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# The Effect of Good Corporate Governance on Banking Profitability

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**ABSTRACT:** This study aims to determine and analyze the effect of Good Corporate Governance on profitability in the banking sector listed on the Indonesia Stock Exchange. Proxies of good corporate governance are managerial ownership, institutional ownership, the composition of independent commissioners, and the size of the board of directors, profitability is proxied by the ratio of Return on Net Operating Assets (RNOA). The sample of this research was taken using purposive sampling to obtain 43 companies that meet the criteria as a sample. The data analysis technique in this study used multiple linear regression. The results obtained in this study indicate that managerial ownership, institutional ownership, and the size of the board of directors have no significant effect on profitability, while the composition of independent commissioners has a significant effect on profitability.
**Keywords***:* Good corporate governance, institutional ownership, managerial ownership, institutional ownership

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**INTRODUCTION**

Competitiveness is defined as how companies facemarket competition successfully. In addition, competitiveness can be interpreted as a reflection of stock prices in a competitive and efficient market (Siudek&Zawojska, 2014). In a competitive market, companies are motivated to havesuperior performance. In order to achieve better performance, the companiesare needed to be managed professionally and adequately.

In the competitive era, the implementation of Good Corporate Governance (GCG) is essential to achieve better financial performance. Badawi (2018) explained that the implementation of GCGmight be reflected in the implementation of GCG principles which are manifested in the characteristics of the board of directors and the board of commissioners. GCG builds a solid fundamental to create transparency that is crucial in obtaining the confidence of internal or external parties of the companies; therefore, it might boost its performance.

Investors are aware and base their decision-making on how well the companies implement GCG. Investors consider the role of GCG as an essential factor in enhancing financial performance. Therefore, better implementation of GCG leads to a higher trust of investors since they believe that the companies might perform better than their competitors (Savidah, 2007).

The banking industry is a highly regulated industry associated with the implementation of GCG. Bank Indonesia, as a regulator, has issued regulation No 8/4/PBI/2006 about the implementation of GCG for banks in Indonesia. Therefore, the GCG is mandatory for banks in Indonesia. In addition, the release of Guidelines for the Implementation of GCG for Indonesian Banking by the National Committee on Governing Policy (KNKG) or The Indonesian Institute of Corporate Governance demonstrates that the national banking industry is cognizant of the significance of GCG implementation (Aryani, 2019). Establishing the KNKG aims to generate and provide GCG implementation guidelines for all business sectors in Indonesia by continually adapting to global changes. Article 2 of Financial Services Authority Regulation No. 55 of 2016 on the Implementation of Good Corporate Governance for Commercial Banks (Indonesia) stipulates that banks must adhere to GCG principles in their business operations.

This research focuses on Indonesia Stock Exchange-listed banks (IDX). As expressed by Tigor M. Siahaan, President Director of PT Bank CIMB NiagaTbk, the Covid-19 epidemic is a threat with a significant impact on banks, and it is vital to work with the government in preserving corporate liquidity so that non-performing loans may be kept at a minimum. In addition, RoykeTumilaar, president director of PT Bank Mandiri (Persero), stated that there must be foresight prior to an increase in bad loans or non-performing loans. On the other hand, according to the President Director of PT Bank Rakyat Indonesia (Persero) Tbk, Sunarso, the emergence of the Covid-19 epidemic had a favorable influence on the risk management of banking firms, leading to an increase in risk management (Related to Corona, Banks Prepare to Anticipate Bad Credit, 2020). To restore the national economy from the effects of the Covid-19 epidemic, the expansion of the KNKG's responsibilities as a guideline or standard-setter in the implementation of GCG must be hastened. Therefore, the introduction of GCG is anticipated to restore the liquidity and credit system of financial institutions.Furthermore, investors and the public have expectations that the banking sector must be able to maintain stable company profitability. Stable profitability can attract the attention of potential investors to invest, also to increase the public's trust in the bank and also to maintain the trust of the company's investors.

This study is intended to examine the effect of managerial ownership, institutional ownership, the composition of independent commissioners, and the size of the board of directors on the bank performance of the banking sector. Noviani, Atahau, and Robiyanto (2019) and Saputra, Rifa, and Rahmawati (2015) explain that one measurement of company performance is profitability.Therefore, this study considers profitability as the proxy of bank performance.

The survival of the company depends on how the company can generate profits. There is still a debate on previous studies that found profitability of banks isdetermined by the implementation of GCG (Aryani, 2019; Tumewu, 2014).Tumewu (2014), Aryani (2019), andVicente-Ramos, Reymundo, Pari, Rudas, and Rodriguez (2020)found that GCG has a positive effect on company profitability. However, research conducted by Anjani and Yadnya (2017) found the contrary result;they discovered GCG has a negative effect on company profitability.

In addition, the contradiction between the influence of corporate governance mechanism on bank performance is shown by the following previous studies. First, studies conducted byAryani (2019), Widyati (2013), Apriada and Suardikha (2016), and Trafalgar and Africa (2019) found that managerial ownership does not affect bank profitability, while Fadillah (2017) states that managerial ownership has a significant effect. negative.

Further, the study regarding institutional ownership as one factor that affected bank profitability is still questionable. Trafalgar and Africa (2019), Sawitri et al. (2017), and Wiranata and Nugrahanti (2013) argue that institutional ownership does not have a significant effect on profitability due to information asymmetry between management and company owners and also because the institutional side has a high opportunistic nature. Meanwhile, research conducted by Apriada and Suardikha (2016) discovers that institutional ownership positively influencesa bank's profitability. However, Fadillah (2017) argued that institutional ownership has a significant and negative effect on profitability because the majority of institutional investors tend to compromise with management and ignore the interests of minority shareholders,which leads to the deterioration of profitability.

Next, Aryani (2019) presented that the board of directors has a positive effect on RNOA, which means that the higher the board of directors, the better the profitability. This positive result is because the board of directors is a company organ that is fully responsible for the management of the bank both inside and outside the company, therefore, the larger number of board of directors improves profitability. Meanwhile, research conducted by Anjani and Yadnya (2017), and Widyati (2013) discovered that the size of board of directors does not affect profitability, because the increasing of number of board of directors increases promoting inefficiency in decision making.

In one hand, study by Widyawati (2013) stated that the impact of independent commissioners on profitability shows a significant andpositiveeffect on profitability.On the other hand, independent commissioners has negatively influence profitability (Anjani &Yadnya, 2017; Fadillah, 2017). In addition, Aryani (2019) found that independent commissioner did not have a significant influence because it was only a formality of its existence.

. This paper is divided as follows, in next part the theoreticalfoundation of this study is presented in literature review, followed by the research methodology. Further, result and analysis is discussed in the fourth section. Finally, conclusion will be in the last section.

## THEORETICAL REVIEW

### *Agency Theory*

Agency theory is a principal-agent relationship described in the contract (Mardjono & Chen, 2020). According to Kunz and Pfaff (2002) the standard of agency theory involves two parties, namely the principal and the agent. Theoretically, the need for GCG is based on the idea of agency problems, where there is a separation between company ownership and management. Moreover, under Rodriguez-Fernandez (2016) agency problem is the most likely thing for conflict between principal and agent. The situation usually occurs because of differences in information between two parties (asymmetry information) and eventuates conflicts of interest, causing agency problems (Kunz & Pfaff, 2002).

The agency theory is the separation between ownership and control of the firm. Under Leung and Cheng (2013) agency problems is an agency relationship between the board (agent) and shareholders (principal). Agency problem can decrease the company's efficiency (Kunz & Pfaff, 2002). Implementing GCG is necessary to control and supervise the agency problem.

*Good Corporate Governance*

Corporate governance is a mechanism to control agency problems (Vicente-Ramos, Reymundo, Pari, Rudas & Rodriguez, 2020). And under Larcker and Tayan (2016), and Xue and Hong (2016) good corporate governance is defined as a mechanism aggregate applied by a company to deal with the separation of property, control, and any possible agency conflicts that may arise. Further, good corporate governance is the art of controlling and directing an organization by equalizing various interests of stakeholders (Pohan, 2019).

Corporate governance is a practical system for protecting the differences in stakeholders' interests, principals, and agents. Furthermore, good corporate governance often involves resolving conflicts of interest between principals and agents. Good corporate governance ensures that the company is well managed, which means all the processes, policies, and procedures are implemented according to the five principles of good corporate governance. Consequently, good corporate governance can be defined as a structure and system to regulates the relationship between management (agents) and shareholders (principals).

In general, good corporate governance refers to the principles, specifically nonlegal and legal practices and principles affected by the control of the business (Pohan, 2019). To apply good corporate governance effectively, companies must pay attention to the indicators and principles of good corporate governance. Noviani et al (2019), and Mukhtaruddin et al (2014) state that good corporate governance has five principles: transparency, accountability, responsibility, independence, and fairness. And based on Noviani et al (2019) and Aryani (2019) good corporate governance has four key indicators: managerial ownership, institutional ownership, the composition of independent commissioners, and the board of directors.

*Profitability*

In analyzing a company's performance, companies or analysts can use the ratio to be a benchmark in the measurement, one of which is profitability. Companies must try their best to increase their profitability and not only about trying to increase profits. Several factors can affect profitability, namely bank size, credit risk, efficiency management, inflation, and economic growth (Petria, Capraru, & Ihnatov, 2015). Profitability is a ratio used to reflect the company's ability to earn or make a profit. In addition, profitability can recall how the company can earn profits for its shareholders and how effectively the company manages existing resources (Muslih & Mulyaningtyas, 2019). According to Wulandari (2013), high profitability allows sufficient profits to be earned so that the company can finance its operational activities.

To determine how effective the company is in managing its assets, the company can use the profitability ratios to measure this ability. Under signaling theory, profitability can be a signal that will directly affect the value of the company, which will be reflected in the stock price (Wulandari, 2013). To see how efficient the company's performance can be by comparing net income with existing assets because large profits do not always reflect whether the company is working efficiently or not. The profitability ratio measures the level of success or failure of a company for a certain period and to see how the company is generating adequate revenue to cover its operating costs and provide returns to its owners (Kieso, Weygandt, & Warfield 2014).

In this study, the ratio used to calculate profitability is the return on net operating assets (RNOA). RNOA can measure the company's effectiveness in utilizing all the resources owned by each company and is a measure of net income obtained from the use of assets (Sunarto, Widjaja, Oktaviani, 2021), and (Richardson & Lanis, 2007). The higher the company's profit, the higher the RNOA, hence asset utilization will be better. Researchers use RNOA in this research because RNOA is commonly used in the valuation literature and is usually very useful in forecasting (Chang, Chicherna, & HassabElnaby, 2014).

*The relationship between managerial ownership and profitability*

Based on Aryani (2019) and Fadillah (2017) managerial ownership is a share owned by management who actively participates in the company's decisions making. The existence of managerial ownership in a company can effectively direct the company to a better way due to managerial ownership can be a solution to the agency problems (Florackis, Kostakis & Ozkan, 2009). Managerial ownership helps the company to align the interest of all stakeholders. The higher the managerial ownership in the company, the more productive the manager's actions maximize company performance and profitability (Fadillah, 2017). Managerial ownership will encourage the manager to be careful in making decisions because the manager will directly affect the decisions taken and share losses due to making wrong decisions.

Based on the description above, the first hypothesis in this research can be stated as follows:

**$H_1$: Managerial Ownership has a significant effect on banking profitability.**

*The relationship between institutional ownership and profitability*

Institutional ownership is shares owned by banks, insurance companies, and other institutions (Fadillah, 2017), (Sukirni, 2012), (Chung & Zhang, 2011). These institutions might be in the form of government institutions, private, domestic, and foreign (Sawitri et al., 2017). The majority of shareholders often come from institutional ownership. Institutional ownership will monitor the management performance, hence the institutional ownership is expected to escalate the efficiency of asset utilization (Trafalgar & Africa, 2019). The existence of institutional ownership is expected to maximize the company's profitability.

From the explanation of the materials, the researchers determined the following hypothesis:

**$H_2$: Institutional Ownership has a significant effect on banking profitability.**

*The relationship between composition of independent commissioner and profitability*

Mardjono and Chen (2020), along with Aryani (2019) defined independent commissioners as members of the board of commissioners who are not affiliated with control or controlling shareholders. These independent commissioners have a nature of independency that does not favor the shareholders or management of the company. An independent commissioner is expected to supervise management's performance effectively to maximize profitability.

Based on the description above, the third hypothesis in this research can be stated as follows:

**$H_3$: Independent commissioners has a significant effect on banking profitability.**

*The relationship between board of director and profitability*

The board of directors is one component of a company that has full authority and responsibility for the management, in accordance company's aims and objectives, and represents the company both inside and outside under provisions of an article of association (Aryani, 2019). The board of directors has the responsibility to convey information related to the board of commissioners, additionally the board of directors plays a key role in obtaining important resources for the company, such as financial resources that are going to be allocated for investment (Agustia, 2013) and (Rodriguez-Fernandez, 2016). The existence of the board of directors is expected to increase the company's profitability since the board of directors will determine the policies to be taken both in the short and long term.

Based on the description above, the fourth hypothesis in this research can be stated as follows:

**$H_4$: Board of Directors has a significant effect on banking profitability.**

## METHODOLOGY

*Types of Research*

This research includes quantitative research. According to Cooper and Schindler (2014), quantitative analysis is research carried out with precise measurements of data, quantitative research is commonly used for testing theories that have a large sample size, and the analytical data used is data that already exists and will then be tested by testing. Statistics or mathematics. The quantitative type is used in this study because this study has a large enough sample and will use statistical tests.

*Population and Sample*

According to Cooper and Schindler (2014) population is a collection of individuals, events, or records that contain information that can provide answers to measurements from a study. The population used in this study are banking sector companies listed on the Indonesia Stock Exchange from 2016 – 2021.The sample is part of the population and this sample must be selected carefully to represent the population (Cooper & Schindler, 2014). The samples used in this study were banking sector companies listed on the Indonesia Stock Exchange from 2016 – 2021.

*Technique in Collecting Research Data*

According to Cooper and Schindler (2014) in this study, the sample collection technique used was purposive sampling technique, which means the researcher chose participants arbitrarily because of the unique characteristics or experiences, attitudes, or perceptions of the participants. Where there are criteria - criteria applied in sample collection. These criteria are:

1. Companies in the banking sector are listed on the Indonesia Stock Exchange from 2016–2021.
2. The company does not conduct mergers or acquisitions.

Companies that did acquisitions and mergers are excluded from the research sample because the acquiring company's management tends to increase their earnings power to increase their share price, which will affect the company's profitability (Loekita&Sukartha, 2016).

**DATA ANALYSIS**

The following are the steps in analyzing the data used in this study:
*Profitability*

Profitability is the ability to generate profits and also to measure the financial performance of a company. Profitability in this study was measured using the ratio scale of return on net operating assets (RNOA), namely:

$$RNOA = \frac{Netoperatingprofitsaftertax\ (NOPAT)}{\text{Average net operating assets (NOA)}}$$

*Good Corporate Governance*

The following are the indicators used to calculate GCG:

a. ManagerialOwnership

According to Aryani (2019) in calculating managerial ownership, you can use the following formula:

$$\text{Managerial ownership} = \frac{\text{Shares owned by the manager}}{\text{Outstanding shares}} \times 100\%$$

b. Institutional Ownership

According to Istighfarin and Wirawati (2005), calculating institutional ownership can be obtained by the following formula:

$$\text{INST} = \frac{\text{Number of shares owned by investors}}{\text{Total share capital of the company's outstanding}}$$

c. Independent Commissioner

According to Noviani et al (2019), to calculate the size of the independent commissioner, the following formula is used:

$$\text{Independent Commissioner} = \frac{\text{Company Independent Commissioner}}{\text{Total Commissioner of the Company}}$$

d. Board of Directors

According to Aryani (2019), the size of the board of directors can be seen from:

Independent Size = Number of members of the board of directors

## RESULTS AND DISCUSSION

*Descriptive statistic result*

**Table 1:** The Result of Descriptive Statistic

| | N | Minimum | Maximum | Mean | Std.Deviation |
|---|---|---|---|---|---|
| KepemilikanManajerial | 222 | .00 | .24 | .0053 | .02996 |
| KepemilikanInstitusional | 222 | .30 | 1.00 | .7528 | .18213 |
| KomposisiKomisarisIndependen | 222 | .25 | 1.00 | .5709 | .13353 |
| Ukuran Dewan Direksi | 222 | 3.00 | 12.00 | 6.5225 | 2.75664 |
| Profitabilitas | 222 | -23.35 | 6.90 | .2824 | 1.95310 |

The average value of managerial ownership is 0.0053, and the standard deviation value is 0.02996, thus indicating a poor distribution. And the average of institutional ownership is 0.7528, and the standard deviation value is 0.1821, which shows a normal distribution. The average value of composition of independent commissioners is 0.5709, and the standard deviation value is 0.1335, indicating a normal distribution. The average value of the size of the board of directors is 6.5225, and the standard deviation value is 2.75664, showing a normal distribution. Meanwhile, the profitability value is 0.2824, and the standard deviation is 1.9531, which indicates poor distributions. These insufficient distributions happen due to outliers, which the data consist of extreme numbers, but it should be included because it is the real number obtained.

*Multicollinearity Test*

**Table 2:** The Result of Multicollinearity Test

| Model | | Unstand. B | Coeff. Std. Error | Stand. Coef. Beta | t | Sig. | Collinearity Tolerance | Statistics VIF |
|---|---|---|---|---|---|---|---|---|
| 1 | (Constant) | -.745 | .921 | | -.809 | .422 | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | KepemilikanManajerial | .071 | .061 | .156 | 1.169 | .247 | .837 | 1.194 |
| | KepemilikanInstitusional | -.692 | .433 | -.222 | -1.600 | .115 | .774 | 1.292 |
| | KomposisiKomisarisIndependen | -1.859 | .829 | -.275 | -2.244 | .029 | .991 | 1.009 |
| | Ukuran Dewan Direksi | -.453 | .380 | -.159 | -1.191 | .238 | .830 | 1.205 |

This table indicates that this study is free from multicollinearity because as shown in the table all variables have a tolerance value of above 0.1, and all variables also have a VIF value of less than 10.

*Heteroskedasticity Test*

**Table 3:** The Result of Heteroskedasticity

| **Model** | | **Unstandardized B** | **Coefficients Std.Error** | **Standardized Coefficients Beta** | **t** | **Sig.** |
|---|---|---|---|---|---|---|
| 1 | (Constant) | *.628* | .685 | | .916 | .363 |
| | KepemilikanManajerial | -.012 | .045 | -.045 | -.273 | .785 |
| | KepemilikanInstitusional | 2.225 | 2.894 | .137 | .769 | .445 |
| | KomposisiKomisarisIndependen | -.471 | .564 | -.107 | -.834 | .408 |

| | | | | | |
|---|---|---|---|---|---|
| **Ukuran Dewan Direksi** | **-.161** | **.257** | **-.095** | **-.625** | **.535** |

Based on the table above, the sig value of all variables is more than 0.05, so it can be concluded that this multiple linear regression model is free from heteroscedasticity and is feasible to use.

*T- test*

**Table 4:** The Result of t Test

| **Model** | | **Unstand. B** | **Coeff. Std.Error** | **Stand. Coef. Beta** | **t** | **Sig.** | **Collinearity Tolerance** | **Statistics VIF** |
|---|---|---|---|---|---|---|---|---|
| 1 | (Constant) | -.745 | .921 | | -.809 | .422 | | |
| | KepemilikanManajerial | .071 | .061 | .156 | 1.169 | .247 | .837 | 1.194 |
| | KepemilikanInstitusional | -.692 | .433 | -.222 | -1.600 | .115 | .774 | 1.292 |
| | KomposisiKomisarisIndependen | -1.859 | .829 | -.275 | -2.244 | .029 | .991 | 1.009 |
| | Ukuran Dewan Direksi | -.453 | .380 | -.159 | -1.191 | .238 | .830 | 1.205 |

Based on the results of the t-test, the results obtained that managerial ownership has a significance of 0.247, meanwhile the sig of institutional ownership is 0.115, then the composition of the independent commissioners has a significance of 0.029, and the size of the board of directors has a significance of 0.238. After seeing the results of the significance of each variable, then the next step is hypothesis decision making.

1. Managerial ownership has a significance value of 0.247, where the significance value is greater than 0.05, then H1 is rejected because managerial ownership does not significantly affect Y.

2. Institutional Ownership has a significance value of 0.115 > 0.05. Therefore it can be concluded that institutional ownership has no effect on profitability, so H2 is rejected.
3. The composition of independent commissioners has a significant value smaller than 0.05, which is 0.029, so the conclusion is H3 is accepted because the significance value is smaller than 0.05
4. The size of the board of directors has a significance value of 0.238 > 0.05, then H4 is rejected.

*Determinant Coefficient Analysis*

**Table 5:** The Result of Determinant Coeffiecient Analysis

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .351[a] | .123 | .064 | .92955 |

Based on the table above, it is discernible that the magnitude of the influence of GCG (X) on RNOA (Y) in banking companies listed on the IDX in 2016-2021 is 0.064 or 6.4%, while for the other 93.6%, it is influenced by other factors not examined. In previous studies, the results of the determinant coefficients were relatively small. The results obtained by Widyati(2013) are 19.2%, profitability measured using MVA influenced by the board of directors, independent commissioners, audit committee, managerial ownership, and institutional ownership. Compared with the research conducted by Apriada and Suardikha (2016)obtained 8.6% results, where the influence of the independent variables, namely institutional ownership, managerial ownership, and capital structure, on firm value is only 0.086..

*The relationship between managerial ownership and profitability*

This study showed managerial ownership has a significant of 0.247 and t of 1.169, which means that it has a positive and insignificant effect on profitability. This result is in line with the results of Aryani (2019), Widyati (2013), and is also supported by research from Trafalgar and Africa(2019). In theory, when managerial ownership is low, the possibility of opportunistic behavior from the management will increase (Widyati, 2013) and (Fadillah, 2017). The proportion of managerial ownership in this study has no significant effect due to the small number of shares owned by the management of banking companies, resulting in management not gaining a significant benefit from the decisions taken. The proportion of managerial ownership is only 0.0053, classified as a small proportion of ownership.

According to the results obtained, which are a positive and insignificant influence, an increase in the proportion will increase profitability. Therefore can be concluded that a higher level of managerial ownership proportion can help reduce existing agency problems, this is based on the logic that an increase in the proportion of managerial shares will reduce the tendency of managers to take excessive consumption actions Widyati(2013). Moreover, higher managerial ownership will align the interests between managers and shareholders. While the results of this study are not in line with Hossain(2016) where the results the research are managerial ownership has a positive effect on profitability.

*The relationship between institutional ownership and profitability*

The result of institutional ownership has a significance of 0.115 and t of -1.6, which has an insignificant negative effect. This research is in line with Sawitri, Wahyuni, Yuniarti (2017) and this research is also supported by results from Trafalgar and Africa(2019). With the existence of high institutional ownership, it cannot guarantee whether the manager's performance monitoring is effective or not. This happens because there is information asymmetry between management and shareholders, thus causing managers to control the company. After all, they have more information about the company than the shareholders (Sawitri et al., 2017). Under to Hapsoro(2008), along with Wiranata and Nugrahanti(2013) institutional ownership is the owner of the majority share so that it tends to act in its interests without thinking about the minority shareholder. It is conspicuous from the average proportion of institutional ownership of 0.9 in this study, so the conclusion is that institutional ownership is not effective in monitoring the performance of managerial ownership. Also, they have a high opportunistic nature, which will seek something beneficial for them.

*The relationship between composition of independent commissioners and profitability*

On the other hand, independent commissioners' composition significantly influences profitability, which has sig 0.029 and t -2.244, where the higher the proportion of independent commissioners, the lower the profitability. The results of this study are in line with the results of research conducted by Anjani and Yadnya(2017) and Fadillah(2017) but contradict the results of Aryani(2019). This can happen because the existence of independent commissioners in the company tends to be only a formality so that it can comply with government rules and policies (Aryani, 2019). And this also indicates that the presence of independent commissioners in the company is considered not yet able to have a good or positive impact, especially in their duties to supervise or monitor company managers so that it affects market participants not fully trusting the performance of independent commissioners in the company (Fadillah, 2017). This negative result means that the high proportion of independent commissioners does not guarantee the implementation of a practical, maximum, and objective supervisory function if the high proportion is only used as a requirement to fulfill the regulations set by the government without being adjusted to the conditions and needs of the banking system.

*The relationship between the board of directors with profitability*

The size of the board of directors partially has no significant effect on profitability. The results of this study are in line with Anjani and Yadnya (2017), and Widyati (2013). In a company, the board of directors is an integral part of the sustainability of the company, however, the higher the number of the board of directors, the more often difficulties happen in coordination and decision making in making company policies (Anjani & Yadnya, 2017). And also according to (Aryani, 2019) the board of directors is fully responsible for the company's outside or inside problems, consequently the board of directors has much information about the company. Because of this large amount of data, the board of directors can use the information for their benefit. A smaller number of the board of directors will create better communication among the directors, more effective coordination, and faster action in overcoming problems (Widyati, 2013). This result demonstrates that the number of the board of directors does not guarantee effectiveness in managing the company.

## CONCLUSIONS AND RECOMMENDATIONS

Based on the results of data analysis using the t-test, it can be seen that managerial ownership has a positive and insignificant effect. The composition of independent commissioners has a significant negative impact, while institutional ownership and the size of the board of directors have a negative and negligible effect. The determinant coefficient analysis test reveals that the percentage of the influence of GCG on RNOA in banking sector companies listed on the IDX in 2016-2021 is 6.4% while other factors influence the rest.

The existence of institutional ownership become important for management, since it could influence the management decision making. Therefore, the balance of power between board of commissioner, management and institutions who have significant ownership become a concern of management and regulator.

## FURTHER STUDY

For future study, it might be useful to consider utilizing other profitability measurement that related to economics profitability such as economic value added (EVA). The length of study should be considered to obtain more data. Finally, the industry might have different GCG characteristics.

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