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THE EFFECT OF INSTITUTIONAL OWNERSHIP, BOARD SIZE, AND INDEPENDENT COMMISSIONER ON FINANCIAL PERFORMANCE

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ABSTRACT

This research aims to collect empirical data that will explain the impact that institutional ownership, board size, and independent commissioners have on financial performance, as assessed by return on assets within the banking sector listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. It is determined by dividing the net profit after taxes by the total assets of the company. The calculation for the institutional ownership variable involves dividing the total number of shares that are outstanding by the number of shares that individual institutions hold. The board size variable is determined by the total number of active board members in the company, whereas the independent commissioner variable is determined by the proportion of independent commissioners to the total number of commissioners in the company. The company's annual report served as the source for the secondary data used in this research and was analyzed using the Microsoft Excel version 2016 application and the SPSS version 25 program. The results of the research show that only the board of directors size variable has a significant effect on the company's financial performance, which is proxied by ROA. Meanwhile, the institutional ownership and independent commissioner variables do not show a significant influence on financial performance.

Keywords: Return on Asset; Institutional Ownership; Board Size; Independent Commissioner

1. INTRODUCTION

Reflecting the company's capacity to fulfill its obligations, financial performance is the capacity of the company to manage and distribute its resources. Banking financial performance explains the financial situation that underlies the bank's capacity to produce future sustainable earnings (Septiana & Abdul, 2023). A country's economic growth and stability depend on banking if it is to improve the welfare of its people. Consequently, while evaluating the performance of the banking industry, one has to consider banking operations, functions, and goals (Pratiwi et al., 2023). Strong financial performance helps companies to survive and grow in close market competition and inspires more confidence among their stakeholders.

Companies in the banking industry have to be more efficient and successful in handling their resources in the middle of ever-fierce worldwide competition. Because they help to ensure financial stability and economic progress, banks play a crucial part in the Indonesian economy. Consequently, one of the main concerns is enhancing the financial situation of banking institutions. Applying the ideas of Good Corporate Governance (GCG) will help businesses improve their performance. Using effective GCG not only helps businesses avoid fraud and mistakes but also keeps business sustainability intact and increases investor trust. Important factors of GCG that might affect the financial situation of a business are institutional ownership, board size, and independent commissioners. Tight control over management is given by institutional ownership. Conversely, board size and the existence of independent commissioners also influence strategic decisions that might affect the operations of the business.

Though the advantages of GCG in enhancing financial performance have been acknowledged, constant and efficient application in banking firms still presents different difficulties. Given the global and regional economic dynamics influencing the performance of this sector, it is thus crucial to investigate how these GCG elements—institutional ownership, board size, and independent commissioners—may help banking companies, particularly in the 2019–2023 period, to show better financial performance.

Six main sections comprise this investigation. In the initial section, the background, objectives, and research topic are discussed. A review of pertinent theories and ideas in the theoretical study comes second. The third part consists of a review of the literature, therefore looking at past studies on these subjects. The fourth part describes the method applied, together with the steps in the investigation and the attitude. The scientific findings and debate of the fifth part The last part, the conclusion, compiles the major results, connotations, and suggestions for the next studies.

Institutional Ownership with Financial Performance

According to Stakeholder Theory, the presence of institutional ownership plays a significant role in enhancing the oversight of company management. This is a result of the significant capital market investments made by institutions, which underline their need to guarantee the running of corporate management. Stiffer institutional monitoring measures should provide more assured shareholder welfare. The impact of institutional ownership in motivating management to raise firm value and, thus, enhance the financial performance of the business is more evident the larger its percentage of ownership.

Board Size with Financial Performance

The board of directors is responsible for resolving issues both within and outside the organization. Determining the strategy and methodology for the acquired assets by the firm now and going forward falls to the board of directors. Agency theory suggests that a larger board size can improve management oversight by providing diverse perspectives and reducing agency problems. It also provides more resources and expertise to monitor management actions, minimizing opportunistic behavior and conflicts of interest. The board resolves issues within and outside the organization, determining company strategies and asset management. A larger board size, with more supervisory bodies, can lead to optimal financial performance, better oversight, and more accurate strategic decisions.

Independent Commissioner with Financial Performance

Members of independent commissioners, who originate from sources that are not affiliated with the shareholders of the company, are not allowed to interact with corporate business partners. Agency Theory says that having independent commissioners and monitoring systems helps keep the power that management has gained in check. Supervision that works well should improve the performance of managers, which should then have a positive impact on the firm's financial performance.

Agency Theory

Agency theory, first proposed by Jensen and Meckling (1976), explains the relationship between the principle (owner) and the agent (management), whereby the agent is endowed with decision-making authority. Conflicts often arise due to information asymmetry, where management has more information than owners. This can encourage management to act in personal interests, not the owner's. Oversight through a good governance structure, such as an independent commissioner, is essential to reduce this conflict. Agency Theory is often used

to understand ownership structures, dividend policies, and company investment decisions. This theory is used to clarify how independent commissioners and board size affect financial performance as measured by ROA.

Stakeholder Theory

According to R. Edward Freeman (1984), Stakeholder Theory explains how various parties who have an interest in an organization work together to achieve mutual benefits. Stakeholders can be categorized into two distinct groups: primary and secondary. Primary stakeholders are individuals or entities that are directly engaged and connected to the sustainability of the company. On the other hand, secondary stakeholders are not personally involved but have an influence on corporate decisions. To survive in the long term, companies are required to fulfill the anticipations of their stakeholders. One approach to sustain this relationship is to put GCG concepts into practice. This theory is used to clarify how institutional ownership affects financial performance as measured by ROA.

Financial Performance (Return on Assets)

Return on assets (ROA) is a measure that evaluates a company's efficiency in using assets to generate profits. (Kieso, Weygandt, & Warfield, 2019, p. 1514). The return on assets (ROA) is higher when there is better asset management to make a net profit after taxes. Among the assets evaluated are personal capital and loans meant to assist business operations. ROA is determined by dividing net profit by total assets.

Institutional Ownership

Institutional ownership, according to stakeholder theory, is one of the stakeholders with a substantial impact on the company. Salehi et al. (2022) declare that institutional ownership—share ownership by organizations significantly in charge of managing operations and lowering agency expenses—is by pushing management to act more responsibly and effectively, this institutional ownership enhances the efficacy of corporate governance (GCG), therefore strengthening the financial performance of the company. Studies conducted by Rashid (2020) and Hartati (2020), offer more proof of the fact that institutional ownership improves financial performance.

H1: Institutional Ownership significantly impacts and has positive effects on Financial Performance.

Board Size

In corporate governance, the number of board members is critical. The responsibility of running the company and making sure everyone's interests are protected rests with the board of directors. The company's ability to comply with regulations and follow all applicable rules is ensured by the Board of Directors (KNKG, 2006, p. 25). The capacity of the board of directors to effectively oversee the company is crucial to effective governance. Based on Agency Theory, the larger the board size, the better managerial control is expected, resulting in fewer agency difficulties and, eventually, improved financial performance. Findings carried out by Oktriasih and Ismiyanti (2021) and Melania and Tjahjono (2022) indicate that the financial performance of a company is significantly and positively influenced by the size of its board.

H2: Board Size significantly impacts and has positive effects on Financial Performance.

Independent Commissioner

Independent commissioners are board members who are independent of the company and do not have any financial ties to the directors, other commissioners, or large shareholders, so

they may act impartially. Anik et al. (2021) said that the board of commissioners is in charge of supervising managerial practices and ensuring that organizational goals are achieved efficiently. This aligns with agency theory, which declares that independent commissioners, by lacking a direct contact with management, can mitigate conflicts of interest and guarantee that corporate decisions are made in the shareholders' best interests. The presence of effective independent commissioners can enhance the company's financial performance and promote good governance. Findings carried out by Handayani et al. (2020) and Agatha et al. (2020) show that independent commissioners have a positive impact on the company's financial performance.

H3: Independent Commissioner significantly impacts and has positive effects on Financial Performance.

The following research model shows the relationships between independent and dependent variables based on the hypotheses developed:

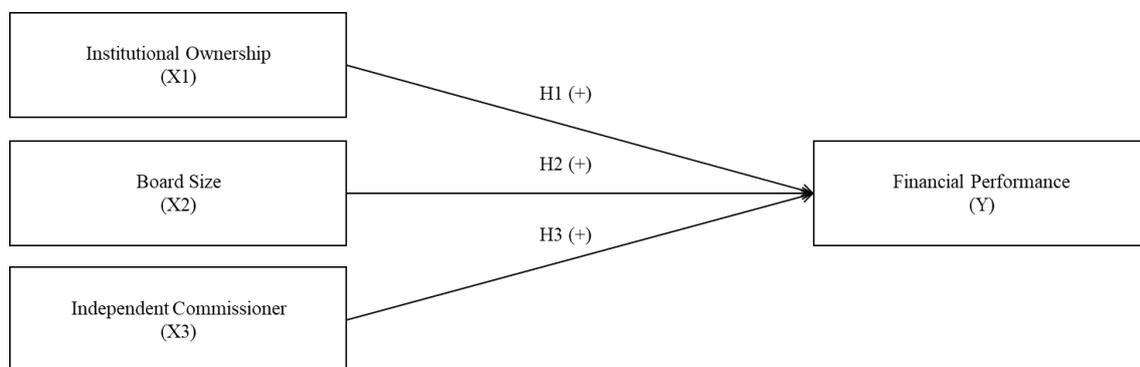


Figure 1. Research Model

2. RESEARCH METHOD

This study utilizes quantitative approaches with secondary data obtained from the Indonesian Stock Exchange at www.idx.co.id, specifically annual reports from 2019 to 2023. This research focuses on banking businesses listed on the Indonesia Stock Exchange from 2019 to 2023. The population consists of companies registered on the Indonesian Stock Exchange, as these entities are required to provide annual financial reports to stakeholders, a duty intrinsic to public companies. This research analyzed samples from 30 banking organizations within the financials sector of the Indonesia Stock Exchange. The following criteria were used to identify the companies: (1) the company did not experience losses during the 2019-2023 period, (2) the company was not delisted from the Indonesian Stock Exchange during that period, and (3) the annual financial reports published by the company consistently included indicators related to Good Corporate Governance (GCG), in accordance with the indicators studied by the author. This sample selection was carried out to ensure that the companies analyzed have stable financial performance and follow GCG practices that are relevant to this study.

Data were analyzed utilizing Microsoft Excel for data organization, while statistical analysis was conducted using SPSS version 25. This research aims to understand more deeply financial performance and the factors that influence it in the Indonesian banking sector.

Financial Performance is the dependent variable in this research, specifically quantified by the calculation of Return on Assets (ROA):

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}} \times 100\%$$

Board size, independent commissioner, and institutional ownership are the independent variables that were employed in this study.

Institutional ownership can be calculated by dividing institutional ownership shares by the number of outstanding shares.

$$\text{Institutional Ownership} = \frac{\text{Total Share of Institutional Ownership}}{\text{Total Share outstanding}}$$

Board size is quantified by the total number of persons on the board of commissioners along with the board of directors inside a corporation.

$$\text{Board Size} = \text{Number of Directors on Board}$$

The evaluation of independent commissioners is based on their proportion to the company's board of commissioners.

$$\text{Independent Commissioner} = \frac{\text{Independent Commissioner}}{\text{Total Commissioner}}$$

Table 1. Operationalization of Variables

Variable	Definition	Formula	Scale	References
Financial Performance	Financial ratio that indicates how profitable a company is relative to its total assets.	$\text{Return on Asset} = \frac{\text{Net Income}}{\text{Total Asset}}$	Ratio	Kieso et al. (2019)
Institutional Ownership	Corporate stock ownership by institution	$\text{IO} = \frac{\text{Total Share of Institutional Ownership}}{\text{Total Share outstanding}}$	Ratio	Salehi et al. (2022)
Board Size	The total number of directors on the board	$\text{BS} = \text{Number of Directors on the Board}$	Ratio	Melania and Tjahjono (2022)
Independent Commissioner	The commissioners outside the corporate	$\text{INCO} = \frac{\text{Independent Commissioner}}{\text{Total Commissioner}}$	Ratio	Handayani et al. (2020)

3. RESULTS AND DISCUSSIONS

An analysis that provides a full overview or description of the data is known as descriptive statistics. This type of analysis is characterized by the average value (mean), the standard deviation, the maximum, the minimum, and the total.

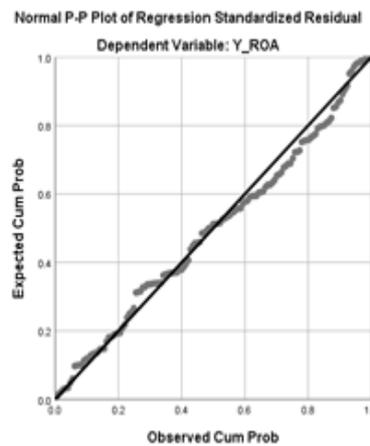
Table 2. Descriptive Statistic Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Y_ROA	139	0.20	2.08	1.1590	0.47038
X1_IO	139	0.00	9.99	7.5006	3.15476
X2_BS	139	2.45	4.90	3.5031	0.69809
X3_INCO	139	5.74	8.66	7.5137	0.62778
Valid N (listwise)	139				

To ascertain if a data set is generated from a normal distribution, the normality test is used. A common method for assessing how closely numerical data fits a standard distribution is the Kolmogorov-Smirnov test. If the p-value is more than 0.05, the data is highly likely to be regularly distributed. On the other hand, a p-value less than 0.05 suggests that the dataset's distribution is probably not normal.

Table 3. Results from the Test of One-Sample Kolmogorov-Smirnov Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		139
Normal Parameters ^{a,b}	Mean	0.0000000
	Std. Deviation	0.39724187
Most Extreme Differences	Absolute	0.058
	Positive	0.057
	Negative	-0.058
Test Statistic		0.058
Asymp. Sig. (2-tailed)		.200 ^{c,d}
a. Test distribution is Normal.		
b. Calculated from data.		



The normality test's outcomes seen in Table 1 show that the data distribution in this study is normal as indicated by Asymp. Sig. value 0.200, is above the significance level of 0.05. This result indicated that the residuals follow a normal distribution, allowing the regression analysis to proceed without significant bias.

A regression model's relationship between independent variables can be assessed using multicollinearity tests. The Variance Inflation Factor (VIF) is one of the main instruments used in this study since it helps to ascertain the degree of inflation of the variance of a regression coefficient resulting from correlation among the autonomous variables. Usually, a VIF value higher than 5 indicates that there is notable multicollinearity and could cause issues for the outcomes of the regression model. On the other hand, VIF values less than five indicate there is no multicollinearity.

Tabel 4. Results from the Test of multicollinearity

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	5.006	1.213		4.128	0.000		
	Audit Committee	0.009	0.162	0.005	0.054	0.957	0.595	1.681
	Institutional Ownership	-0.007	0.005	-0.102	-1.297	0.196	0.873	1.145
	Board Size	0.016	0.039	0.038	0.413	0.680	0.623	1.606
	Independent Commissioner	-0.051	0.017	-0.222	-2.967	0.003	0.956	1.046

a. Dependent Variable: ROA



LETTER OF ACCEPTANCE

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Attention to : Diana Kristiani, Agustin Ekadjaja
The Author(s) of Paper ID: 040-ICE

THE EFFECT OF INSTITUTIONAL OWNERSHIP, BOARD SIZE, AND INDEPENDENT COMMISSIONER ON FINANCIAL PERFORMANCE

We are pleased to inform you that your submission is **Accepted** for presentation in **International Conference on Economics, Business, Social, and Humanities (ICEBSH) 2025** will be held hybrid mode on April 14-15, 2025. This Paper will be published on the International Journal of Application on Economics and Business.

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The ICEBSH 2025 Chairperson

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Didi Widya Utama, ST., MT., Ph.D.