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Ownership Structure, Independent Commissioners, and Firm Characteristics: Their Impact on Financial Performance in Indonesian Commercial Banks

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ABSTRACT: This study investigates the impact of institutional ownership, managerial ownership, firm characteristics, and the proportion of independent commissioners on the financial performance of commercial banking companies in Indonesia during the period 2020–2023. The research employs multiple linear regression using secondary data obtained from company financial reports. The findings reveal that institutional ownership and firm characteristics (size and age) have a significant positive effect on financial performance, while managerial ownership and the proportion of independent commissioners do not have a significant impact. These findings offer important implications for managerial and shareholder decision-making in improving financial performance.

Keywords: Banking sector, Corporate characteristics, Financial performance, Independent board commissioners, Ownership structure.

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1. INTRODUCTION

In recent years, the Indonesian banking sector has encountered significant challenges. Data from the Financial Services Authority (OJK) reveals a decline in financial performance at the start of 2024, as evidenced by the drop in Return on Assets (ROA) from 3.02% in January 2023 to 2.71% in January 2024. This downward trend affected all bank groups classified by core capital (KBMI), with varying degrees of decline depending on the size of their core capital, as illustrated in the following graph.

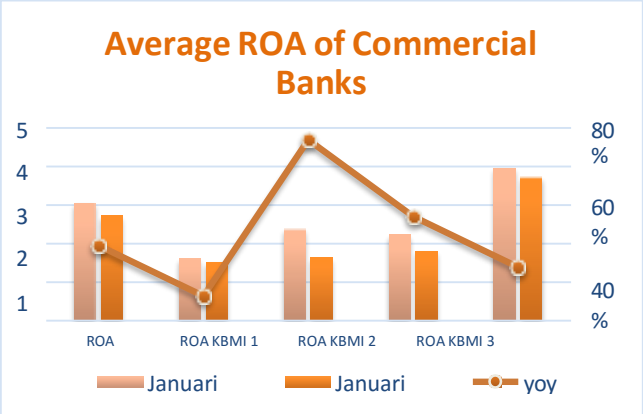

Fig. 1. Average ROA of Commercial Banks 2023–2024

Financial performance has been explained in various literatures as an aspect influenced by multiple factors. For example, research by Barbuţă-Mişu et al. (2019) identified several factors affecting financial performance, such as leverage, liquidity, solvency, and others. Unlike previous studies, this research aims to identify other factors that can influence financial performance. Specifically, this study will explain the relationship between managerial ownership, institutional ownership, company characteristics (size and age), and the proportion of independent commissioners on financial performance.

Based on agency theory, managerial ownership is considered a mechanism to mitigate agency conflicts and improve financial performance (Kirimi, 2024). When managers hold ownership stakes, they act as both owners and controllers, which motivates them to enhance the financial performance (Faleye, 2007). Institutional ownership also plays a vital role by serving as an effective monitoring system that curtails managerial missteps and reduces agency costs (Ningsih & Wuryani, 2021). Moreover, the presence of independent commissioners reinforces the board's oversight function, where a higher proportion of independent commissioners reduces agency conflicts and positively influences financial performance (Fama & Jensen, 1983). Company characteristics such as size and age further affect governance and information disclosure capabilities, with larger and older firms typically demonstrating stronger information management and reduced information asymmetry (Ningsih & Wuryani, 2021; Wallace et al., 1994).

The relationships between institutional ownership, managerial ownership, company characteristics, and independent commissioners' proportion with financial performance have been widely researched, yet findings remain inconclusive. For instance, Abedin et al. (2022) reported a positive correlation between institutional ownership and financial performance, whereas Tsouknidis (2019) found a negative association. Similarly, research on managerial ownership shows mixed results; Iwasaki et al. (2022) found a positive impact, while Molla et al. (2023) observed no significant effect.

Disparities also exist regarding the influence of independent commissioners. Yuliyanti and Cahyonowati (2023) found a positive impact, whereas Christin et al. (2019) reported no significant effect. The influence of company size and age on financial performance is also debated: Tri and Dewayanto (2018) found size to be insignificant, while Yemane et al. (2015) noted a positive relationship. Similarly, the effect of company age remains unclear, with Yemane et al. (2015) showing no significant effect and Osunsan et al. (2015) indicating a positive one.
This study focuses on all commercial banks registered with the Financial Services Authority (OJK) during 2020–2023, motivated by the observed decline in financial performance during this period. The research aims to enrich the literature on financial performance determinants and provide valuable insights for investors, regulators, and practitioners regarding the challenges and dynamics in Indonesia's banking sector.

2. TEORITICAL REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Agency Theory

Agency theory explains the relationship between principals (owners) and agents (managers), where owners delegate authority to managers to make decisions in the best interest of the company, including resource allocation, pricing, costs, compensation, and incentives (Fitriani, 2019). However, this delegation can lead to agency costs, which are losses in efficiency caused by managers potentially acting contrary to owners' interests (Deegan & Unerman, 2011). These agency costs include monitoring expenses borne by owners to oversee management activities and control costs required to align managers' behavior with corporate objectives (Uzliawati et al., 2023).

This theory highlights the conflict of interest between owners and managers arising from opportunistic behavior by managers (Jensen & Meckling, 1976), such as prioritizing personal gain or short-term goals by exploiting company resources (Hart & Quinn, 1993). The conflict is further intensified by information asymmetry, where managers possess superior information compared to owners (Myers & Majluf, 1984), potentially resulting in

decisions that do not align with shareholders' interests.

2.2 Hypothesis Development

Institutional ownership serves as an effective external monitoring mechanism to reduce conflicts of interest between owners and managers. With oversight from institutional investors, managerial performance can be optimized and managerial errors minimized. This aligns with agency theory, which suggests that institutional ownership can reduce agency costs through active monitoring. Institutional investors, endowed with extensive capacity and knowledge, are able to promote good corporate governance and enhance the efficiency and quality of decision-making (Lin & Fu, 2017; Maryanti & Dianawati, 2024).

H1: Institutional ownership positively affects financial performance.

Managerial ownership can mitigate agency conflicts arising from the separation of ownership and control (Jensen & Meckling, 1976). By holding shares, managers are incentivized to act in the shareholders' best interest as they share the consequences of the decisions made (Faleye, 2007). Moreover, managerial ownership is considered capable of reducing information asymmetry and improving financial performance (kirimi, 2024).

H2: Managerial ownership positively affects financial performance.

According to agency theory, large companies possess the financial capacity to bear agency costs necessary to monitor managerial behavior, thus reducing agency problems. With adequate allocation for monitoring expenses, information management becomes more efficient and transparency increases, ultimately boosting investor confidence and the company's financial performance (Ningsih & Wuryani, 2021).

H3: Company size positively affects financial performance.

Financial information plays a critical role for owners in reducing information asymmetry (Jensen & Meckling, 1976). As companies age, their experience accumulates, which in turn encourages better disclosure of information (Wallace et al., 1994).

H4: Company age positively affects financial performance.

Independent commissioners are members of the board of commissioners who do not have financial, managerial, ownership, or family ties with other commissioners (Uzliawati & Djati. 2015). They play a vital role in monitoring management to reduce conflicts of interest between owners and company executives. Independent commissioners are able to limit managers' opportunistic actions and enhance company transparency (Shan, 2019). Previous studies have shown that a higher proportion of independent commissioners leads to more effective supervision, positively impacting the company's financial performance (Shan, 2019).

H5: The proportion of independent commissioners positively affects financial performance.

3. METHODOLOGY

3.1 Data Selection and Collection

The population of this study includes all commercial banks listed on the Financial Services Authority (OJK) capital market during the 2020-2023 period. The final sample consists of 91 banks selected through purposive sampling based on the following criteria:

1. Commercial banks regulated by OJK that consistently published financial statements and/or annual reports during the 2020-2023 period.

2. Commercial banks regulated by OJK that have complete data related to the research variables throughout the 2020-2023 period.

3.2 Measurement and Operational Definition of Research Variables

Independent variables

Institutional ownership is measured as the percentage of shares owned by institutional investors divided by the

total shares outstanding (Tsouknidis, 2019). Managerial ownership is measured as the percentage of shares owned by company managers divided by total shares outstanding (Iwasaki et al., 2022). Firm size is measured using the logarithm of total assets (Uzliawati et al., 2023). Firm age is calculated by subtracting the company's establishment year from the analysis or observation year. The proportion of independent commissioners is calculated by dividing the number of independent commissioners by the total number of commissioners in the company (Uzliawati et al., 2024)

Dependent Variable

Financial performance is measured using Return on Assets (ROA), calculated by dividing net income after tax by total assets (Abedin et al., 2022).

3.3 Data Analysis Techniques

The collected data will be analyzed in several stages. The first stage involves descriptive statistical analysis aimed at identifying data distribution patterns and spread. The second stage is classical assumption testing to ensure the data meet the requirements for regression analysis. The third stage involves hypothesis testing using multiple linear regression analysis, which evaluates the extent to which independent variables influence the dependent variable. All data analysis processes are conducted using SPSS version 25 software.

4. RESULT AND DISCUSSION

4.1 Descriptive Statistics

Table 1. Descriptive Statistics

Descriptive Statistics

N		Minimum	Maximum	Mean	Std. Deviation
KI	91	.13	1.00	.7636	.20260
KM	91	.00	.32	.0137	.04306
SIZE	91	28.00	35.08	32.0021	1.74329
AGE	91	22.00	82.00	50.8022	16.45142
PKI	91	.33	.80	.5770	.09722
ROA	91	-.01	.03	.0101	.00750
Valid N (listwise)	91				

The descriptive statistics show the following insights:

1. Institutional Ownership (KI)

The minimum value is 0.13 and the maximum is 1.00, with a mean of 0.7636 and a standard deviation of 0.2026. This indicates that the sample companies generally have a high and diverse proportion of institutional ownership.

2. Managerial Ownership (KM)

Managerial ownership ranges from 0.00 to 0.32, with a relatively low average of 0.0137 and a standard deviation of 0.04306. This implies that most managers hold a small portion of company shares.

3. Firm Size (SIZE)

Firm size, measured by the logarithm of total assets, ranges between 28.00 and 35.08, with a mean of 32.0021 and a standard deviation of 1.74329.

4. Firm Age (AGE)

Firm age ranges from 22 to 82 years, with an average of 50.80 years and a standard deviation of 16.45. This suggests that the companies in the sample vary widely in operational age, with many being relatively mature.

5. Proportion of Independent Commissioners (PKI)

The proportion of independent commissioners ranges from 0.33 to 0.80, with a mean of 0.5770 and a standard deviation of 0.09722, reflecting moderate variation in board independence among firms.

Return on asset (ROA)

ROA ranges from -0.01 to 0.03, with a mean of 0.0101 and a standard deviation of 0.00750. This shows that, on average, companies recorded a positive profit, although performance varied across the sample.

4.2 Classical Assumption Tests

Table 2. Normality Test

One-Sample Kolmogorov-Smirnov Test

Unstandardized Residual

N		91
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.00598466
Most Extreme Differences	Absolute	.056
	Positive	.056
	Negative	-.046
Test Statistic		.056
Asymp. Sig. (2-tailed)		.200[c,d]

The normality test in this study (Table 2) was conducted using the Kolmogorov–Smirnov method on the unstandardized residuals. The test result shows a significance value of 0.200, which is greater than the 0.05 threshold. Therefore, it can be concluded that the residuals are normally distributed, indicating that the regression model satisfies the assumption of normality.

Table 3. Multicollinearity Test

Coefficients[a]

Collinearity Statistics

Model		Tolerance	VIF
1	KI	.948	1.055
	KM	.853	1.173
	SIZE	.730	1.371
	AGE	.839	1.192
	PKI	.945	1.058

The multicollinearity test is used to detect whether there is a strong correlation among the independent variables in the regression model. According to the standard criteria, the tolerance value should be greater than 0.10 and the Variance Inflation Factor (VIF) should be less than 10. As shown in Table 3, all variables meet these criteria, with tolerance values above 0.10 and VIF values below 10. This indicates that multicollinearity is not a

concern in the model, thereby supporting the validity and reliability of the regression analysis.

Table 4. Autocorrelation Test

Runs Test

Unstandardized Residual

Test Value[a]	-.00041
Cases < Test Value	45
Cases >= Test Value	46
Total Cases	91
Number of Runs	38
Z	-1.791
Asymp. Sig. (2-tailed)	.073

The autocorrelation test was conducted using the Runs Test on the unstandardized residuals. The result shows a Z-value of -1.791 with a significance level of 0.073 ($p > 0.05$). Since the significance value is greater than 0.05, it indicates that the residuals are randomly distributed. Therefore, the regression model does not exhibit autocorrelation. See Table 4 for details.

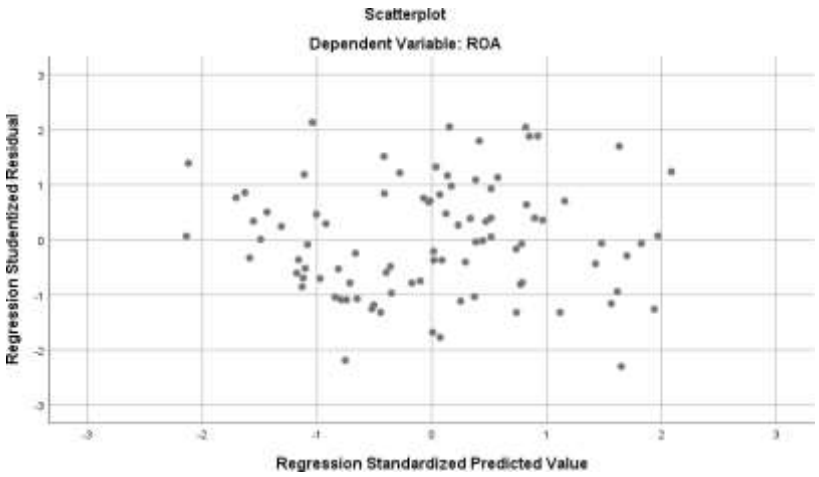

Fig. 2. Scatterplot

Based on Figure 2 (scatterplot), the residual points appear to be randomly distributed without forming any discernible pattern, such as a curve, funnel shape, or convergence in one direction. The points are also evenly spread above and below the horizontal axis (zero residual line). This distribution pattern indicates the absence of heteroscedasticity in the model. Therefore, it can be concluded that the classical assumption of homoscedasticity is met, and the regression model is suitable for use.

4.3 Coefficient of Determination

Table 5. Coefficient of Determination

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.603[a]	.363	.326	.00616

a. Predictors: (Constant), PKI, KM, AGE, KI, SIZE

b. Dependent Variable: ROA

Table 5 shows the results of the coefficient of determination test. The Adjusted R Square value of 0.326 indicates that 32.6% of the variation in financial performance (ROA) can be explained by the independent variables, namely Institutional Ownership (KI), Managerial Ownership (KM), Firm Size (SIZE), Firm Age (AGE), and the Proportion of Independent Commissioners (PKI). The remaining 67.4% is influenced by other variables outside the regression model.

4.4 Simultaneous Significance Test (F-test)

Table 6. F-Test Results

ANOVA[a]

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.002	5	.000	9.707	.000[b]
	Residual	.003	85	.000		
	Total	.005	90			

a. Dependent Variable: ROA

b. Predictors: (Constant), PKI, KM, AGE, KI, SIZE

Table 6 presents the results of the F-test. The F-statistic is 9.707 with a significance level of 0.000. Since the significance value is less than 0.05 and the calculated F value (9.707) is greater than the F-table value (2.32), the regression model is considered statistically significant. This indicates that the independent variables—Institutional Ownership, Managerial Ownership, Firm Size, Firm Age, and the Proportion of Independent Commissioners—jointly have a significant influence on financial performance (ROA).

4.5 Partial Significance Test (t-Test)

Table 7. t-Test Results

Coefficients[a]

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-.044	.015		-2.869	.005
	KI	.006	.003	.173	1.947	.055
	KM	.044	.016	.253	2.696	.008
	SIZE	.001	.000	.240	2.370	.020
	AGE	.000	.000	.438	4.638	.000
	PKI	.009	.007	.117	1.317	.191

a. Dependent Variable: ROA

Interpretation of Partial Significance Test (t-Test):

1. Effect of Institutional Ownership on Financial Performance
   The t-value of 1.947 is less than the t-table value of 1.988, and the significance value is 0.055, which is greater than 0.05. This indicates that institutional ownership (KI) does not have a statistically significant effect on financial performance (ROA). Therefore, the first hypothesis (H1) is not supported.
2. Effect of Managerial Ownership on Financial Performance
   The t-value is 2.696 > 1.988 (t-table) and the significance value is 0.008 < 0.05. This suggests that managerial ownership (KM) has a positive and significant effect on ROA. Thus, the second hypothesis (H2) is accepted.
3. Effect of Firm Size on Financial Performance
   The t-value is 2.370 > 1.988 (t-table) and the significance value is 0.020 < 0.05. This indicates that firm size (SIZE) positively and significantly affects ROA. Therefore, the third hypothesis (H3) is accepted.
4. Effect of Firm Age on Financial Performance
   The t-value is 4.638 > 1.988 (t-table) and the significance value is 0.000 < 0.05. This means that firm age (AGE) has a positive and significant influence on ROA. Hence, the fourth hypothesis (H4) is accepted.
5. Effect of the Proportion of Independent Commissioners on Financial Performance
   The t-value is 1.317 < 1.988 (t-table) and the significance value is 0.191 > 0.05. This shows that the proportion of independent commissioners (PKI) does not significantly affect financial performance. Therefore, the fifth hypothesis (H5) is not supported.

5. CONCLUSION AND SUGGESTIONS

A This study aims to examine the effect of institutional ownership, managerial ownership, firm size, firm age, and the proportion of independent commissioners on the financial performance of banking companies listed with the Financial Services Authority (OJK) in Indonesia during the 2020–2023 period. Based on the results of multiple linear regression analysis and hypothesis testing, the following conclusions are drawn:

1. Institutional ownership has no significant effect on financial performance. This suggests that institutional shareholders have not been sufficiently effective in encouraging improved profitability (ROA) in the banking sector.
2. Managerial ownership has a positive and significant effect on financial performance. The greater the proportion of shares held by management, the higher the financial performance, indicating aligned interests between managers and shareholders.
3. Firm size has a positive and significant effect on financial performance. Larger firms tend to have stronger market positions and resources, which can enhance profitability.
4. Firm age also shows a positive and significant effect on financial performance. Older firms are presumed to benefit from greater experience and accumulated operational efficiency.
5. The proportion of independent commissioners does not have a significant effect on financial performance. This indicates that the supervisory role of independent commissioners has not been fully effective in enhancing financial performance.

Based on these findings, it is recommended that firms—particularly in the banking sector—consider strengthening managerial ownership as an incentive mechanism to better align the interests of managers and shareholders. The evidence suggests that when managers have an ownership stake, they are more motivated to improve financial outcomes. While firm size and age are found to positively influence performance, these factors alone do not guarantee good governance or efficiency. Large and long-established firms must continue to improve management quality and foster innovation to remain competitive.

The finding that institutional ownership and the proportion of independent commissioners do not significantly affect ROA implies that these governance mechanisms are not yet functioning effectively in the context of Indonesian banking. Further evaluation is needed to ensure that institutional shareholders and independent commissioners are substantively involved in corporate governance and strategic decision-making, rather than

merely fulfilling formal structural requirements.

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