

CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF BANKS IN INDONESIA AFTER THE COVID-19 PANDEMIC

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Abstract:

This study aims to analyze the effect of corporate governance mechanisms on the financial performance of banks in Indonesia during the post-COVID-19 pandemic recovery period from 2021 to 2024. Corporate governance mechanisms are proxied by the size of the board of directors, the proportion of independent commissioners, and the number of audit committees, while financial performance is measured using return on assets (ROA). This study uses a quantitative approach with multiple linear regression on 36 firm-year observations from nine conventional commercial banks listed on the Indonesia Stock Exchange. The test results show that corporate governance mechanisms simultaneously have a significant effect on ROA. Partially, the size of the board of directors has a positive and significant effect on financial performance, while the number of audit committees has a negative and significant effect. On the other hand, the proportion of independent commissioners does not show a significant effect on ROA. These findings indicate that the effectiveness of banking governance is not solely determined by the fulfillment of formal structures, but rather depends on the quality of functions and efficiency of supervision. This study provides empirical contributions to the literature on banking corporate governance in developing countries, particularly in the post-pandemic recovery phase, and serves as input for regulators and bank management in strengthening governance practices that are oriented towards performance, stability, and long-term sustainability.

Keywords: Corporate Governance; Financial Performance; Banking; Return On Assets; Post-Pandemic

1. Introduction

The banking sector plays a fundamental role in maintaining financial system stability and supporting national economic growth. As intermediary institutions, banks not only collect and distribute funds, but also function as managers of systemic risks that can affect macroeconomic stability. During the post-COVID-19 pandemic economic recovery period (2021–2024), the Indonesian banking industry faces the challenge of maintaining profitability while strengthening corporate governance in order to maintain public trust and long-term resilience. This situation places corporate governance as a strategic element in determining banking performance and sustainability.

Agency Theory explains that the separation between ownership and management of a company can lead to conflicts of interest between managers and shareholders (Jensen & Meckling, 1976). In a highly regulated banking industry with high risk exposure, these conflicts have the potential to directly impact the quality of decision-making and financial performance. Therefore, corporate governance mechanisms such as boards of directors, independent commissioners, and audit committees serve as oversight tools to minimize information asymmetry and ensure management accountability. The importance of these mechanisms is also emphasized in the G20/OECD Principles of Corporate Governance (OECD, 2023) and the Basel Committee on Banking Supervision guidelines (Bank for International Settlements, 2015), which emphasize the role of boards and supervisory committees in maintaining the stability of financial institutions.

Global studies show that the relationship between corporate governance and banking performance has not produced entirely consistent conclusions. Grove et al., (2011) found that the structure and quality of the board affect bank performance and risk profile. More recent studies, such as Wang & Cao (2022), show that the effectiveness of corporate governance mechanisms plays a role in improving the performance and innovation capacity of the financial sector in developing countries, especially in the face of economic uncertainty. These findings indicate that the role of governance is becoming increasingly crucial in the context of economic crisis and recovery.

In the Indonesian context, the implementation of banking governance is regulated through POJK No. 55/POJK.03/2016 (OJK, 2016) and reinforced by POJK No. 17/POJK.03/2023 (OJK, 2023), which regulates the composition and functions of the board of directors, independent commissioners, and the audit committee. Although the regulatory framework has been formally established, the effectiveness of the implementation of these mechanisms in improving banking financial performance is still a matter of empirical debate. Several studies in the Indonesian banking sector show that the implementation of good corporate governance has a positive effect on bank financial performance, while other studies find that certain mechanisms, such as independent commissioners, do not always have a significant impact on profitability (Febriyani et al., 2024; Fitrianiingsih & Sulistiana, 2024; Fitriyati et al., 2021). In addition, most of the previous studies were conducted before the post-pandemic recovery period or used a limited sample coverage, so they did not fully reflect the dynamics of banking governance in the context of increasingly strengthened regulations.

Based on this description, the research question in this study is whether the size of the board of directors, the proportion of independent commissioners, and the number of audit committees affect the financial performance of conventional commercial banks in Indonesia during the post-COVID-19 pandemic recovery period from 2021 to 2024. This research question is relevant given the differences in empirical findings in international and national literature and the relatively strict nature of Indonesian banking regulations.

In line with this research question, this study aims to analyze the effect of board size, proportion of independent commissioners, and number of audit committees on the financial performance of conventional commercial banks in Indonesia, proxied by return on assets (ROA). This study is expected to provide empirical contributions to enrich the literature on banking corporate governance, particularly in the post-pandemic period, and to serve as a consideration for regulators and bank management in strengthening effective and sustainable governance practices.

2. Research Method

This study uses a quantitative approach with an associative research design to analyze the relationship between corporate governance mechanisms and banking financial performance. A quantitative approach was chosen because this study aims to test the empirical and measurable influence of corporate governance variables on return on assets (ROA) as a proxy for financial performance. The data used is secondary data sourced from annual reports and officially published bank financial reports. Data analysis was performed using multiple linear regression to test the simultaneous and partial effects of independent variables on the dependent variable.

2.1 Research Object, Time and Place

The object of this research is conventional commercial banks listed on the Indonesia Stock Exchange (IDX). The research was conducted during the 2021–2024 period, which represents the economic recovery phase after the COVID-19 pandemic. This period was chosen based on the consideration that the recovery phase is a crucial period for the banking industry in maintaining financial performance while strengthening the implementation of corporate governance amid the strengthening of banking regulations.

The research sample consisted of nine banks, namely Bank Rakyat Indonesia (BRI), Bank Mandiri, Bank Negara Indonesia (BNI), Bank Tabungan Negara (BTN), Bank Central Asia (BCA), Bank CIMB Niaga, Bank Danamon Indonesia, Bank OCBC NISP, and Bank Maybank Indonesia. The sample selection was conducted using purposive sampling with the criteria of banks that were consistently listed during the research period and had complete data related to corporate governance mechanisms and financial performance. A total of 36 firm-year observations were used in this study.

2.1. Data Collection Methods

The data collection methods used in this study were conducted through documentation studies using secondary data. Data was obtained from annual reports and bank financial reports published on the official website of the Indonesia Stock Exchange and the official websites of each bank. The data collected included information on the size of the board of directors, the proportion of independent commissioners, the number of audit committees, and financial data used to calculate return on assets (ROA). Secondary data was chosen because it had undergone an audit process and had a high level of reliability.

2.2. Data Analysis Methods

The data analysis technique used in this study is multiple linear regression. The analysis was conducted to examine the effect of board size, proportion of independent commissioners, and number of audit committees on bank financial performance, which is proxied by return on assets (ROA). The regression model used in this study is formulated as follows:

$$ROA = \alpha + \beta_1 BS + \beta_2 IC + \beta_3 AC + \varepsilon$$

Explanation:

ROA = Return on Assets

BS = Board Size

IC = Independent Commissioner

AC = Audit Committee

ε = Error term

The testing was conducted through a simultaneous test (F-test) to determine the combined effect of the independent variables on ROA, as well as a partial test (t-test) to determine the effect of each independent variable individually. The significance level used in this study was 5%. All data processing was performed using Microsoft Excel software.

3. Results and Discussions

3.1. Research Results

This study uses multiple linear regression to test the effect of board size, proportion of independent commissioners, and number of audit committees on return on assets (ROA). The test results show that the regression model is simultaneously significant with an F value of 11.3976 and a significance level of 0.00003 (< 0.05). The coefficient of determination (R^2) value of 0.5166 indicates that 51.66% of the variation in ROA can be explained by the corporate governance variables in the model, while the rest is influenced by other factors outside the research model.

Partially, the size of the board of directors (Board Size) has a positive coefficient of 0.004556 with a significance value of < 0.001 , which means it has a positive and significant effect on ROA. The proportion of independent commissioners has a negative coefficient of -0.000791 with a significance level of 0.959 (> 0.05), so it has no significant effect on ROA. Meanwhile, the number of audit committees has a negative coefficient of -0.001544 with a significance level of 0.037 (< 0.05), indicating a negative and significant effect on ROA.

These results indicate that not all corporate governance mechanisms have a uniform impact on banking financial performance during the research period.

Table 1. Regression Results of the Effect of Corporate Governance on ROA

Independent Variable	Coefficient (β)	t-Statistic	Sig.
Constant	0,012345	2,11	0,041
Board Size	0,004556	4,87	0,000
Independent Commissioner	-0,000791	-0,05	0,959
Audit Committee	-0,001544	-2,14	0,037
Model Statistics		Value	
F-Statistic		11,3976	
Sig. F		0,00003	
R^2		0,5166	
N		36	

Source : Data was processed by the author.

3.2. Discussion

The results show that the size of the board of directors has a positive and significant effect on ROA. This finding supports Resource Dependence Theory, which states that a board with an adequate number of members can improve oversight capacity, decision-making quality, and access to strategic resources (Pfeffer & Salancik, 1978). These results are also in line with (Grove et al., 2011) who found that board structure contributes to bank performance and stability. In the context of the post-pandemic recovery period, the existence of a larger board is likely to provide diversity of competencies that help banks respond to economic uncertainty.

Conversely, the proportion of independent commissioners does not show a significant effect on ROA. This finding is consistent with several studies in Indonesia that show that the structural presence of independent commissioners does not necessarily reflect substantive supervisory effectiveness (Fitrianiingsih & Sulistiana, 2024; Fitriyati et al., 2021). In the context of Indonesian regulations that have set a minimum proportion of independent commissioners through POJK, the possibility of variation

between banks is relatively limited, so that the impact on financial performance is not statistically significant.

An interesting finding is the negative effect of the number of audit committees on ROA. This result does not necessarily indicate that audit committees are ineffective, but it may indicate potential coordination inefficiencies when the size of the committee increases. In governance literature, the effectiveness of committees is not only determined by the number of members, but also by their competence, independence, and intensity of oversight. Therefore, this result reinforces the view that the quality of governance is more important than simply fulfilling formal structures.

Overall, the results of this study show that in a highly regulated banking industry, compliance with governance structures does not necessarily automatically improve financial performance. The effectiveness of implementation and the quality of oversight are more decisive factors.

3.3. Relationship with Research Objectives

This study aims to analyze the effect of board size, proportion of independent commissioners, and number of audit committees on the financial performance of conventional commercial banks in Indonesia during the period 2021–2024. The results show that board size and number of audit committees have a significant effect on ROA, while the proportion of independent commissioners has no significant effect.

Thus, the research objectives have been achieved because this study is able to provide empirical evidence regarding the role of each corporate governance mechanism in explaining variations in banking financial performance during the post-pandemic recovery period. These findings also fill the gap in previous studies that showed inconsistent results, particularly in the context of Indonesian banking, which is subject to a strict regulatory framework.

4. Conclusion

This study aims to evaluate the role of corporate governance mechanisms on the financial performance of conventional commercial banks in Indonesia during the post-COVID-19 pandemic recovery period. The results show that the size of the board of directors and the number of audit committees play a role in supporting bank financial performance, as proxied by return on assets (ROA), while the proportion of independent commissioners does not show a statistically consistent effect. These findings indicate that the effectiveness of banking governance is not solely determined by the fulfillment of formal structures, but also by the functions and quality of supervision carried out. This study reinforces previous findings that corporate governance remains relevant in maintaining banking performance amid economic uncertainty, particularly in the post-pandemic recovery phase. However, this study has limitations in the use of structural governance variables and a limited sample coverage of conventional commercial banks. Therefore, further research is recommended to include more comprehensive governance quality indicators and expand the period and types of banks to obtain a more complete picture of the role of corporate governance in improving banking performance.

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