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Research Article

The Role of Corporate Governance in Banking Performance: Highlighted During the Covid Pandemic (Evidence in Indonesian Bank)

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Abstract.
The study aims to analyze the impact of board size, number of non-executive Directors on Board, and Size of the Audit Committee on Return on Assets (ROA) and Tobin's Q on banks listed on the Indonesian Stock Exchange between 2019 and 2022. The research method used is descriptive statistical analysis and regression test on a sample of 11 banking companies in Indonesia. The data used included relevant variables such as board size, non-executive director composition, audit committee size, ROA, and Tobin's Q. The results of the analysis show that board size has a significant influence on ROA. However, board size had no significant influence on Tobin's Q. Furthermore, the number of non-executive directors on board also proved to have a significant influence on ROA. However, the number of non-executive directors on board did not have a significant influence on Tobin's Q. In addition, the size of the udit Committee also proved to have a significant influence on ROA and Tobin's Q. The larger size of the Audit Committee provides more effective supervision, better risk management, and transparency in financial reporting, which has a positive impact on the company's financial performance and market assessment. These findings have important implications that other factors, such as business strategies, risk management policies, or broader external factors, may also influence the company's performance.

Keywords: board size, number of non-executive directors on board, size of audit committee, return on assets, Tobin's Q, Bank, Indonesia stock exchange

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1. Introduction

The economic recovery in Indonesia after the Covid pandemic is crucial for the improvement of a country's situation. This is also true in Indonesia, especially the role of a banking company which is a company that is the foundation of the economic turnover in a country.

The economic situation in Indonesia began to improve with the rise of most banking companies' performance. The net profit growth printed by many banking companies is delightful news for the country. However, this is not the case for the few banks that experienced a decrease in net profits in 2022. Bank Jago suffered significant losses from Rp. 78 billion by 2021 to Rp. 15.91 billion by 2022. Also for the Earth Bank Arta experienced a decrease in net profit of 8.74% from the year 2021 printed Rp. 42.67 billion to Rp.38.94 billion in 2022. The situation is different from the performance of JTrust Bank, which can transform losses in 2021 into profits in 2022, which is Rp.445 billion in profit. 86 billion dollars.

Banking is a very important sector in the economy of a country. As a financial institution responsible for collecting and distributing public funds, banks have a strategic role inining financial stability and driving economic growth. In an increasingly complex and competitive environment, it is important for banks to have good corporate governance or what is known as corporate Governance. Corporate governance refers to a set of principles and practices used to manage and control a company in order to operate efficiently, transparently and accountably. Corporate governance is one of the key factors in determining the performance of the company. [1,2].

Previous research has produced diverse results on the impact of CEO Duality on company performance, in the banking sector. Some studies state that CEO Duality may have an effect on the company's performance, while others associate it with potential problems [3,4]. Therefore, further research is needed to explore the relationship between CEO Duality and banking performance in greater depth. The size of the board also has an effect on the performance of the banking company [5].

However, there are different outcomes related to CG versus Company Performance. Size Board on companies in Saudi Arabia has a negative impact on company performance [5–7]. It is also about the size of the audit committee and the foreign board has no influence on banking companies in Saudi Arabia [5]. Also research from Puni & Anlesinya [8]. The board size has a significant negative impact on the company's financial performance. Imade A study of companies in Nigeria concluded that non-executive directors did not have a significant influence on the return on assets (ROA) [9].

From the various differences in the results of the research that has been done on CG versus Company Performance, the aim of this study is to evaluate the role of corporate governance in banking performance at the time of Covid 19 on banking companies in Indonesia. The research will address relevant theoretical contexts, recent literature reviews, as well as empirical arguments and evidence that support or oppose the relationship between CG and banking performance.

This research will be developed by following structured research steps. First, there will be an explanation of the basic theories and concepts related to corporate governance and corporate performance. Later, a literature review will present empirical studies related to the relationship between CG and banking performance. The data and methodology used in this research will also be outlined to provide a strong foundation in the analysis carried out.

At the end of the study, a conclusion will be given that includes research findings, practical implications, and suggestions for future research. Hopefully, this research can provide valuable insights for academics, banking practitioners, and other stakeholders interested in corporate governance and banking performance.

2. Literature Review and Hypotheses Development

Theory of agency (theory of the agency) Jensen & Meckling [10] is the framework used in corporate governance research to understand the relationship between the owner (principal) and the manager (agent) in a company. This theory assumes the existence of a conflict of interest between owners who want to maximize the value of the company and managers who act to their personal goals. In the context of research on the relationship between corporate governance (CG) and banking corporate performance, agency theory can be used to develop relevant hypotheses.

The agency theory assumes that there is a difference in interest between the owner (shareholder) and the company's manager. There is a conflict of interest between the owner and the manager. Owners want to maximum corporate performance, while managers may have the motivation to their personal goals, such as increasing power or financial rewards. Based on the agency theory, the hypothesis can be developed that a strong level of CG, such as the presence of an effective supervisory committee and the ownership of shares by managers, will have a positive impact on the performance of a banking company. The election of the board of directors within the company also describes the theory of the agency that highlights the importance of the selection of the Board of Directors.

The relationship of CG with the company's performance both in the short and long term has been explained by many studies that discuss the board of directors both from the composition and the expertise of the gods members within the company. Demikina also talks about the measure of audit that has independence in increasing the accountability of the company that can be assessed by stakeholders. Board size has an influence on the performance of companies such as ROA and ROE in industry and service companies in Jordan [11]. The same goes for research from Almoneef & Samontaray [5] The Board Size results have a positive impact on Tobin's Q banking in Saudi Arabia. Banking in Nigeria also led to the same conclusion that Board Size has a significant positive impact on the company's value, Tobin's Q. The same hamper research was produced by a banking company in Bangladesh [12] The board size results have a significant positive impact on ROA and Tobin's Q. This is in line with the agency theory where companies that have many directors will be able to restore controlled management so that it can improve the performance of the company [13].

Another component of the CG, the audit committee, also plays a role in the company's performance. The Audit Committee. According to research Al Farooque et al. [14] In Thailand, the empirical results of the Audit Committee have an impact on the performance of the company.

From the results of previous research, the hypothesis that can be constructed is as follows:

H1a: Board Size has a significant positive impact on ROA

H1b: The number of non-executive directors on the board has a significant positive impact on ROA

H1c: The size of the audit committee has a significant positive impact on ROA

H2a: Board Size has a significant positive impact on Tobin's Q

H2b: The number of non-executive directors on the board has a significant positive impact on Tobin's Q

H2c: The size of the audit committee has a significant positive impact on Tobin's Q

In our efforts to uncover GCs in Indonesian banking companies, we designed CG-related research models that affect the company's performance. By considering key variables such as Board size, Non-Executive Director composition, Audit Committee size, Tobin's Q, and Return on Assets with the following design (see Fig. 1):

3. Research Methodology

The population in this study included 47 bank companies listed on the Indonesian Stock Exchange. (BEI). The sample obtained from the election period 2019 to 2022 produced a set of financial report data during the survey, so that 44 data consisted of

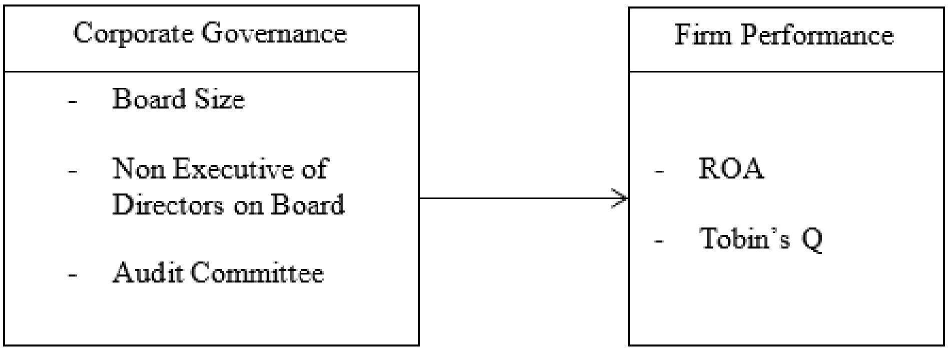

Figure 1: Empirical research framework.

11 banking companies in Indonesia. The year in which the COVID 19 pandemic period was used in research to demonstrate innovations in this study. Research instruments use variables related to CG and company performance mainly seen from performance that uses short-term measurement of profitability measured with Return On Asset and long-term performance measuried with Tobin's Q. [12].

The specification of the model used in the research based on previous studies is stated as follows:

Model 1

$ROA = \alpha 1 + \beta 1 B\_SIZE + \beta 1 N\_of\_Exc + \beta 1 Size\_Aud +$ e1

Model 2

$Tobin's\ Q = \alpha 2 + \beta 2 B\_SIZE + \beta 2 N\_of\_Exc + \beta 2 Size\_Aud +$ e2

Where is :

ROA : Return On Assets

Tobin's Q : Tobin's Q

B-Size : Board Size

N-of_Exc : Number of Non Executive Directors on Board

Size_aud : Audit Committee

In this study we used how many variables we analyzed include Board size, number of non-executive directors in the Board of Directors, size of audit committees, Tobin's Q (company market ratio), and Return on Assets (ROA). (pengembalian atas aset). The data size and variables used are as follows (see Table 1):

TABLE 1: The data size and variables used.

Variabel	Measurement
Tobin's Q	(Market Value of Equity + Liabilitas)/Total Assets [12]
Return On Assets	Earning Before Tax and Interest / Total Assets [12]
Board Size	Total Number of Directors in board [12]
Audit Committee	Total Number of Audit Committee [12]
Number of Non Executive Directors on Board	Non Executive Director's Composition [9]

4. Empirical Research and Discussion

4.1. Descriptive statistics

Tested on 11 Indonesian banking companies over a four-year period from 2019 to 2022. Here is a more detailed explanation of each variable mentioned that Board Size, Based on the test results, the Board size in these banking companies has a minimum value (min) 4 and a maximum value (max) 11. This shows variation in the number of board members among the companies. Based on the test, the number of non-executive directors in the board of directors of such banking companies has a minimum value of 2 and a maximum value of 9. This variation shows differences in the composition of the Board of Directors between the companies. The size of the audit committee (Size of Audit Committee), the test results show that the size of audit committees of the banking companies has a minimum value of 2 and a maximum value of 7. This shows variation in the number of audit committee members among the companies. Tobin's Q is the ratio used to measure a company's market value compared to its book value. In this case, the Tobin's Q value has a minimum value of 0.93 and a maximum value of 1.71. This range of values shows variations in the performance of the market value of the banking companies. ROA is the ratio used to measure the efficiency and profitability of a company by comparing the net profit generated with the total assets owned. Based on the test, the ROA of these banking companies has a minimum value of 0 and a maximum value of 3. These variations show differences in the efficiency and profitability of these companies. as reflected in the following table 2.

The CG research carried out has used classical assumption testing and the results showed that all assumptions have been well met. This research covers key variables such as the size of the Board of Directors, the composition of the Non-Executive Directors and the sizes of the audit committees, which are directly related to the

Table 2: Descriptive statistics.

N		Minimum	Maximum	Mean	Std. Deviation
Board Size	44	4.0	11.0	6.909	1.6051
Number of Non-Executive Directors on Board	44	2	9	5.38	1.496
Size of Audit Committee	44	2	7	4.17	1.296
TOBIN Q	44	.93	1.71	1.0709	.18683
ROA	44	0	3	1.14	.907
Valid N (listwise)	44				

company's performance. The company's performance in this study was measured using two main indicators, namely Return on Assets (ROA) and Tobin's Q. In the testing process, all relevant assumptions have been carefully examined and meet established statistical standards. The variables studied, including the size of the Board of Directors, the composition of non-executive directors, and the sizes of the audit committees, have been shown to have a significant impact on the company's performance, as measured by ROA and Tobin's Q.

4.2. Regression analysis

In our research, we used warpPLS, a powerful statistical analysis method, to test the impact of Corporate Governance (CG) on company performance. This test was conducted with the aim of understanding to what extent factors such as the size of the Board of Directors, the composition of the Non-Executive Directors and the scale of the audit committees influenced the performance of the company as measured by the Return on Assets (ROA) and Tobin's Q.

From the overview of the test results presented (see Fig. 2), it is apparent that the size of the Board of Directors has a significant influence on ROA, which suggests that having a larger board of directors can have a positive impact on the return on the company's assets with a p-value of 0.07 which can prove that this study is consistent with Jordan's research. Kanakriyah [11] Also results of Almoneef and Samontaray [5] research. Analysis shows that Board Size or board size has a significant influence on a company's Return on Assets (ROA). Optimal board size can provide advantages in strategic decision-making, adaptation to changing business environments, and increase investor confidence during

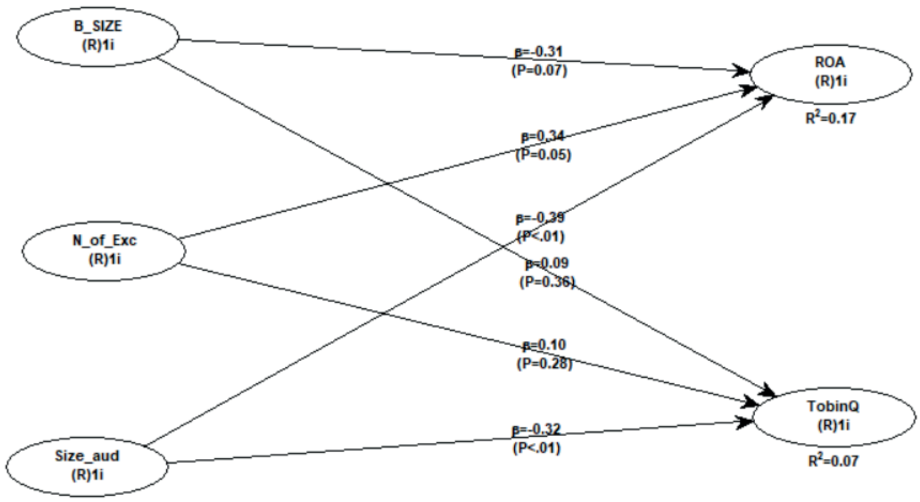

Figure 2: Research test results.

the covid 19 pandemic period occurring in Indonesia However, the attractiveness of the testing also revealed that board size did not have a significant impact on Tobin's Q with a P-value of 0.36 [5–7]. In the context of the COVID-19 pandemic, companies may be more focused on recovery efforts, restructuring, or operational adjustments to survive and restore their performance. Therefore, the size of the board may not be the main factor affecting Tobin's Q value during that period.

Our research revealed interesting findings that showed the significant impact of Non-Executive Director's Composition on Return on Assets (ROA), with a P significance value of 0.05. This indicates that the composition of the Non-Executive Directors in the Board of Directors plays an important role in influencing the efficiency and profitability of the company, which is reflected in better ROA. These factors may include diversity of perspectives, specialized expertise, and increased supervision brought by the Non-Executive Director. However, the attractiveness of our research also showed that the Non-Executive Director's Composition had no significant influence on Tobin's Q, with a P-value of 0.28. A study with the same results was conducted by Imade [9].

This indicates that in terms of a company's market assessment, other factors, such as operational performance, risk management policies, or broader external factors, may have a greater influence on market assessments than the composition of the Non-Executive Director. These findings provide a deeper understanding of the key role played by the composition of Non-Executive Directors in achieving higher levels of efficiency and profitability in the context of ROA. However, it also emphasizes the complexity and multidimensionality of the market evaluation of the company, as reflected in Tobin's Q.

Finally, our interesting findings show that the number of members of the Audit Committee has a significant influence on Return on Assets (ROA) with a P significance value of 0.01. This indicates that the correct size and composition of the Audit Committee in a company has an important role in increasing efficiency and profitability, which is reflected in higher ROAs. By having a strong and diverse audit committee, the company can ensure effective supervision, good risk management, and transparency in financial reporting. In addition, our research also found that the Audit Committee influenced Tobin's Q with a significance of 0.01. Research from Ebimobowei [13] and Al Farooque et al. [14] say the same thing.

These results reveal that the quality and performance of the Audit Committee can influence the company's market assessment (Tobin's Q). The existence of an effective and proactive Audit Committee can give investor and stakeholder confidence that the company pursues good governance practices, manages risk properly, and adheres to strict financial standards. The findings provide strong evidence that the Audit Committee plays a crucial role in improving the company's financial performance and reputation, while affecting market perceptions of the company's value. This provides an incentive for banking companies to ensure the existence and effective functioning of the Audit Committee as one of the key pillars of a strong governance system. As by Hossain [12] in similar research.

5. Conclusion

Based on the results of the testing, some interesting conclusions were found regarding the influence of the variables studied on Return on Assets (ROA) and Tobin's Q. First, in relation to Board Size, the test results show that this variable has a significant impact on ROA. This indicates that having a larger Board of Directors can have a positive impact on the return on the company's assets. Interestingly, however, the testing also revealed that Board Size had no significant influence on Tobin's Q. This means that the size of the Board of Directors does not directly affect the company's market assessment. In this case, other factors such as management quality, business strategy, or external factors may have a more dominant influence in determining market assessment. Second, in relation to the Number of Non-Executive Directors on Board, the test findings show that this variable has a significant impact on ROA.

This shows that the composition of the Non-Executive Directors in the Board of Directors plays an important role in increasing the efficiency and profitability of the company, which is reflected in higher ROAs. Interestingly, however, the testing also showed that the Number of Non-Executive Directors on Board had no significant influence on Tobin's Q. This indicates that in terms of a company's market assessment, other factors, such as operational performance, risk management policies, or broader external factors, may influence market assessments more than the composition of the Non-Executive Director. Third, in relation to the size of the Audit Committee, the test results show that this variable has a significant impact on ROA. A larger size of the Audit Committee can provide more effective supervision, better risk management, as well as transparency in financial reporting, which has a positive impact on the company's financial performance and is manifested in higher ROA. Additionally, testing also showed that the Size of Audit Committee had a significant influence on Tobin's Q. This indicates that the quality and performance of the Audit Committee may affect the company's market assessment.

The existence of an effective and proactive Audit Committee can give investor and stakeholder confidence that the company pursues good governance practices, manages risk properly, and adheres to strict financial standards. From the research findings, giving implications of the insignificant impact of Board Size on Tobin's Q indicates that other factors, such as business strategy, risk management policies, or broader external factors, may have more influence on the company's performance.

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