

## **The Role of Foreign Ownership in Moderating Board Characteristics, Independent Directors, and Board of Commissioners on Bank Financial Performance in Indonesia**

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### **Abstract**

**Purpose** – The purpose of this study is to analyze the effect of board characteristics, including the presence of female directors, independent directors, and independent commissioners, on the financial performance of commercial banks listed on the Indonesia Stock Exchange (IDX), as well as to examine the role of foreign ownership in moderating the relationship between board characteristics and banking performance in Indonesia.

**Design/Methodology/Approach** – This study uses a quantitative approach based on secondary data from the company's annual reports for the period 2019-2023.



**Findings** – The results of the study show that the presence of female directors does not have a significant direct impact on bank financial performance, but has a more positive impact when they act as independent directors. In addition, independent commissioners have been shown to have a positive and significant influence on bank financial performance. These findings confirm that the effectiveness of the board of directors structure, particularly independence in supervision, plays an important role in improving banking performance and has strategic implications for strengthening financial sector governance in Indonesia.

**Research limitations/Implications** – This study is limited to banks listed on the Indonesia Stock Exchange during the period 2019–2023 and uses relatively limited corporate governance variables and profitability indicators, so it does not fully reflect all factors that affect banking financial performance in Indonesia. Therefore, further research is recommended to expand the sample coverage and add other governance measures in order to gain a more comprehensive understanding of bank financial performance.

**Keywords:** Bank Performance, Board of Directors, Foreign Ownership, Independent Commissioners, Independent Director

## Introduction

Bank financial performance is an important indicator for evaluating management's ability to manage resources and risks, which is usually measured through Return on Assets (ROA) and Return on Equity (ROE). Differences in performance between banks show that management and supervisory effectiveness remain important issues in the banking sector. In this context, corporate governance is seen as the main mechanism for minimizing conflicts of interest between management and shareholders, as explained in agency theory. Specifically, the attributes of the board of directors, independent directors, and independent commissioners help strengthen accountability, transparency, and

oversight, which can influence a bank's financial performance.

Corporate governance is gaining increasing attention from regulators, financial market participants, central banks, and shareholders due to its crucial role in supporting the achievement of a company's strategic and operational objective (Elbahar, 2019). Variations in governance structures and mechanisms show that the quality of institutions, including human resources, governance rules, and accountability, affect the effectiveness of supervision and company performance (Miao et al., 2023). The board of directors is responsible for control and operational functions to ensure that the company operates according to plan. Research conducted by Saragih and Tampubolon (2023) shows that independent

commissioners play an important role in improving transparency, accountability, and company value. Stronger oversight from independent commissioners can limit opportunistic management actions, thereby making corporate governance practices more effective and positively impacting company value. Their duties include monitoring risk management, enforcing compliance, protecting the interests of customers and shareholders, evaluating the performance of the board of directors, and maintaining transparency and governance. This role is very important for the stability of the bank and customer trust. Violations of corporate governance principles have the potential to cause significant losses to business entities. However, the continuous occurrence of governance violations indicates that the implementation of effective corporate governance is still not optimal, which can weaken the performance and stability of companies, especially in the banking industry (Serly et al., 2023).

The board of directors holds a pivotal position in corporate governance, as it sets the strategic course and guarantees the proper execution of governance standards, making it a fundamental component of the overall corporate governance structure (Habtoor, 2022). Independent commissioners are tasked with promoting compliance with good corporate governance principles, particularly by mitigating conflicts of interest and protecting the interests of public companies. As the highest internal control mechanism,

they are tasked with monitoring top management policies. According to agency theory, a higher percentage of independent commissioners can improve supervision's efficacy and raise the value of the business (Saragih & Tampubolon, 2023). Therefore, good governance and strong supervision are very important for the sustainability of banks.

In recent years, good corporate governance has increasingly attracted attention as a key mechanism for enhancing corporate performance, particularly within the banking sector (Tanaka et al., 2024). Effective corporate governance contributes to enhanced transparency, mitigates conflicts of interest, and reduces the likelihood of inappropriate or opportunistic decision-making.

Along with industrial development, foreign ownership has become one of the strategic issues in the banking sector. It has been demonstrated that a bank's performance benefits from foreign ownership. Banks with a larger percentage of foreign ownership typically perform better, according to earlier research (Boussaada & Karmani, 2015). This situation pushes the group of directors to more closely oversee operations, verify adherence to international rules, and take responsibility for business guidelines with every stakeholder. While a large number of research projects highlight the significance of the function of the board and unbiased directors in boosting the way a business runs, notably in richer nations, the outcomes from these research projects do not consistently hold true in

growing nations, notably within Indonesian banking. Certain research indicates that having unbiased directors is tied to enhanced business operations because they can lessen clashes of interest and foster greater openness. However, indicates that the existence of independent directors has no discernible effect on bank performance and may possibly have the opposite effect (Sipayung et al., 2024; Zakaria et al., 2022). Research in Indonesia shows that the composition of the board of commissioners affects bank performance, with the addition of foreign commissioners potentially reducing negative impacts (Mahaputra et al., 2024).

According to Johan (2022), the board of commissioners oversees the board of directors' decisions in company management, while offering strategic guidance and advice, thus establishing it as an essential element in maintaining corporate resilience and performance. Several factors can be used to assess how well the board of commissioners performs its duties, including the number of individuals on the board, how independent the commissioners are, and how frequently they meet (Prasetyo & Dewayanto, 2019). In this research, both the board of commissioners and the independent commissioners are tasked with overseeing and managing the company's activities. The primary distinction is their degree of independence; independent commissioners do not have any personal stakes in the business and instead act as experts who represent

the shareholders' best interests (Maulana et al., 2021).

The variety in board members' backgrounds offers substantial advantages to investors, since firms with diverse boards are typically viewed as more objective and transparent, possessing broad expertise from international connections, which can markedly enhance the company's worth. The presence of foreign board members is an important indicator of this diversity. In addition, the involvement of board members who have direct relationships with investors can strengthen investor confidence in investing their capital in company shares (Mahaputra et al., 2024).

The performance of companies listed on the Indonesia Stock Exchange (IDX) in 2011 is significantly improved by the presence of foreign commissioners (Bagiana et al., 2024). These findings indicate that foreign commissioners have the ability to contribute to improving company performance. who found that having foreign board members can increase company value, which strengthens this argument. Furthermore, Rahma et al. (2019) found that the value of companies listed on the Indonesia Stock Exchange was significantly influenced by the presence of foreign commissioners. The findings of the study by Amrizal & Rohmah (2019) indicates that an independent board of commissioners exerts no significant effect on firm value.

Independent board members are crucial because they represent the interests of all parties involved, including tax authorities and small

investors. The existence of independent directors not only fulfills regulatory requirements, but also plays a role in reducing conflicts of interest and agency problems. Effective supervision by independent directors can improve bank performance and increase transparency (Liang et al., 2013). Research shows a significant relationship between board independence and company performance (Awadh & Abdul, 2015). Conversely, Mollah and Zaman (2015) discovered that the degree of board independence negatively impacts bank performance, implying that independent board members do not consistently enhance the oversight effectiveness or financial outcomes of financial institutions.

A country's economic development is largely facilitated by the support of the banking sector. This is because banks not only provide efficient payment systems and tools for the public, but also channel the necessary financing to drive business growth and development (Saragih & Tampubolon, 2023).

This study adds to the theoretical and practical insights into corporate governance within the banking sector. Theoretically, this research broadens the existing body of literature by investigating the impact of board of directors' characteristics, especially those of independent and foreign commissioners, on banks' financial performance, as assessed via ROE and ROA. This study uses foreign ownership as a moderating element to investigate the interaction between external governance mechanisms and the internal board

structure, in contrast to previous research that mostly examined the direct relationship between board composition and company performance. Additionally, this report offers the most recent empirical data from the Indonesian banking sector from 2019 to 2023, providing insights from a developing economy with a dual-board governance structure.

## **Literature Review & Hypothesis**

### **Literature Review**

Agency theory emphasizes that an effectively structured board of directors plays an important role in reducing conflicts of interest between management and shareholders through adequate oversight mechanisms. The inclusion of independent board members is expected to enhance monitoring quality, transparency, and managerial accountability, which in turn may contribute positively to firm performance and value (Saragih & Tampubolon, 2023). Given that banks operate in a highly regulated and high-risk environment that necessitates strong governance systems, board characteristics including size, independence, and gender diversity are seen as crucial in the banking industry. These board qualities are strategically important for enhancing bank financial success, according to empirical research (Awadh & Abdul, 2015; Sarpong-Danquah et al., 2022).

In addition, foreign ownership is considered an external governance mechanism that can strengthen the effectiveness of board oversight through the application of

international standards and stricter management discipline. Based on this theoretical framework, board characteristics are expected to influence bank financial performance, while foreign ownership has the potential to moderate the strength of this relationship.

### **Hypothesis**

#### **Gender Diversity on The Board of Directors**

By balancing financial success with social and environmental obligations, the board of directors makes a significant contribution to corporate sustainability (Chai & Suparman, 2022). Gender diversity on boards of directors is an important part of how companies are managed today, demonstrating that they are keeping up with the times. The presence of women on boards is considered to contribute positively through a more diverse perspective, thereby supporting more comprehensive, innovative, and stakeholder-sensitive decision-making. In the context of Indonesia's dual board system, increasing women's involvement is in line with efforts to reduce gender gaps and promote equality and inclusiveness in corporate leadership. It is anticipated that the presence of women on the board of directors and in supervisory positions will improve the caliber of strategic decision-making and demonstrate a dedication to important and inclusive governance standards, which may eventually affect a company's financial performance (Goiyardi & Joni, 2025).

Gender diversity in companies can provide various benefits, including

broadening perspectives in decision-making, increasing innovation and creativity, and strengthening marketing effectiveness for various customer segments (Buerthey, 2021). Female directors can encourage a more comprehensive and beneficial decision-making process for the company, as they tend to show a higher level of effort in carrying out their duties than men (Dang et al., 2018). The presence of women on boards of directors has been shown to improve bank performance and risk management effectiveness (Farhana, 2020). From a stakeholder theory perspective, greater diversity in the composition of the board of directors increases the potential for achieving financial objectives (Hillman et al., 2001). The presence of women on boards of directors enhances organizational legitimacy and strengthens corporate reputation among investors, regulators, and the wider public within contemporary corporate governance frameworks that emphasize diversity and inclusiveness. The in-depth analytical skills and inclusive leadership approach of female directors have a significant impact on deep understanding in the banking industry. Increased corporate profits, particularly in the banking sector, can result from the participation of women on boards of directors (Balachandran et al., 2012). In line with the same results, Mertzanis et al. (2019) report a significant positive association between female board representation and bank performance, indicating that higher female participation on boards is accompanied by improved

performance outcomes in the banking sector.

It can be concluded that women's participation in boards of directors and its impact on performance has a positive and significant effect, as found by Gulamhussen and Santa (2015). Many studies show that women hold various responsibilities on company boards of directors and often demonstrate better oversight capabilities than their male counterparts (Adams & Ferreira, 2009; Zakaria et al., 2022). In addition, Owen & Temesvary (2018) argue that there is a complex relationship between female representation on boards of directors and business performance. Their research shows that women's contribution to improving company performance is only significant when gender diversity on the board of directors reaches an adequate threshold. According to a number of theoretical stances, having more women on corporate boards is linked to better financial results and increased competitiveness in the banking sector. Based on this reasoning, the following hypothesis is proposed:

H1: The presence of female directors on the board of directors has a significant positive impact on company performance in the banking sector.

### **Independent Director**

An independent director is a member of the board of directors of a listed company who is not an executive and who, in addition to receiving director remuneration, has no material interest in the company, whether financial or

otherwise (Clarke, 2006). This study emphasizes that women generally demonstrate stronger monitoring incentives (Almazan & Suarez, 2003) and are more likely to serve in independent director roles (Bohren & Staubo, 2016). In the banking sector, this monitoring function is especially crucial since the board of directors is tasked with safeguarding the interests of clients, customers, borrowers, and other stakeholders in addition to maximizing shareholder welfare (Pathan et al., 2007). The size and degree of independence of the board of directors can have an impact on a company's efficacy. Previous research shows that company performance is influenced by the size of the board of directors and the level of independence among board members (Rusdi et al., 2021; Sarpong-Danquah et al., 2022).

H2: Female independent directors on the board of directors have a positive influence on banking performance.

### **Independent Commissioner**

In order to safeguard the interests of stakeholders, investors, and the firm itself, independent board members are in charge of monitoring the board of directors as they run the business. According to corporate governance principles, independent commissioners are usually in charge of a company's growth and direction. The bank's financial performance can be improved when independent commissioners perform their duties independently. Independent commissioners have an impact on the financial performance of banks, according to research by Hendratni et

al. (2018) and Clara Intia & Nur Azizah (2021). In addition, research conducted by Choe & Lee (2003) showed that better company financial performance is positively correlated with a larger percentage of independent commissioners in the board structure. According to research by Awadh & Abdul (2015), the presence of independent commissioners plays an important role in improving the effectiveness of supervision, thus having a positive impact on company performance. Selia (2014) stated there was no discernible correlation between the percentage of independent commissioners and the financial performance of the company.

H3: There is a significant positive influence of independent commissioners on banking financial performance.

#### **Performance of Bank Boards of Directors (Moderated by Foreign Ownership)**

The increase in international involvement in Indonesian banking stems from global connections in finance. Rokhim & Susanto (2013) highlight in their 2013 study that international involvement in the local banking sector appears in various forms, including an increase in the number of international executives working in local banks, a surge in international customers using local banking services, or an increase in the level of international debt due to the inflow of international funds. Based on previous research, Choi & Hasan (2005) found that foreign ownership and bank profits have a positive

correlation with the impact of foreign investors and foreign board members on the performance and risk of banks in the Korean banking sector. In addition, Bonin et al. (2005) revealed that in the second half of the 1990s, there was a significant increase in foreign ownership in the banking sector of transition countries. This study shows that banks owned by foreign parties perform much better than domestic banks. In addition, higher levels of foreign ownership are positively associated with banking efficiency in eleven transition countries. Higher profitability and improved operational efficiency are typically displayed by banks with significant foreign ownership and more independent board structures, suggesting that foreign investor participation contributes to better corporate governance and enhanced bank performance in emerging markets.

H4: Foreign ownership strengthens banking performance in relation to the board of directors.

#### **Performance of Independent Bank Directors (Moderated by Foreign Ownership)**

The existence of foreign shareholders within a firm's ownership structure is commonly linked to enhanced regulatory compliance and reinforces the association between the effectiveness of independent directors and the financial performance of banking institutions. Independent directors are expected to play a role in oversight and strategic direction that could potentially influence operational efficiency and the quality of banking

governance. Foreign ownership provides greater supervisory capacity and experience in monitoring management performance, thereby strengthening the role of independent directors in promoting improved banking performance (Bonin et al., 2005). Foreign investors encourage greater transparency in decision-making, and with pressure to maintain high standards, independent directors become more effective in ensuring that shareholder interests can improve bank performance (Arouri et al., 2014).

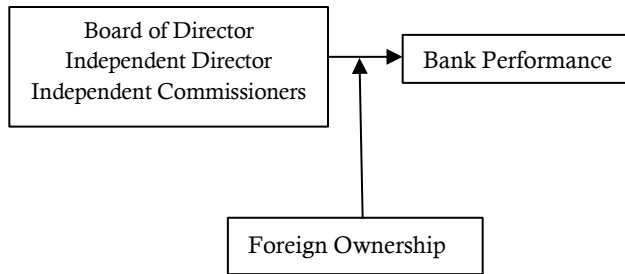
H5: Foreign ownership moderates the relationship between independent directors and bank performance.

#### **Performance of Independent Bank Commissioners (Moderated by Foreign Ownership)**

In order to guarantee that corporate decision-making continues to be in line with the interests of shareholders, independent commissioners oversee managerial behavior. Their presence increases transparency and accountability in bank management, which has the potential to improve financial performance. Competent independent commissioners also contribute to formulating and overseeing the implementation of

strategic policies that support bank growth, while helping foreign shareholders reduce agency costs between management and owners. It has been demonstrated that having independent commissioners significantly boosts a company's value (Khairani, 2019). Foreign ownership tends to have stronger oversight capacity, allowing independent commissioners to act more actively in monitoring management, which ultimately improves bank performance (Desender et al., 2016). Foreign investors are typically encouraged to designate their representatives as commissioners or members of the board of directors at higher ownership levels. This placement helps align the interests of foreign shareholders with management so that the goal of improving company performance becomes easier to achieve (Simerly & Li, 2000). Independent commissioners contribute to improving the objectivity of decision-making in the interests of the company, which can ultimately affect stock prices and increase company value, especially in the banking sector (Widyati, 2013).

H6: Foreign ownership moderates the relationship between independent commissioners and bank performance.



**Figure 1**  
**Research Model**  
**Source: Processed Data (2024)**

**Research Method**

The quantitative method used in this study is based on statistical analysis and numerical data. The research process, from data collection through interpretation, is systematically and explicitly explained. The research objects were taken from the annual reports of banking sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2019 to 2023. The research sample was

determined using purposive sampling, namely banks that were consistently listed during the observation period, published annual reports and complete financial reports, and had data available related to the research variables.

**Measurement of Variables**

The measurements used to measure each variable in this study are as follows:

**Table 1**  
**Summary of Research Variables**

Variable	Measurement	
	Name of Variable	Indicator
Dependent	Return on Asset	Return on Assets (ROA) is a profitability indicator that measures a firm’s ability to generate earnings from its total assets. This ratio reflects the efficiency with which a company utilizes its asset base to produce profits and sustain long-term profit growth. This ratio is calculated by dividing net income after tax by the company's total assets (Elbahar, 2019).
Dependent	Return on Equity	Return on Equity (ROE) reflects a firm’s ability to efficiently utilize shareholders’ equity to generate profits and optimize the use of its resources. ROE is calculated by dividing net income after tax by the company's total equity (Elbahar, 2019).
Independent	Board Of Director	This study focuses on the proportion of women. This measurement uses a dummy variable with a value of 1 if the board of directors includes female members, and 0 if it does not (Habtoor, 2022).

Variable	Measurement	
	Name of Variable	Indicator
Independent	Independent Director	The independent director variable is measured by the proportion of female independent directors on the board of directors, calculated as the number of female independent directors divided by the total number of board of directors' members (Karim et al., 2020).
Independent	Independent Commissioners	The independent commissioner variable is measured based on the proportion of commissioners who are independent from company management. This variable is calculated by dividing the number of independent commissioners by the total number of board members in the company (Ardelia & Lubis, 2023).
Moderation	Foreign Ownership	In this study, share ownership is treated as a moderating variable that can enhance or diminish the relationship between the variables under investigation. Foreign ownership is measured based on the proportion of shares owned by foreign investors (Abedin et al., 2022).

Source: Processed Data (2024)

## Results and Discussion

This study uses STATA statistical software to test the proposed hypotheses by assessing the relationship between dependent and independent variables, including moderating effects.

This study uses a quantitative approach, utilizing secondary data obtained from the annual reports of banking sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2019–2023. Panel regression analysis using Stata was then applied to test the proposed hypothesis.

## Descriptive Statistic

Table 2  
Descriptive Statistics Test Result

Variable	Mean	Median	Min	Max
ROA	-0.000	0.007	-0.803	0.108
ROE	0.027	0.035	-1.503	1.414
BOD	0.687	1.000	0.000	1.000
IND	0.008	0.000	0.000	0.200
INC	0.566	0.571	0.000	1.000
FOW	0.333	0.130	0.000	0.997

Source: Processed Data (2024)

Table 2 shows descriptive statistics indicating that the average ROA is close to zero with significant variation between companies that recorded large losses and those that recorded small profits, while the average ROE is 2.7% with a very wide range, indicating sharp differences in equity performance. The governance structure shows that the majority of companies have a board of directors (BOD) with a high proportion, but the presence of independent directors (IND) is still very low. Conversely, the proportion of independent commissioners (INC) is quite high, at around 56%, reflecting relatively good oversight practices. Meanwhile, foreign ownership (FOW) averages 33% with significant variation from no foreign ownership to almost entirely foreign-owned. Banking performance in Indonesia shows significant variation, with an average ROA close to zero and ROE of 2.7%, reflecting large differences in performance between banks. The governance

structure shows that most banks have large boards of directors, but the level of director independence is still very low. Conversely, a relatively large proportion of independent commissioners indicates strong oversight practices. In addition, average foreign ownership reaches 33%, indicating that Indonesia's banking industry is quite open to global investors.

### Pearson Correlation ROA

**Table 3**  
Pearson Correlation ROA Test Result

	ROA	BOD	IND		INC	FOW
ROA	1.000					
BOD	0.263*** (0.000)	1.000				
IND	-0.064 (0.333)	0.151** (0.022)	1.000			
INC	-0.020 (0.758)	0.146** (0.027)	-0.041 (0.538)		1.000	
FOW	0.044 (0.504)	0.081 (0.222)	0.171*** (0.009)		-0.112* (0.090)	1.000

Source: Processed Data (2024)

Table 3 shows a statistically significant positive correlation between ROA and board of directors (BOD) size at a 1% significance level ( $r = 0.263$ ), indicating that an increase in the number of board members is generally associated with an increase in asset performance. The study's findings demonstrate a statistically significant and positive correlation between ROA and the size of the board of directors, suggesting that banks with larger boards of directors typically exhibit superior asset performance.

These results are consistent with the research by Sarpong-Danquah et al. (2022), which also discovered that board size improved performance. Conversely, ROA has no significant relationship with independent directors (IND), independent commissioners (INC), or foreign ownership (FOW). Conversely, there is a significant positive correlation between BOD and IND ( $r = 0.151$ ;  $p < 0.05$ ) and between BOD and INC ( $r = 0.146$ ;  $p < 0.05$ ), indicating that companies with larger

boards of directors tend to have a higher proportion of independent commissioners. IND also has a significant positive correlation with FOW ( $r = 0.171$ ;  $p < 0.01$ ), while INC has a significant negative correlation with FOW ( $r = -0.112$ ;  $p < 0.1$ ). In addition, BOD was found to have a positive correlation with IND and INC, indicating that the larger the board of directors, the higher the independent oversight, while IND had a positive correlation with FOW and INC had a negative correlation.

### Pearson Correlation ROE

**Table 4**  
**Pearson Correlation ROE Test Result**

	<b>ROE</b>	<b>BOD</b>	<b>IND</b>	<b>INC</b>	<b>FOW</b>
ROE	1.000				
BOD	0.301*** (0.000)	1.000			
IND	-0.107 (0.105)	0.151** (0.022)	1.000		
INC	-0.027 (0.679)	0.146** (0.027)	-0.041 (0.538)	1.000	
FOW	-0.056 (0.394)	0.081 (0.222)	0.171*** (0.009)	-0.112* (0.090)	1.000

Source: Processed Data (2024)

Table 4 shows a significant positive relationship between ROE and board of directors (BOD) size at a 1% significance level ( $r = 0.301$ ), which means that companies with larger boards of directors tend to achieve higher return on equity. This finding is in line with the research by Fajarwati & Witiastuti (2022), which demonstrates that a larger board of directors is linked to a notable improvement in business performance. Meanwhile, ROE does not show a significant relationship with independent directors (IND), independent commissioners (INC), or foreign ownership (FOW) (Awadh & Abdul, 2015; Fahlevi et al., 2023; Setiawan & Kurniawati, 2023). In line with previous results, BOD is

positively and significantly related to IND ( $r = 0.151$ ;  $p < 0.05$ ) and INC ( $r = 0.146$ ;  $p < 0.05$ ), indicating a tendency that a larger board of directors is followed by an increase in independent oversight mechanisms. Furthermore, IND was positively and significantly correlated with FOW ( $r = 0.171$ ;  $p < 0.01$ ), while INC showed a negative and significant correlation with FOW ( $r = -0.112$ ;  $p < 0.1$ ). Overall, these results show that while independence and foreign ownership mechanisms more accurately reflect the dynamics of corporate control structures, governance through board size plays a significant influence in boosting equity performance.

### Regression Without Moderation

**Table 5**  
**Regression Without Moderation Test Result**

	ROA	ROA	ROE	ROE
BOD	0.019*** (4.44)	0.018*** (3.64)	0.075*** (5.29)	0.074*** (4.49)
IND	-0.121* (-1.72)	-0.119** (-2.24)	-0.600** (-2.56)	-0.564** (-2.53)
INC	-0.012 (-1.04)	-0.012 (-1.16)	-0.050 (-1.32)	-0.050 (-1.41)
_cons	-0.002 (-0.34)	0.002 (0.33)	0.012 (0.51)	0.019 (0.95)
Year FE	No	Yes	No	Yes
r2	0.085	0.121	0.121	0.145
r2_a	0.072	0.093	0.110	0.118
N	230	230	230	230

Source: Processed Data (2024)

Table 5 shows that the board of directors (BOD) has a positive and significant influence on financial performance, as seen from the coefficient of 0.019 on ROA ( $t=4.44$ ;  $p<0.01$ ) and 0.075 on ROE ( $t=5.29$ ;  $p<0.01$ ), which means that the more directors there are, the better the

company's profitability. Conversely, independent commissioners (IND) have a significant negative effect on ROA with a coefficient of -0.121 ( $t=-1.72$ ;  $p<0.1$ ) and on ROE of -0.600 ( $t=-2.56$ ;  $p<0.05$ ), indicating that their supervisory function is not yet optimal. On the other hand, the other

independent commissioner variable (INC) did not show a significant effect on company performance, as reflected in the coefficients of -0.012 (t=-1.04) on ROA and -0.050 (t=-1.32) on ROE. The R<sup>2</sup> value, ranging from 0.085 to 0.145, also confirms that governance variables can only explain a small portion of the variation in financial performance. Overall, these results are in line with

the findings of Awadh & Abdul (2015), who affirm the favorable influence of board size on performance, as well as Rakasiwi & Pujiati (2024), who assert that board independence does not always favorably contribute to corporate earnings.

### Regression With Moderation

**Table 6**  
**Regression With Moderation Test Result**

	ROA	ROA	ROE	ROE
FOW	0.003 (0.52)	0.002 (0.51)	-0.018 (-1.07)	-0.020 (-1.30)
BOD	0.019*** (4.38)	0.018*** (3.68)	0.076*** (5.36)	0.075*** (4.58)
IND	-0.127* (-1.77)	-0.124** (-2.32)	-0.561** (-2.36)	-0.518** (-2.32)
INC	-0.011 (-0.97)	-0.011 (-1.08)	-0.055 (-1.44)	-0.056 (-1.54)
_cons	-0.004 (-0.48)	0.002 (0.19)	0.020 (0.81)	0.027 (1.30)
Year FE	No	Yes	No	Yes
r2	0.086	0.122	0.126	0.151
r2_a	0.069	0.090	0.110	0.120
N	230	230	230	230

Source: Processed Data (2024)

Table 6 on regression results with moderation shows that the board of directors (BOD) has a significant positive effect on financial performance, with a coefficient of 0.019 on ROA (t=4.38; p<0.01) and 0.076 on ROE (t=5.36; p<0.01). Conversely, independent commissioners (IND) have a significant negative effect, namely -0.127 on ROA (t=-1.77; p<0.1) and -

0.561 on ROE (t=-2.36; p<0.05). Meanwhile, the presence of other independent commissioners (INC) was not significant for ROA or ROE, with coefficients of -0.011 (t≈-1.08) and -0.055 (t≈-1.54). The foreign ownership (FOW) variable tested as a moderator did not show a significant effect on financial performance, with coefficients ranging from 0.002 to -0.020 (t<1.3).

The R<sup>2</sup> value increased to 0.086–0.151, which means that the model explains approximately 8.6–15.1% of the variation in performance.

Overall, the moderation test results show that the relationship between variables follows the same pattern as observed in regression analysis without moderation. The findings show that financial performance is positively and significantly correlated with the board of directors (BOD), negatively correlated with independent commissioners (IND), and not significantly influenced by other independent commissioners (INC). This indicates that the board of directors remains the dominant factor influencing profitability, with the monitoring role of independent commissioners not yet functioning optimally. In addition, foreign

ownership (FOW) is not proven to moderate this relationship, so it neither strengthens nor weakens the influence of the board of directors' structure on performance. This finding is in line with the research by Awadh & Abdul (2015), which shows a positive correlation between improved performance and the size of the board of directors, and is reinforced by Rakasiwi & Pujiati (2024), who argue that the level of independence of the board of directors does not always mean increased profits. The negative results of independent commissioners are also consistent with Sam et al. (2022) and Zakaria et al. (2022), who found that the proportion of independent commissioners has no significant impact on company performance.

### Regression with Interaction Variable

Table 7  
Regression With Interaction Variables Test Result

	ROA	ROA	ROE	ROE
BODxFOW	-0.013 (-1.11)	-0.013 (-1.11)	-0.024 (-0.64)	-0.024 (-0.58)
INDxFOW	0.028 (0.16)	0.048 (0.36)	0.033 (0.06)	0.072 (0.15)
INCxFOW	0.041 (1.06)	0.041 (1.16)	0.203 (1.60)	0.217** (2.22)
FOW	-0.011 (-0.50)	-0.012 (-0.47)	-0.113 (-1.55)	-0.124* (-1.92)
BOD	0.023*** (4.06)	0.022*** (2.85)	0.083*** (4.50)	0.082*** (3.57)
IND	-0.136 (-0.95)	-0.146 (-1.24)	-0.548 (-1.16)	-0.527 (-1.47)
INC	-0.020 (-1.41)	-0.020 (-1.54)	-0.098** (-2.09)	-0.102** (-2.19)
_cons	-0.001	0.004	0.040	0.048*

	ROA	ROA	ROE	ROE
	(-0.10)	(0.35)	(1.37)	(1.69)
Year FE	No	Yes	No	Yes
r2	0.094	0.130	0.136	0.162
r2_a	0.065	0.086	0.109	0.120
N	230	230	230	230

Source: Processed Data (2024)

Table 7 shows the results of moderation regression with interaction variables, indicating that the board of directors (BOD) still has a significant positive effect on company performance, with a coefficient of 0.023 on ROA ( $t=4.06$ ;  $p<0.01$ ) and 0.083 on ROE ( $t=4.50$ ;  $p<0.01$ ). Conversely, independent commissioners (INC) are not significant in all models, even though the direction of the coefficient is negative. Other independent commissioners (INC) are insignificant on ROA ( $-0.020$ ;  $t=-1.41$ ), but have a significant negative effect on ROE, namely  $-0.098$  ( $t=-2.09$ ;  $p<0.05$ ) and  $-0.102$  ( $t=-2.19$ ;  $p<0.05$ ). For the moderator variables, the interactions BOD×FOW and IND×FOW were not significant, with coefficients ranging from  $-0.024$  to  $0.072$  ( $t<1.2$ ). However, the INC×FOW interaction had a significant positive effect on ROE of  $0.217$  ( $t=2.22$ ;  $p<0.05$ ), indicating that foreign ownership can strengthen the influence of independent commissioners on equity-based performance.

Meanwhile, the FOW variable directly has only a significant negative effect on ROE ( $-0.124$ ;  $t=-1.92$ ;  $p<0.1$ ). The  $R^2$  value increases to  $0.162$ , indicating that the model is able to explain  $16.2\%$  of the variation in performance. The findings indicate

that a larger board of directors is significantly associated with improved bank performance, in line with the findings of Sarpong-Danquah et al. (2022), which states that a larger board of directors can improve decision-making effectiveness and encourage company performance, while independent commissioners at the board level have no significant effect. Conversely, independent commissioners on committees were found to improve performance based on ROE, and this effect was stronger when moderated by foreign ownership. However, foreign ownership had a direct negative impact on ROE. These findings suggest that the effectiveness of bank governance depends more on committee structure than on board independence, and that foreign investors tend to strengthen oversight but do not always promote short-term profits. The negative relationship between foreign ownership and ROE aligns with the study by Douma et al. (2006), indicating that foreign ownership does not invariably lead to higher profitability, especially in emerging markets.

## Conclusion and Recommendation

### Conclusion

The results show that the size of the board of directors has a positive and significant impact on the financial performance of banks as measured by ROA and ROE, indicating that a larger board of directors facilitates better supervision and strategic decision-making. Conversely, it has been proven that independent directors significantly harm bank performance, while independent commissioners have a negative impact on ROE and no significant impact on ROA, indicating that the independent supervisory function is not yet fully effective. However, the interaction between independent commissioners and foreign ownership has a significant positive effect on ROE, indicating that the involvement of foreign investors can strengthen the effectiveness of the supervisory role of independent commissioners.

The implications of these findings indicate that the effectiveness of banking governance is shaped not only by the presence of independent oversight mechanisms but also by the quality and contextual factors surrounding their implementation. A greater role for the board of directors appears to be relevant in supporting bank financial performance, while the effectiveness of independent supervision tends to increase when supported by foreign ownership, which brings stricter governance standards and managerial discipline. The results offer empirical evidence that both internal and external governance mechanisms are

important determinants in explaining differences in banking financial performance in Indonesia.

### Recommendation

This study has several limitations. First, the research sample only includes banks listed on the Indonesia Stock Exchange during the period 2019–2023, so the results do not fully represent the overall condition of the Indonesian banking industry. Second, the measurement of corporate governance in this study is limited to the characteristics of the board of directors, independent directors, independent commissioners, and foreign ownership, so it does not fully capture the broader governance mechanisms that can impact a bank's financial performance. The limitations of this study indicate that the sample coverage and observation period, variations in governance variables including technological aspects and economic conditions as well as the use of more diverse performance indicators and methodological approaches were not covered in the analysis. Therefore, these aspects are beyond the scope of this study and have the potential to affect the explanatory power and level of generalization of the research results.

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