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THE EFFECT OF INDEPENDENT BOARD OF COMMISSIONERS, FIRM SIZE AND LEVERAGE ON BANKING FINANCIAL PERFORMANCE IN INDONESIA

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Abstract

This study aims to determine the effect of the Independent Board of Commissioners, Firm Size and Leverage on the Financial Performance of the Indonesian Bank. The research method used is quantitative, with secondary data from financial statements, financial ratio reports and management structure of conventional commercial banks registered with the Financial Services Authority (OJK) with a total sample of 55 banks. The data analysis techniques used are requirements analysis test, classical assumption test, multiple regression equation test and hypothesis testing. The study results partially show that the independent board of commissioners and firm size have a positive and significant effect on banking financial performance. In contrast, Leverage has a negative and significant effect on banking financial performance. The independent variable used in this study explains its effect on financial performance by 38,5%, while other factors explain the rest.

Keywords: *Independent Board of Commissioners, Firm Size, Leverage, Financial Performance*

INTRODUCTION

Indonesia's economic condition in recent years has been fluctuating rate. Based on data from BPS (2021), in 2016, Indonesia's economic growth was at 5.03%, which then increased in 2017 to reach 5.07%. The following year, namely 2018, again experienced an increase of 0.10% but decreased drastically in 2019 to 5.02%. Until 2020, this figure has dropped again to reach 2.97% due to pandemic conditions that harm various sectors that support the Indonesian economy.

The banking sector is part of the financial sector which is considered to have an important role in a country's economy, as explained by its activities as an intermediation institution. Quoting the Financial Services Authority (OJK), banks in Indonesia aim to support the implementation of national-scale development to increase equitable development and the results of the product. From the financial side, banking is a pillar of a country's economic growth and a tool to maintain national economic stability to improve people's living standards. The importance of its activities, functions, and objectives as performance in the banking sector must consider.

The performance of banking companies can be measured from various ratios such as solvency, liquidity, and profitability (Situmorang & Simanjuntak, 2019). The indicator that is considered the most appropriate to measure a bank's performance is profitability, as measured by Return on Asset (ROA) (Margiati et al., 2019). In banking, ROA shows the company's management's ability to obtain profit from the activities of managing the assets owned. As defined by Kasmir (2010), ROA is defined as a ratio that shows the yield (return) of the number of assets used by a company (Suri et al., 2020). In another sense, ROA is an indicator of the efficiency of banking management in converting or using banking assets into profits (Herdyanto, 2019). Then the greater the ROA level, the greater the profit that banks achieve and the better their performance.

When viewed from the return on assets (ROA) level based on a report from the OJK

regarding Indonesian Banking Statistics, the level of banking performance in Indonesia has experienced ups and downs. The rise and fall in the ROA percentage illustrate that the financial performance of banks in Indonesia has not been stable, so it is still vulnerable when facing economic conditions that are also unstable, such as during the pandemic and after the current pandemic. The failure of a bank can trigger a domino effect on the financial system, meaning that the loss can affect other financial services institutions and sectors, thereby endangering the national economy. The state of Indonesia, which has yet to recover from the pandemic, makes public consumption still lacking due to the motive of vigilance because credit distribution by banks is restrained (Anggraeni, 2021). The failure of a bank can trigger a domino effect on the financial system, meaning that the failure can affect other financial services institutions and sectors, thereby endangering the national economy.

Financial performance is also related to Good Corporate Governance (GCG), tool companies use to manage their structures and work mechanisms. GCG is one of the key elements in improving company performance by integrating the relationship between the company's management, board of directors, shareholders, and other stakeholders in the company (Agatha et al., 2020). One of the important elements of GCG is an independent board of commissioners, as it functions as a party that oversees the company's activities by GCG principles. According to the Law of the Republic of Indonesia No. 40 of 2007 Article 120 Paragraph 2, the appointment of an independent board of commissioners is based on the decision of the General Meeting of Shareholders (GMS) of parties. They are not affiliated with the main shareholders, members of the board of directors, and other members of the board of commissioners. The existence of an independent panel of commissioners is expected to be neutral on all policies made by the board of directors. In addition, the knowledge possessed by the independent committee of commissioners, their prestige, and social relations influence the consideration and decision-making of the board of directors, as well as providing guidance and improving the company's performance.

In addition to an independent board of commissioners, another factor that can affect the financial performance of banks namely the size of the company. One of the indicators to show the condition or characterization of the company is its size of the company. Where there are several parameters used to determine the size of a company, including the number of employees involved in the company's operational activities, the number of assets owned by the company, the total sales of the company in one period, and the number of company shares outstanding (Fuad, Utari, 2020), the size of the company are also one of the benchmarks for a company's ability to make a profit, the larger the company, the higher the profit generated (Apriliani, 2018). Large companies tend to have more resources when compared to small companies so that in the operational activities of large companies obtain more revenue which will then increase ROA (Yudi Sungkono, 2019).

Banking operational activities are not only sourced from internal parties of the company but can be sourced from external parties of the company. Suppose the company chooses the source of funds from external parties of the company in the form of debt because of these activities. In that case, there will be three things, the party who provides credit will focus on the credit given on the amount of collateral if the company gets a profit greater than a fixed burden, the gain of the company owner will increase, and by using debt, the company owner obtains funds and does not lose control of the company (Wayan et al., 2018). The ratio used to measure the proportion of funds provided by the company's creditors is called the Leverage Ratio (Rahayu & Sari, 2018). Leverage is defined as the use of fixed or fixed assets and sources of funds where, for these two things, the company must incur fixed costs and interest expenses (Tambunan & Prabawani, 2018). According to Brigham and Hoston, the policy of using debt involves a relationship between risk and return. If the company uses more debt, shareholders will bear a high risk. However, such large debt will also increase expectations of higher returns

on equity (Wibowo, 2019).

Based on the explanation, this study aims to determine the effect of the Independent Board of Commissioners, Firm Size and Leverage on the Financial Performance of the Indonesian Bank.

LITERATURE REVIEW

Agency Theory

According to Handayani (2018), agency theory is a theory that explains the relationship between the management of a company (agent) and the owner of the company (principal), which is based on a contract. In this case, the agent performs certain duties for the principal; on the other hand, the principal must reward the agent. This theory also states that there is an information asymmetry between the principal and the agent because the agent knows the company's internal information better and understands the company's prospects compared to the principal. Financial statements must be developed to communicate financial information to parties outside the organization to reduce the information asymmetry that might arise from this situation. Furthermore, according to Murdani & Carolina (2019), in the contractual relationship between the principal and the agent, the principal authorizes management to carry out the company's operational activities in the hope that management can optimize the use of resources to realize the welfare both short and long term for the principal.

Company management is inseparable from achieving goals and company performance, so in this case, company performance is related to agency theory. With the relationship between the principal and the agent, where the agent is given the authority to run the company, use the resources owned to achieve goals and make decisions that can be profitable, the agent also has the responsibility to report the results of his work to shareholders or company owners (Marisya, 2021).

Definition of Independent Board of Commissioners

The independent board of commissioners is a member of the board of commissioners who comes from external parties of the company, has no business relations and other relationships with the board of directors, fellow board of commissioners and controlling shareholders so that with its ability, it has, it can be neutral without taking sides with anyone to realize the company's goals.

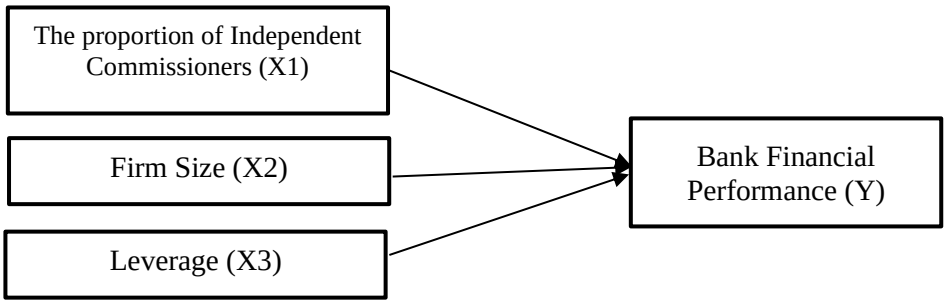
Definition of Firm Size

The size of the company is an indicator that shows the total assets owned by the company to carry out its operational activities, and the results can explain the level of company performance.

Definition of Leverage

Leverage is a parameter used by companies in measuring how much a company's assets are financed with debt in terms of how much debt burden the company bears when compared to the assets owned. In a broad sense, Leverage is used to measure a company's ability to pay all its short-term and long-term obligations if the company is liquidated. In addition, it defines leverage ratio as a ratio that describes the relationship between debt to capital and assets owned by the company. Leverage can give an idea of how far the company is financed by debt or outside parties with the company's capabilities described by equity. When compared to non-financial sector companies, the level of Leverage for banks is considered higher, where the average reaches 87% to 95%, while non-financial sector companies are only in the range of 20% to 30%; this can happen because the bank's main capital providers are customers and other debtholders (John et al., 2016).

Theoretical Framework



METHODS

The method used in this study is quantitative. According to Sugiyono (2018), quantitative research methods are defined as research methods based on the philosophy of positivism, used to research in certain populations or samples, data collection using research instruments, and quantitative/statistical data analysis, with the aim of testing hypotheses that have been set. The data were analyzed with multiple linear regression techniques to determine the direction of the relationship between independent variables and dependent variables, whether each independent variable corresponds in a positive or negative direction and predict the dependent variable's value when the independent variable increases or decreases. The variables tested in this study to determine the causal relationship are the influence of the Independent Board of Commissioners, Firm Size and *Leverage* as measured by *the Debt-to-Equity Ratio* (DER) to Banking Financial Performance with *the Return on Assets* (ROA) indicator. The population in the study were conventional commercial banks registered with the OJK. The data used in this study are secondary data obtained from financial statements, financial ratio reports, and bank management composition from the OJK and annual reports on banking *websites*. The sampling technique used is *purposive sampling*, where the subjects in the study are selected with special conditions that meet the study's objectives (Gumanti et al., 2018). The criteria for the sample of this research is Conventional Commercial Banks (BUK) published their annual report in OJK from 2016 to 2021. Fifty-five banks were used as the final sample of the study. Analysis of research data was subsequently analyzed using *SPSS 25.*

RESULTS AND DISCUSSION

The results of the Descriptive Statistical Analysis Test are presented in table 2.

Table 1 Multiple Linear Regression Analysis Results

Coefficients						
Type		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-6,169	1,233		-5,003	,000
	X1_DKI	2,889	,925	,347	3,124	,003
	X2_SIZE	,372	,059	,771	6,257	,000
	X3_LEV	-,140	,053	-,308	-2,624	,011
a. Dependent Variable: Y						

Source: SPSS Output, 2022

Based on the table of multiple linear regression analysis results, data were generated for regression equations, including -6.169 for constants, 2.889 for independent boards of commissioners, 0.372 for the firm size, and -0.140 for *Leverage.* Based on these data, the regression equation is formulated as follows:

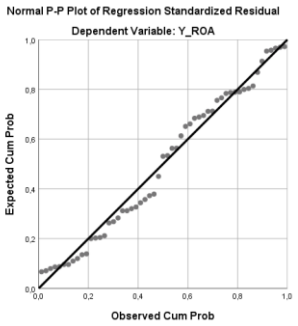
$$\mathbf{Y = -6.169 + 2.889X1 + 0.372X2X2 – 0.140X3}$$

The next test is the prerequisite test of analysis, and two tests are carried out, including

the normality test and the linearity test. The normality test in a study is used to test whether the data is distributed normally or not. In this study, the *Kolmogorov-Smirnov one-sample test* was used with a significance level of 5%. In addition to using these tables, tests to detect whether the data is normal can be used P-Plot tests provided that the data points must spread out following diagonal lines. In addition, a linearity test is carried out to determine whether an independent variable relates to the dependent variable. In this study, the significance level was 0.05.

Table 2 Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		55
Normal Parameters[b]	Mean	,0000000
	Std. Deviation	,67859779
Most Extreme Differences	Absolute	,097
	Positive	,097
	Negative	-,073
Statistical Test		,097
Asymp. Sig. (2-tailed)		,200[c,d]
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		
d. This is a lower bound of the true significance.		



Source: SPSS Output, 2022

Based on the output results of the normality test in the table of normality test results, the asymp value. *Sig. (2-tailed) Unstandardized Residual* by 0.200 > 0.05, and the spreading point follows a diagonal line. So, the data in the study are normally distributed, and the data can be used for subsequent testing.

Table 3 Linearity Test X_1 against Y

ANOVA Table							
			Sum of Squares	Df	Mean Square	F	Sig.
Y*X1_DKI	Between Groups	(Combined)	21,774	20	1,089	1,625	,104
		Linearity	,574	1	,574	,857	,361
		Deviation from Linearity	21,199	19	1,116	1,665	,095
	Within Groups		22,777	34	,670		
	Total		44,551	54			

Table 4 Linearity Test X_2 against Y

ANOVA Table							
			Sum of Squares	Df	Mean Square	F	Sig.
Y*X2_SIZE	Between Groups	(Combined)	43,407	52	,835	1,459	,492
		Linearity	12,555	1	12,555	21,948	,043
		Deviation from Linearity	30,852	51	,605	1,057	,605
	Within Groups		1,144	2	,572		
	Total		44,551	54			

Table 5 Linearity Test X_3 against Y

ANOVA Table							
			Sum of Squares	Df	Mean Square	F	Sig.
Y*X3_LEV	Between Groups	(Combined)	40,695	51	,798	,621	,802
		Linearity	,023	1	,023	,018	,903
		Deviation from Linearity	40,673	50	,813	,633	,794
	Within Groups		3,856	3	1,285		
	Total		44,551	54			

Source: SPSS Output, 2022

Based on table 3, the independent board of commissioners has a linear relationship with the financial performance of banks because the significant value of *the deviation from linearity* is greater than 0.05, which is 0.095. Based on table 4, the company size variable has a linear relationship with banking financial performance because the significant value at *deviation from linearity* is greater than 0.05, which is 0.605 and table 5 shows the *leverage* variable has a linear relationship with banking financial performance due to the significant value *of deviation from linearity* greater than 0.05 which is 0.794.

Furthermore, classical assumption tests include autocorrelation, multicollinearity, and heteroskedasticity tests. The autocorrelation test shows the influence of data in one variable that is interconnected with each other.

Table 6 Autocorrelation Test Results

Type	R	R Square	Adjusted R Square	Std. The error in the Estimate	Durbin-Watson
1	,648[a]	,420	,385	,64796	2,046
a. Predictors: (Constant), X3_LEV, X1_DKI, X2_SIZE					
b. Dependent Variable: Y					

Source: SPSS Output, 2022

Based on the table of autocorrelation test results, *the Durbin-Watson* value is 2.046. When viewed from *Durbin Watson's* table, with a significance level of 5%, a sample number of 55 and the number of free variables of 3, the lower limit (dL) obtained is 1.4523. The upper limit (dU) is 1.6815. After calculation, a value (4-dU) of 2.3185 is obtained so that it can be concluded that the value of d is located between dU and (4-dU), which is 1.6815 < 2.046 < 2.3185, which means that no autocorrelation occurs.

Furthermore, the multicollinearity test relates to the relationship between fellow independent variables. If two or more independent variables have a close linear relationship, the regression model

can be expressed as having a multicollinearity condition. There is no multicollinearity if *the tolerance* value > 0.10 and the VIF value < 10.

Table 7 Multicollinearity Test Results

Coefficients								
Type		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-6,169	1,233		-5,003	,000		
	X1_DKI	2,889	,925	,347	3,124	,003	,887	1,127
	X2_SIZE	,372	,059	,771	6,257	,000	,720	1,389
	X3_LEV	-,140	,053	-,308	-2,624	,011	,795	1,257
a. Dependent Variable: Y								

Source: SPSS Output, 2022

Based on the table of multicollinearity test results, the tolerance value is 0.887 for the independent board of commissioners, 0.720 for firm size and 0.795 for Leverage. In addition, the VIF value is 1,127 for the independent board of commissioners, 1,389 for the company's size and 1,257 for Leverage. The three independent variables have a tolerance value of > 10 and a VIF of < 10, so it can be concluded that there is no multicollinearity in the regression model.

Furthermore, test heteroscedasticity to find out whether the variants and residual values are not the same between one observer and another observer.

Table 8 Heteroscedasticity Test Results

Coefficients						
Type		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,895	,617		1,450	,153
	X1_DKI	-,014	,463	-,005	-,031	,976
	X2_SIZE	-,024	,030	-,134	-,822	,415
	X3_LEV	,021	,027	,122	,784	,437
a. Dependent Variable: ABRESID						

Source: SPSS Output, 2022

Based on the table of heteroscedasticity test results, the significance value of the independent board of commissioners is 0.976, the company size of 0.415 and the Leverage of 0.437 means that each independent variable has a significance value of > 0.05 so that it can be concluded that heteroskedasticity does not occur in the regression model.

The next test is a quantitative multiple regression analysis that includes the T-Test, F Test and Determination Coefficient Test, carried out with multiple regression analysis.

Table 9 Coefficient of Determination Test Results

Type	R	R Square	Adjusted R Square	Std. The error in the Estimate
1	,648[a]	,420	,385	,64796
a. Predictors: (Constant), X3_LEV, X1_DKI, X2_SIZE				
b. Dependent Variable: Y				

Source: SPSS Output, 2022

Based on the table of test results, the coefficient of determination of Adjusted R Square results is 0.385, so it can be interpreted that the financial performance of banks is influenced and explained by independent variables in this study by 38,5%. In contrast, the rest is influenced and explained by other independent variables.

Table 10 F Test Results

ANOVA[a]						
Type		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	19,684	3	6,561	13,457	,000[b]
	Residual	24,867	51	,488		
	Total	44,551	54			
a. Dependent Variable: Y						
b. Predictors: (Constant), X3_LEV, X1_DKI, X2_SIZE						

Source: SPSS Output, 2022

Based on the test results table, f obtained a significance value of 0.000 and a calculated F of 13.457. The F value of the table obtained from the F distribution table for significance is 0.05, the free variable by three and the subtraction n by k by 52 is 2.783. So that the conclusion obtained is the significance value of 0.000< 0.05 and F counts > F table (13.457 > 2.783), then the independent variable affects the dependent variable.

Table 11 T-Test Results

Coefficients						
Type		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-6,169	1,233		-5,004	,000
	X1_DKI	2,889	,925	,347	3,124	,003
	X2_SIZE	,372	,059	,771	6,257	,000
	X3_LEV	-,140	,053	-,308	-2,624	,011
a. Dependent Variable: Y						

Source: SPSS Output, 2022

DISCUSSION

The results of the study shown in table t above can be interpreted with the following discussion:

1. Effect of Independent Board of Commissioners on Banking Financial Performance

Partial hypothesis testing of an independent board of commissioners as measured by the number of independent boards of commissioners in the bank's management structure significantly influenced banking financial performance. It is indicated by a significance value of 0.003 < 0.05 and a calculated t value > t table (3.124 > 2.00665). The regression result shows a positive calculated value which means that if the number of independent boards of commissioners increases, the financial performance of the banking industry also increases.

The results of this study are in line with the results of research conducted by Saragih & Sihombing (2021), Abdul Gafoor et al. (2018) and AlQudah et al. (2019), which concluded that the independent board of commissioners is influential and significant positive to the bank's financial performance as measured by ROA means that the more the number of independent boards of commissioners, the function as a supervisor and adviser becomes good so that can have a positive impact on the bank's financial performance.

An independent board of commissioners is a party from outside the bank considered an expert who can assist management in making decisions and provide guidance to company management to improve its performance. In addition, the role of the board of commissioners

in terms of supervision is the sixth principle of the OECD. Companies can use the role to discipline the behavior of managers who leads to personal interests and degrades the welfare of other parties (Rahmawati, 2017).

However, the results of this study are not in line with the research conducted by Nugrahani, W & Yuniarti (2021), Rizki & Wuryani (2021), Suparno et al. (2020), who stated that an independent board of commissioners does not affect the financial performance of banks.

Therefore, based on the results of previous research and research conducted by researchers, the independent board of commissioners has a significant positive effect on the financial performance of banks.

2. The Effect of Firm Size on Banking Financial Performance

Partial hypothesis testing of firm size as measured by the natural logarithm of total assets significantly influenced banks' financial performance. It is indicated by a significance value of 0.000 < 0.05 and a calculated t value > t table (6.257 > 2.00665). The regression results show a positive calculated value, which means that if the company's size increases, the banking industry's financial performance also increases.

The results of this study are in line with research that has been conducted by Dewi & Tenaya (2017), Mwangi (2018), Adelopo et al. (2018) and Al-Homaidi et al. (2018). Hypothesis testing the study concluded that the size of the company has a positive effect on the financial performance of banks. This statement is supported by research conducted by Lullah et al. (2020), where with a significance value of 0.001 and a t count of 3.374, it is concluded that the size of the company has an effect positively significant on the performance of the bank. It means that the greater the bank's total assets, the higher its ability to generate profit.

The size of the assets owned by the bank can show the bank's ability and capacity to serve the community's needs. If the assets owned can be managed properly, the bank can diversify its products and credit. It gives banks a greater opportunity in industry competition to get large profits.

However, the results of this study are not in line with the research conducted by Gunawan et al. (2019); Oktaviani et al. (2019), and Wulandari & Novitasari (2020), which state that the size of the company does not affect the financial performance of banks. Based on the results of research carried out by researchers and previous research, the size of the company has a significant positive effect on the financial performance of banks.

3. The Effect of Leverage on Banking Financial Performance

Partial hypothesis testing of Leverage as measured by debt-to-equity ratio resulted in a significant influence on banking financial performance. A sign indicates that it. Value of 0.011 < 0.05 and a calculated t value > t of the table (-2.624 > 2.00665). The regression results show a negative calculated t value, which means that banking financial performance decreases if Leverage increases.

The results of this study are in line with the results of research conducted by Pradhan & Khadka (2017), Ebenezer et al. (2019) and Shahid et al. (2019), which stated that the Debt to Equity Ratio (DER) negatively affects ROA. Kurniawan & Samhaji (2020) also proposed the results of a similar study. Based on the testing results, the hypothesis obtained a calculated t-value of -2.1194 and a probability value of 0.0361. Thus, it is concluded that Leverage has a significant negative effect on banking financial performance, which indicates that the higher the banking leverage, the lower the performance.

This statement is supported by research by Elisetiawati & Artinah (2016) and Wahyuni et al. (2020), where Leverage significantly negatively affects bank financial performance as measured by ROA. The higher the DER number, the smaller the amount of capital that can be used as debt collateral. A high level of debt also means that the greater the interest expense

borne by the company can reduce the amount of profit earned.

Compared to other industries, the leverage ratio for the banking industry has a higher value. A bank is an intermediation institution that collects funds from the community and distributes them back to the community. In this collection activity, the funds owned by the bank come from the community, so the bank's main capital providers are customers and other debtholders. The source of the funds will be channeled back to the public in the form of credit or other bank products. Lending activities, which are the main activity of banks, make banks an industry that is vulnerable to risk. Lending can cause losses to banks if the number of loans disbursed is non-performing or the distribution level is low. Hence, banks also have the potential to experience a decline in financial performance.

However, the results of this study are different from research conducted by Dewi & Candradewi (2018), Zelalem (2020) and Nyabaga & Matanda (2020), which state that Leverage has a positive effect on banking performance. Based on the results of research conducted by researchers and the results of previous studies, Leverage negatively affects the financial performance of banks.

CONCLUSION

Based on the results and discussions on the analysis of research data conducted to test the influence of the Independent Board of Commissioners, Firm Size and Leverage on Banking Financial Performance, the conclusions of the study are as follows:

1. Hypothesis testing proves that an independent board of commissioners has a positive and significant effect on the financial performance of banks. It means that the more the number of independent boards of commissioners in the bank's management structure, the better its function so that it positively influences the financial performance of the banking industry.
2. Testing the second hypothesis proves that the size of the company, as measured by the natural logarithm of total assets, has a positive and significant effect on the financial performance of banks. It means that the greater the total assets owned by the bank, the more opportunities the bank must make a profit, which will then positively affect the bank's financial performance.
3. Testing the third hypothesis proved that Leverage, measured by DER, has a negative and significant effect on banking financial performance. It means that the higher the level of debt compared to capital owned, the lower the financial performance of banks.

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