen (2019) which explains that the Debt to Asset Ratio has no effect on financial performance. Jufrizen said in his research that the increase in Debt to Asset Ratio was not matched by an increase in ROA as well. The cause that often occurs when a company increases debt, costs will arise, which can later reduce profits. Reduced profits also have an impact on a decrease in the value of ROA. This is caused by the payment of costs incurred due to debt or loans, thereby reducing the company's profits. Declining company profits cause the value of ROA to be low.

Kamal (2016) explained in his research that the Debt to Asset Ratio has no effect on ROA in agricultural companies listed on the IDX 2009-2013. Profits at the company can go up and down according to the performance of the company. Processing of assets that are lacking many cause a decrease in company profits. In addition, the existence of debt that reduces its effectiveness for the continuity of the company can also cause a decrease in the Debt to Asset Ratio. As a company, of course, we will not be separated from outside assistance. Assistance, in this case, can be in the form of debt, investment, and other cooperation. In this case, if the

company has a lot of debt, but it is not proportional to the profits it generates, it can be said that the company is less competent. The focus of a company should be to increase the profit generated, not to increase debt which will become a burden. The company's high dependence on outsiders who provide debt, the Debt to Asset Ratio value will be high and can affect the Return on Assets (ROA) value which is getting lower. The Debt to Asset Ratio has a negative effect on ROA because companies need debt as company capital, and the Debt to Asset Ratio value is not too large so that the company can still pay these debts, but if the Debt to Asset Ratio value increases, it will have a bad influence to the company because the value of the company's debt will increase so that it will cause difficulties to pay off the debt.

The Influence of Debt to Equity Ratio (DER) on Banking Financial Performance

Hypothesis five (H_5) says that the Debt to Equity Ratio has a significant effect on the financial performance of banking companies. The results of the partial hypothesis test show that the Debt to Equity Ratio has a positive and significant effect on the financial performance of banking companies proxied by ROA. This is evidenced in Table 2, the regression coefficient, which shows the result that the value of the Debt to Equity Ratio (DER) variable is 0,004, meaning that the Debt to Equity Ratio variable has a positive effect on the financial performance of banking companies. Furthermore, the significance value of the effect of the Debt to Equity Ratio (DER) on financial performance (ROA) is 0,045 <0,05, H_5 accepted, which means that the Debt to Equity Ratio can improve the financial performance of banking companies.

The results of this study are in line with research conducted by Violita & Sulasmiyati (2017) which explains that the Debt to Equity Ratio has an effect on financial performance. Violita & Sulasmiyati (2017) explains that the Debt to Equity Ratio partially has a significant effect on ROA, thus indicating a unidirectional movement between the Debt to Equity Ratio variable and ROA. When the Debt to Equity Ratio increases, the ROA will also increase, but if the Debt to Equity Ratio decreases, the ROA level in the company also decreases. This means that the company has a large debt and also a large capital, which is seen from the average Debt to Equity Ratio of 97.6% and 13.89% ROA. Large debt and capital values can generate large net profits, so ROA will increase. High debt can increase the risk of a company going bankrupt, but as long as the level of debt use is still within optimal limits, the use of debt is still in a safe condition (Ramdhonah *et al*., 2019).

Signal theory is an example where capital structure (use of debt) is the signal conveyed by managers to the market. Companies that increase debt can be seen as companies that are

confident about the company prospects in the future. Because he was quite sure the company's managers dared to use larger debt. Investors are expected to catch the signal that the company has good prospects. Thus debt is a positive sign or signal. Corporate funding cannot be met only from company capital. In other words, the Debt to Equity Ratio has a positive effect on company performance. Companies need debt to fund their operations. If a debt is managed properly, debt will become the company's capital to develop in the future. This assessment will turn debt into a positive assessment and can attract investors' interest in investing their capital which will have an impact on increasing the company's stock price, which will then have an impact on increasing the company's financial performance.

The Influence of Company Size on Banking Financial Performance

Hypothesis six (H_6) says that company size has a significant influence on the financial performance of banking companies. The results of the partial hypothesis test show that firm size has a positive and significant effect on the financial performance of banking companies proxied by ROA. Table 2 show that the significance value of the influence of firm size (SIZE) on financial performance (ROA) is 0,011 < 0,05, H_6 accepted. The results of this study are in line with research conducted by Rohmah (2015) which explains that company size has an influence on financial performance. Company size is the financial strength possessed by the company, namely the greater the assets owned by the company, the more attention it will receive from the outside community. The number of assets owned by a banking company can be seen from the number of branch offices, as well as the number of dividends distributed to shareholders which can create a good image and reputation in the eyes of the public. Therefore, the company will be motivated to maintain company's financial performance.

According to research from Rahayu (2016) says that there is a variable effect of company size on ROA. The bigger the company, the bigger the assets owned. If the assets are bigger, then the funds used are also bigger for operations. With bigger operations, it tends to have an impact on income which will also be bigger, which of course, is followed by the movement of company profits. This profit movement will certainly drive the company's ROA therefore company size affects ROA. The results of research from Ginting (2019) state that company size has a significant positive effect on ROA. Company size has an important role in determining company profitability; the bigger a company, the more resources that can be used to gain profit, and the greater the opportunity to control the market, which in turn can increase company profitability.

Company size is a reflection of the size of the company, which appears in the total value of the company's assets, such as the number of branch offices. The larger the size of the company, the more resources and assets the company has to make a profit. This is because large companies tend to have more stable conditions. This stability will make large companies tend to be able to generate greater profits than smaller companies. Based on agency theory, large companies that have greater agency costs will disclose a wider range of information. This is done to reduce agency costs incurred. In addition, larger companies tend to have higher public demand for information than smaller companies. Company size is the size of the company seen from the company's total assets in the year-end balance sheet. In terms of company size, it can be seen from the total assets owned by the company, which can be used for the company's operations. If the company has large total assets, the management is more flexible in using the existing assets in the company.

CONCLUSION

Based on the results of the research and discussion that has been conducted regarding the Influence of good corporate governance, capital structure, and company size on financial performance. A board of independent commissioners positively affects the company's financial performance. This means that the more independent commissioners in a company, the stricter the supervision of managers and the board of directors will be to minimize fraudulent acts committed by managers against the company for their interests. The board of directors has no significant effect on the company's financial performance. The board of directors plays an essential role in the company's sustainability. However, the more the number of the board of directors, the more differences of opinion in determining company policies, so difficulties are often encountered in coordination and making the right decisions in carrying out better control functions to increase company profitability. The audit committee has no significant effect on the company's financial performance. These results indicate that the audit committee in banking companies has not been able to fully perform the auditing function according to the expertise to see fraud in financial reports to analyze the profitability that banking companies can obtain. Debt to Asset Ratio (DAR) has no significant effect on the company's financial performance. Debt to Equity Ratio (DER) significantly affects the company's financial performance. When the Debt to Equity Ratio increases, ROA will also increase. That is, the company has a large debt and significant capital. Large debt and capital values can generate large net profits, so ROA will increase. Company size has a significant effect on the company's

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financial performance. The bigger the company, the bigger the assets it has, and the bigger the assets, the bigger the funds used for operations; this will also impact income, which will be bigger, followed by movements of company profits. The profit movement will later drive the company's ROA. Therefore, company size affects the company's financial performance.

The limitations of this study are that this research only examines one period. In addition, this research only examines one company sector on the Indonesia Stock Exchange, the banking sector. It is better if further research can add control variables that are still related and are suspected of influencing the company's financial performance.

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