THE INFLUENCE OF CORPORATE GOVERNANCE ON RETURN ON EQUITY OF BANKS LISTED IN INDONESIA STOCK EXCHANGE (2018 – 2022 PERIOD)

PENGARUH TATA KELOLA PERUSAHAAN TERHADAP RETURN ON EQUITY PADA BANK YANG TERDAFTAR DI BURSA EFEK INDONESIA (PERIODE 2018 - 2022)

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Abstract: This research examines the relationship between corporate governance and Return On Equity (ROE) for Banks Listed in Indonesian Stock Exchange (IDX) from 2018 to 2022. It explores how effective corporate governance practices influence financial performance and the ability to achieve higher ROE. The study considers factors such as board structure, internal oversight practices, compensation policies, and risk management. The findings provide insights for enhancing governance practices in the face of regulatory changes, technological advancements, and increased competition. The research concludes that while the board of director partially influences ROE, and the board of commissioner partially do influence the Return On Equity but not significant the board of commissioners and directors simultaneously does have influence on ROE during the studied period.

Keyword*:* Corporate Governance, Return On Equity, Financial Performance, Board Of Directors, Risk Management.

Abstrak: *Penelitian ini menguji hubungan antara tata kelola perusahaan dan Return On Equity (ROE) untuk Bank yang Terdaftar di Bursa Efek Indonesia (BEI) dari tahun 2018 hingga 2022. Penelitian ini mengeksplorasi bagaimana praktik tata kelola perusahaan yang efektif mempengaruhi kinerja keuangan dan kemampuan untuk mencapai ROE yang lebih tinggi. Penelitian ini mempertimbangkan faktor-faktor seperti struktur dewan, praktik pengawasan internal, kebijakan kompensasi, dan manajemen risiko. Temuan-temuannya memberikan wawasan untuk meningkatkan praktik-praktik tata kelola dalam menghadapi perubahan peraturan, kemajuan teknologi, dan meningkatnya persaingan. Penelitian ini menyimpulkan bahwa meskipun dewan direksi secara parsial berpengaruh terhadap ROE, dan dewan komisaris secara parsial berpengaruh terhadap Return On Equity namun tidak signifikan, dewan komisaris dan direksi secara simultan berpengaruh terhadap ROE selama periode yang diteliti.*

Kata Kunci: *Tata Kelola Perusahaan, Return On Equity, Kinerja Keuangan, Dewan Direksi, Manajemen Risiko.*

INTRODUCTION

Research Background

Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. Corporate governance is a framework that governs the relationships and responsibilities among shareholders, board of directors, management, and other stakeholders in a company. In the banking sector, good corporate governance is of utmost importance because banks are responsible for managing significant public funds. It encompasses the mechanisms and structures in place for managing a company's operations, managing its relationships with stakeholders, and ensuring that it operates ethically and in compliance with relevant laws and regulations. Effective corporate governance is crucial for ensuring transparency, accountability, and fairness in decision-making processes within a company. By ensuring that the company is managed effectively and efficiently, and that decisions are made in the best interests of all stakeholders, good corporate governance can help to drive strong financial performance and ultimately improve a company's ROE.

Return On Equity, is a financial metric that measures a company's profitability by calculating the amount of net income generated as a percentage of shareholder equity. ROE is a key indicator of a company's financial performance and is closely watched by investors and analysts. It is an important financial metric for investors and analysts because it provides a measure of how efficiently a company is using shareholder funds to generate profits. A high ROE can indicate that a company is generating strong profits and is using its shareholders' funds effectively.

In terms of ROE, good corporate governance can help to improve the profitability of the company by ensuring that it is using its shareholder equity effectively to generate profits. This can be achieved by having a clear and well-defined strategy that is aligned with the company's goals, and by ensuring that there is effective oversight and management of the company's operations and resources. In addition, good corporate governance can help to promote transparency, accountability, and fairness in decision-making within the company. This can help to build trust and confidence among stakeholders, including investors and customers, and can ultimately lead to improved financial performance. On the other hand, poor corporate governance can have a negative impact on a company's financial performance, including its ROE. This can occur when there is a lack of transparency and accountability in decision-making, or when the company's operations are not effectively managed. Poor corporate governance can also lead to unethical or illegal practices, which can damage the company's reputation and result in financial losses.

During the period of 2018-2022, the banking industry in Indonesia faced various challenges and changes in the business environment, including regulatory changes, technological advancements, and intensified competition. In this context, it is important to understand how good corporate governance practices can contribute to the financial performance of banks, particularly in achieving higher levels of Return On Equity (ROE). In this light, understanding how effective corporate governance practices can contribute to the financial performance of banks, particularly in attaining higher ROE levels, becomes crucial. Strong corporate governance practices involve transparency, accountability, effective oversight, and compliance with rules and regulations. By implementing good governance practices, banks can enhance operational efficiency, improve risk management, and gain the trust of stakeholders.

By strengthening corporate governance, banks can optimize capital utilization, mitigate risks, and improve their financial performance amidst the evolving challenges and changes in the business environment. Research on the influence of corporate governance on Return On Equity (ROE) in bankings in Indonesia from 2018 to 2022 holds significant importance. This research helps in understanding the key drivers behind the financial performance of banks in the country. By examining the relationship between corporate governance practices and ROE, the study can identify the factors that contribute to profitability. Moreover, it allows for the evaluation of the effectiveness of existing corporate governance frameworks and ensures compliance with regulatory guidelines. Strong corporate governance practices in still investor confidence by promoting transparency, risk management, and compliance, making the research crucial in understanding how these practices impact investor perception and decision-making. Additionally, the research assists in identifying areas for improvement in risk management strategies and can provide insights for policymakers and regulators in developing policies that foster better corporate governance practices, ultimately leading to a healthier and more stable banking industry.

Research Objectives

1. To know how the influence of board of commissioners affect the Return On Equity of banks listed in Indonesia stock exchange 2018 – 2022
2. To know how the influence of board of directors affect the Return On Equity of banks listed in Indonesia stock exchange 2018 – 2022
3. To know how the influence of Board of Commissioners and Board of Directors on the Return On Equity of banks listed in Indonesia stock exchange 2018 – 2022

THEORETICAL FRAMEWORK

Corporate Governance

Sheikh and Rees (2002) describe corporate governance as a structure whereby managers are empowered and responsible for managing their businesses.

Board of Directors

Kusumah and Manurung (2017) define Board of Directors as the highest internal control mechanism that is responsible for monitoring the actions of top management.

Board of Commissioners

Tricker and Tricker (2015) state that, the Board of Commissioners is a group of individuals elected by the shareholders of a company to oversee and govern the affairs of the organization. The Board of Commissioners is responsible for setting the strategic direction of the company, ensuring that management follows the strategic plan, and overseeing the management of the organization. Directors.

Return On Equity

Ross, Westerfield, and Jordan (2017) define Return On Equity as the ratio of net income generated by a company after tax and preferred dividends divided by the total shareholder equity

Previous Study

Jessica (2020) examined the influence of good corporate governance on Return On Equity (ROE) in manufacturing companies. The independent variables tested include independent board of commissioners, audit committee, institutional ownership, and managerial ownership. The study uses a sample of 130 manufacturing companies listed on the Indonesian Stock Exchange from 2016 to 2018. The results indicate that the independent board of commissioners has a significant positive effect on ROE, while the audit committee, institutional ownership, and managerial ownership do not have a significant impact on ROE

Triangga and Putra (2015) examined the impact of Corporate Governance on Return On Equity (ROE) in the context of increasing technological advancements and market liberalization in Indonesia. The research finds that Corporate Governance significantly influences ROE, as supported by statistical tests. The study suggests that companies should focus on implementing effective Corporate Governance practices to enhance their financial performance. However, it is important to note that while the variables included in the study explain 16.4% of the ROE variations, the remaining 83.6% is influenced by other unexamined factors.

Raza et al. (2020) investigated the impact of corporate governance factors, including board size, audit committee, and board composition, on the Return On Equity (ROE) of companies listed on the Pakistan Stock Exchange. The study gathered data from 50 non-financial companies over a period of 2013-2015, and the results indicate a positive relationship between the aforementioned corporate governance factors and ROE.

Conceptual Framework

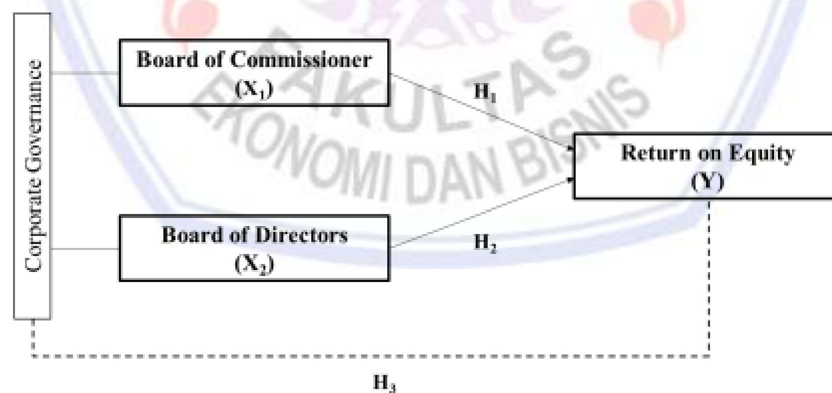

Figure 1. Conceptual Framework

Source: Literature Review

Research Hypothesis

H_1: Board of Commissioners partially influence the Return On Equity

H_2: Board of Directors partially influence the Return On Equity

H_3: Board of Commissioners and Board of Directors simultaneously influence the Return On Equity

RESEARCH METHOD

Research Approach

This research uses quantitative research. The researcher will find out the influence of Board of Commissioners and Board of Directors simultaneously influence the Return On Equity.

Population, Sample, and Sampling Techniques

Population is a generalization area consisting of objects with specific characteristics defined by researchers for study and drawing conclusions. The population referred to in this research is all banks in Indonesia that are listed on the Indonesia Stock Exchange during the period 2018-2022, with a total of 10 banks listed on the stock exchange. A sample is a subset of the population whose characteristics are to be investigated, and it is considered to represent the entire population (its quantity is smaller than the total population). The technique used for sampling in this study is Purposive Sampling. The sample size consists of 10 companies, and data is collected for a period of 5 years from each company. At least 50 financial reports from each bank in Indonesia listed on the Indonesia Stock Exchange during the period 2018-2022 are collected, provided that the financial reports are complete and published.

Data Collection Method

The data collection method used in this study will be using documentation method or secondary data, obtained from the websites of financing institutions, as well as reviewing literature books and journals related to the issue that will be researched by the author to obtain a comprehensive theoretical foundation about financing institutions and print media. Additionally, financial reports will be collected with the aim of obtaining secondary data.

Data Analysis Method

Validity and Reliability Test

Validity test is used to measure the validity of the questionnaire. A questionnaire is considered to be valid if its question can reveal something that will be measured on the questionnaire. Validity test are used to determine the feasibility of question items that define variables. An instrument will be valid if r value > from r table and sig. value (two-tailed) < 0.05 (Sujarweni, 2015).

A reliability test indicates how far the measurement resulting relatively consistent if it was repeated two or more times. Reliability test is done after the validity of the analysis carried out. Analyzes were performed by Cronbach's Alpha (α) is the coefficient of reliability which indicates how well an instrument item positively correlated with other instrument items. Higher coefficient alpha (α) will result in better measurement of the instrument.

Test of Classical Assumption

Classical assumption test is performed using regression analysis in order to reach a good data and generate a good model. There are some classical assumption tests as follows:

a. The normality test aims to test whether it is in the model regression, confounding or residual variables have a distribution normal. Normality test can be done with the Kolmogorov Smirnov (K-S) statistical test performed by making a null hypothesis (H0) for distributed data normal and alternative hypothesis (HA) for non-distributed data normal. The data is said to meet the assumption of normality or normal distribution if the significance value of the test results Kolmogorov-Smirnov is greater than 0.05.
b. Heteroscedasticity test is used to test inequality variance from an observation residual to another observation residual. By using scatterplot pattern with ZPRED plot as a prediction value, and SRESID as a residual value. The regression is free from heteroscedasticity if there is no specific pattern in the scatterplot (Sujarweni, 2015).
c. The autocorrelation test aims to test whether it is in the model linear regression there is a correlation between the confounding errors on period t with confounding errors in period t-1 (previously). If there is a correlation, then it is said to exist autocorrelation problem (Ghozali, 2011: 110). In this study to test whether there are symptoms autocorrelation using the Durbin-Watson test (DW test).
d. Multicolinearity test is a predictor where the independent variable was correlated each other. Multicolinearity test is used to test whether regression model was correlated among the independent variables or not. Multicolinearity test is detected by Variance Inflation factor (VIF) or Tolerance value (TOI). The criteria of using this test when tolerance value < 0.10 or equal to VIF value > 10, it shows there was multicolinearity among the independent variables (Sujarweni, 2015).

Multiple Linear Regression Analysis

Multiple linear regression is a technique that measures how influence of some independent variables to dependent variable**.** The multiple linear regression analysis equation model that was used in this study can be formulated

RESULT AND DISCUSSION

Result
Classical Assumption Test
Normality Test

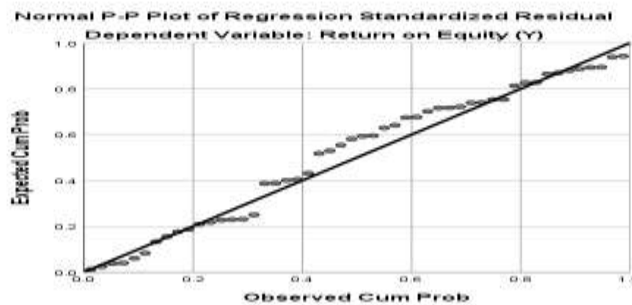

Figure 2. P-Plot Normality Test Result
Sources: Output SPSS 2023

Based on Figure 2, it is shown that the scattered points are around the diagonal line and follow the direction of the line. Therefore, it can be concluded that this study meets the normality test, and the residual values have been distributed normally.

Multicollinearity Test
Table 1. Multicollinearity Test Result

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-2.488	2.825		-.881	.383		
	Board of Commissioner (X1)	-.148	.401	-.047	-.368	.714	.731	1.367
	Board of Director (X2)	1.543	.285	.689	5.417	.000	.731	1.367

Coefficients[a]

a. Dependent Variable: Return On Equity (Y)
Sources: Output SPSS 2023

It can be concluded that from table 1 that this study does not occur multicollinearity because the tolerance value of all variables exceeds> 0.10 and the VIF value obtained from all variables also does not exceed 10.00.

Autocorrelation Test
Table 2. Multicollinearity Test Result

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.494[a]	.244	.211	4.66352	1.763

a. Predictors: (Constant), Board of Commissioners, Board of Directors
b. Dependent Variable: Return On Equity (Y)
Sources: Output SPSS 2023

The result findings that the Durbin-Watson value is 1.763 using the Chochrane-Orcutt method in the SPSS, so the findings can conclude that there's no autocorrelation because dU < Dw < (4-dL) or 1.6283 < 1.763 < 2.5375. In conclusion there are no autocorrelation in the data processed.

Multiple Linear Regression Analysis

Table 3. Multiple Linear Regression Analysis Result

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2.488	2.825		-.881	.383
	Board of Commissioner (X1)	-.148	.401	-.047	-.368	.714
	Board of Director (X2)	1.543	.285	.689	5.417	.000

a. Dependent Variable: Return On Equity (Y)

Sources: Output SPSS 2023

Based on the table 3, the regression is as follow:

$$Y = - 2.488 - 148X_1 + 1.543X_2$$

1. The constant value is - 2.488 which states that Board of Commissioner and Board of Director are equal to 0, then Return On Equity is - 2.488
2. The regression coefficient value for the Board of Commissioner is -.148. This value shows a positive effect between Board of Commissioner and Return On Equity
3. The regression coefficient value for Board of Director is 1.543. This value shows a positive effect between Board of Director and Return On Equity

Hypothesis Testing

Partial Test (T-Test)

Table 3 contains the results of the sig. and t values of each variable.

1. The result of the hypotheses testing is Board of Commissioner are do not influence the Return On Equity because the significant value of 0.714 > 0.05 and the t value for the Board of Commissioner is -0.365 which is less than the f table value 2.01. the conclusion is Board of Commissioner X_1 does not have significant effect on the Return On Equity Variable Y
2. The result of the hypotheses testing is Board of Director do influence the Return On Equity because the significant value of 0.00 < 0.05 and the t value for the Board of Commissioner is 5.417 which is more than the f table value 2.01. The conclusion is Board of Director have significant effect on the return

Simultaneous Test (F Test)

Table 4. F Test Result

ANOVA[a]

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	985.411	2	492.706	18.741	.000[b]
	Residual	1235.649	47	26.290		
	Total	2221.060	49			

a. Dependent Variable: Return On Equity (Y)

b. Predictors: (Constant), Board of Director (X2), Board of Commissioner (X1)

Sources: Output SPSS 2023

From the table4, it can be determined that the significance value for the influence of the board of commissioners and board of directors is 0.00 < 0.05, and the calculated F-value of 18.741 is greater than the f table of 3.20. This proves the influence of the board of commissioners and board of directors on Return On Equity.

Discussion

The Influence Of Board Of Commissioner On Return On Equity

This research finding indicates that board of commissioner does not influence the Return On Equity. The findings of the research indicate that an increase in the number of personnel has no correlation with higher profitability for a company. This finding is contradict to Jessica (2020) that board of commissioners has a significant positive effect on ROE.

The Influence Of Board Of Director On Return On Equity

From this research result the analysis of board of directors do influence the Return On Equity. The findings of the research indicate that an increase in the number of personnel is positively correlated with higher

profitability for a company. This result also related with Azmy, Anggreini, and Hamin (2019) that board of directors have positive influence on profitability or Return On Equity

The Influence Of Board Of Commissioner And Board Of Directors On Return On Equity

Based on the results of the simultaneous test, it indicates that the board of commissioners and the board of directors do have influence on Return On Equity. This result are in line with Fitriyani (2021) the combined number of personnel in the board of commissioners, board of directors, and audit committee has a significant influence on institutional profitability.

CONCLUSION

Conclusion

1. Board of commissioners partially do not have influence on Return on The Equity for the banks listed in Indonesia stock exchange 2018 – 2022 period of time
2. Board of directors in corporate governance partially do have influence on the Return On Equity for banks listed in Indonesia stock exchange 2018 – 2022 period of time
3. Board of commissioners and the board of directors in corporate governance, when considered simultaneously, do not have influence Return On Equity for the banks listed in Indonesia stock exchange 2018 – 2022 period of time

Recommendation

1. It is expected that this information can be useful as a consideration or reference for management in determining the optimization of the company to enhance profit earnings through the leadership capabilities of the board of commissioners and directors within the company.
2. It is hoped that this information can serve as a consideration in determining and deciding on investments to be made. It can also be a factor for investors and shareholders in making decisions.
3. Further researchers can benefit from this study to conduct more in-depth research on the influence of the board of commissioners and directors in Corporate Governance on Return On Equity (ROE), thus obtaining more accurate results.

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