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FACTORS AFFECTING PROFITABILITY OF BANKING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

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ABSTRACT

This study is to analyze how independent commissioners, institutional ownership, number of directors, number of audit committees affect ROA. The banking companies used as samples in this study are 36 companies listed on the Indonesian Stock Exchange for the 2017-2019 period. Purposive sampling method is used as a sampling technique. Multiple linear regression analysis is used in the analysis technique. The results show that only the number of directors has a significant positive effect on profitability (ROA), while profitability (ROA) is not affected by independent commissioners, institutional ownership, and the number of audit committees. The results of this study are expected to provide information to banking companies to be able to increase profitability which has an impact on improving company performance with a focus on good corporate governance

Keywords: *Independent Board of Commissioners, Institutional Ownership, Number of Board of Directors, Number of Audit Committees, Return on Assets*

1. INTRODUCTION

In the era of globalization, technological developments make communication with each other easier so that the goods and services market becomes more stringent, especially in the economic and business sectors that have a high intensity of competition. The primary objective of the business is to increase the wealth of its owners, specifically by improving the business's financial performance.

In this case, goals can be achieved with good corporate governance (GCG). GCG enables the company to prosper and achieve the common goals of stakeholders. Theoretically, the implementation of GCG will have an impact on the outcomes of the organization, enhancing its profitability and corporate image because the company manages its assets and resources more efficiently and effectively in order to gain profit which is the company's main goal. In relation to financial performance, financial statements are a benchmark for assessing how well a business is doing, which can be measured by the degree of profitability. Investors can assess a company’s capability for turning a profit by looking at its level of profitability.

With profitability (ROA) as a dependent variable, this research will examine the mechanism for managing a corporation with corporate governance through independent boards of commissioners, institutional ownership, number of boards of directors, and number of audit committees. The independent board of commissioners will enhance the quality of effectiveness of the company's supervisory function, encourage it to act objectively, and protect all company stakeholders. The gap of this research is this study is a replication of the research of Subarnas and Gunawan (2019). However, there are some differences between the research of Subarnas and Gunawan (2019) and this research. First, there are additional independent variables, namely institutional ownership, and the number of audit committees. This is done because the author wants to know more factors that can directly affect profitability (ROA). Second, another difference is in sample and study period. This study uses 36 samples from the banking sector listed on the Indonesia Stock Exchange (IDX) for the 2017-2019 period based on predetermined criteria. This study aims to see how independent commissioners, institutional ownership, number of directors and number of audit committees affect the profitability of banking companies from 2017 to 2019 which are listed on the Indonesia Stock Exchange.

Our Contribution

It is hoped that the results of this research will be useful to banking companies to pay attention to sound corporate governance. Healthy corporate governance can increase profitability which can ultimately improve company performance. It is hoped that this research will be useful as a guide and basis for decision making as well as a basis for predicting company performance. to improve its performance through the profitability generated by the company as well as for investors who will invest in the banking industry that has implemented GCG. In addition, the results of this study can be used as a source of literature for other parties who will conduct research on the impact of good governance on the performance of banking sector companies.

2. BACKGROUND

Theories

Agency Theory

According to Hamdani (2016) agency is a relationship between management (agent) and investors (principal). Jensen and Meckling (1976) proposed the idea of agency to explain the connection between the agent and the principal. The principal contracts the agent to complete a job and compensates the agent.

Stakeholders Theory

This theory was first put forward in the theory of Strategic Management: A Stakeholder Approach by Freeman (1984). This theory emphasizes the right of stakeholders to receive financial or non financial information from the company about all activities related to stakeholders.

Profitability (ROA)

A company is said to be good if it shows high profitability. ROA is measured by comparing the value of net income after tax (earning after tax) to the total amount of assets (Sarafina & Saifi, 2017).
Good corporate governance practices are expected to provide benefits to the interests of the company's stakeholders and minimize agent fraud on the company's financial performance.

Independent Board of Commissioners

Dewi et al. (2018) stated that the percentage of independent commissioners consists of board of commissioner members who are unaffiliated, nonpartisan, and/or have no connection to corporate management. In accordance with stakeholder theory, having an independent commissioner will be able to encourage and create a more independent, objective and fairness climate as one of the most important principles in considering the interests of minority shareholders and other stakeholders.

Institutional Ownership

Putra & Fidiana (2017) stated that institutional ownership is ownership by parties in the form of institutions such as companies or other institutions including investment companies, banks, insurance, and other institutional ownership. In accordance with agency theory, institutional ownership is very important in minimizing decision-making conflicts between management and shareholders and is considered suitable as an effective management mechanism for all decisions made by managers.

Number of Board of Directors

According to the terms of the articles of association, the board of directors is a component of the company with the authority and responsible for achieving the goals of the company and represent the company inside and outside the court (Tjandra, 2015). In line with agency theory, the existence of a board of directors is expected to reduce the incentive of agents to carry out manipulation actions so that the company concerned will report performance based on actual economic conditions.

Number of Audit Committee

In order to ensure the integrity of the process of compiling financial statements, set up an effective corporate control system, and implement good corporate governance, the audit committee performs a crucial and strategic function. The audit committee, which was established by an independent board of commissioners, has the responsibility of overseeing the efficiency of internal controls and the performance of the company's auditors. (Ferial et al., 2016). Therefore, according to agency theory, agency problems that may arise can be minimized by having an audit committee.

3. RESEARCH HYPOTHESES

With too many independent commissioners, it will increase the costs that must be paid by the company to the independent commissioners such as salary costs and so on so that it will affect profitability. Increasing the number of independent commissioners without being followed by productivity carried out by the independent commissioners can lead to inefficient and ineffective profitability obtained by the company.
H1: The Independent Board of Commissioners has a negative effect on the profitability.

The greater the institutional share ownership, the greater the encouragement and voice from the institution to provide supervision to management so that the encouragement given will be greater in optimizing the value of the company so that the company's performance will also increase. Fraudulent acts committed can provide an opportunity to manipulate financial statements for the benefit of individuals.
H2: Institutional Ownership has a positive effect on the profitability.

With the increasing number of boards of directors in a company, the better the monitoring efforts on company performance will be. With this, it will produce good profitability so that it has an impact on increasing the company's stock price and improving company performance.
H3: The number of the Board of Directors has a positive effect on the profitability.

An increase in the number of audit committees can have a negative impact on the company due to the existence of an audit committee working with the company's management to falsify or deceive our financial statements, to the detriment of our profits; Not all audit committees have a high level of professionalism and expertise in accounting and finance, which can affect their oversight of financial reports and affect the company's financial performance.
H4: The number of audit committees has a negative effect on the profitability.

4. METHODS

The research design used was a quantitative descriptive research design. 45 companies that are a part of the banking industry and are listed on the Indonesia Stock Exchange (IDX) from 2017 to 2019 make up the population of this research object. The technique used to determine the sample in this study is purposive sampling with the criteria as follows:
1) Companies that had an IPO before 2017.
2) Banking companies that did not experience delisting for the 2017-2019 period.
3) Companies that had the amounts of shares possessed by the institution for the 2017-2019 period. 36 companies that meet the sample criteria.

After the data have been obtained, the data will be processed using the *EViews* version 12 program and Microsoft Excel. The data analysis technique used is descriptive analysis, panel data, model selection test consisting of Chow test, Hausman test, and Lagrange multiplier test, and a regression model consisting of multiple linear regression, F test, T test, and the coefficient of determination. In addition, data analysis assumptions were also carried out consisting of multicollinearity and heteroscedasticity tests.

The dependent variable is profitability as measured by the proxy return on asset (ROA) where the formula is as follows:

$$ROA = \frac{\text{Net Profit after Tax}}{\text{Total Assets}}$$

The independent variables are independent board of commissioners, institutional ownership, number of board of directors, number of audit committee. In measuring the Independent Board of Commissioners variable, uses the following formula:

$$IBOC = \frac{\text{Member of Independent Commissioners}}{\text{Member of the Board of Commissioners}}$$

In measuring the Institutional Ownership variable, uses the following formula:

$$IO = \frac{\text{Number of Shares Owned by Institution}}{\text{Number of Shares Outstanding}}$$

In measuring the Number of Board of Directors variable, uses the following formula:

BOD = Board of Directors

In measuring the Number of Audit Committee variable, uses the following formula:

AC = Audit Committee

5. RESULTS AND DISCUSSION

Descriptive Statistics Test

From the descriptive analysis, profitability (ROA) has a mean of 0.00247, a maximum of 0.031343, a minimum of -0.112275. On the other hand, the standard deviation value is 0.021134. The independent committee variable has a mean of 0.577083, a max of 1, and a min of 0. The standard deviation value is 0.141671. Agency ownership variable mean 0.738823, max 0.999974, and min 0.333757. On the other hand, the standard deviation value is 0.187716. Mean of variable directors is 6.064815, a max of 12 and a min of 3. The standard deviation value is 2.503355. The mean of review committee variables is 3.509259., a max of 6, a min of 1. While the standard deviation value is 0.779352.

Multicollinearity Test

The multicollinearity test aims to test whether there is a high or perfect correlation between the independent variables in the regression model (Ghozali, 2018). Based on the multicollinearity test, the calculation results show no correlation because it is below 0.85 (Ho is accepted). The conclusion is that there is no multicollinearity in the regression model and the regression model is feasible to use.

Heteroscedasticity Test

In this study, the white test was used in this analysis to conduct the heteroscedasticity test. According to Ghozali and Ratmono (2017), the white test is carried out by regressing the squared residual (U2i) with the independent variable squared and multiplication between variables [8]. The results of the heteroscedasticity test showed a probability value of 0.2821 (> 0.05), which meant that heteroscedasticity did not occur.

Chow Test

Chow test was carried out to select the ideal panel data model between Common Effect Model and Fixed Effect Model. If the Cross-section Chi-Square probability is less than 0.05, the model chosen is the Fixed Effect model. From the results of this test, the probability value of the Cross-section Chi-Square is 0.0854, this number is bigger than 0.05, which is means Ho is accepted, so the model chosen is CEM.

Hausman Test

Hausman test was used to identify which of the Random Effect Model and Fixed Effect Model should be used. If the Cross-section random probability is less than 0.05, the model chosen is the Fixed Effect model. The probability of a cross-section random of 0.2361 is obtained from the results of this test, which is more than 0.05. This number means Ho is accepted, so the model chosen is REM.

Lagrange Multiplier Test

To ascertain which model fits between CEM (Common Effect Model) and REM (Random Effect Model), the Lagrange multiplier test was used. If the Breusch-Pagan is less than 0.05, the model chosen is the Random Effect model. The probability of a breusch-pagan of 0.1656 is obtained from the results of this test, which is more than 0.05. This number means Ho is accepted, so the model chosen is REM. This number means that if Ho is accepted, the Common Effect Model is the best model to use in this investigation [23].

Table 1 Common Effect Model

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	-0.016776	0.015801	-1.061705	0.2909
IBOC_X1	-0.000774	0.014038	-0.055172	0.9561
IO_X2	0.001358	0.010339	0.131339	0.8958
BOD_X3	0.003588	0.000762	4.711911	0.0000
AC_X4	-0.000876	0.002506	-0.349399	0.7275
R-squared	0.183428			
Adjusted R-Squared	0.151717			
Prob (F-statistics)	0.000307			

The regression equation used is as follows:

$$\mathbf{ROA = -\ 0.016776 - 0.000774\ X_1 + 0.001358\ X_2 + 0.003588\ X_3 - 0.000876\ X_4 + e}$$

From the regression model it can be explained that:

(1) The coefficient of constant is -0.016776. This means that all values of the independent variables are constant, so it can be said that the ROA is -0.016776 in banking companies listed on the Indonesia Stock Exchange (IDX) in 2017- 2019.

(2) The regression coefficient of the X_1 variable reports a value of – 0.00074. These results indicate that the board of independent commissioners has a negative direction on ROA, which means that an increase in the board of independent commissioners will reduce the value of ROA.

(3) The regression coefficient of the X_2 variable (institutional ownership) reports a value of 0.001358. This result indicate that institutional ownership has a positive direction on ROA which means that a rise in the independent board of commissioners will increase the ROA.

(4) The regression coefficient of the X_3 variable (the number of the board of directors) reports a value of 0.003588. This result indicates that the number of the board of directors has a positive direction on ROA. This shows that an increase in the number of the board of directors will increase the ROA value.

(5) The regression coefficient of the X_4 variable (number of audit committees) shows a value of – 0.000876. This result indicate that the number of audit committees has a negative direction on ROA. This shows that an increase in the number of audit committees will reduce the ROA value.
(6) Simultaneous test (F-test) shows that the Prob (F-Statistics) is 0.000307, which indicates that the panel data regression model is appropriate and suitable for use in this study and has met the feasibility of the model, namely the independent variables together or simultaneously have a significant influence on the dependent variable. Therefore, it can be said that Ha is accepted whereas H0 is denied.

The Adjusted R-squared value for the Common Effect Model regression model is 0.151717 or 15.17%. This shows that 15.17% of the variable Y (ROA) can be explained by the independent board of commissioners (X_1) variable, institutional ownership (X_2), number of board of directors (X_3), and number of audit committee (X_4). While other factors that are not included in this study are responsible for the remaining 84.83% of the explanation.

Partial test (t-Test) shows that:
(1) Variable X_1 (Independent Board of Commissioners) has a significance value of 0.9561 (> 0.05) and the result of regression coefficient is negative at -0.000774, it is decided that the first hypothesis (H1) is denied. According to the findings of the study, the profitability of a partially independent board of commissioners has no significant effect on profitability (ROA).
(2) Variable X_2 (Institutional Ownership) has a significance value of 0.8958 (> 0.05) and the result of regression coefficient is positive at 0.001358, it is concluded that the second hypothesis (H2) is rejected. The results of this study indicate that partially institutional ownership has no significant effect on profitability (ROA).
(3) The value of X_3 (Number of Directors) is 0.0000 (< 0.05) and the result of regression coefficient is positive at 0.003588. it is decided that the third hypothesis (H3) is accepted. The results indicate that partially the number of the board of directors has a significant effect on profitability (ROA).
(4) Variable X_4 (Number of Audit Committees) has a significance value of 0.7275 (> 0.05) and the result of regression coefficient is negative at -0.000876, it is decided that the fourth hypothesis (H4) is rejected. The findings of this study suggest that the audit committee has no significant effect on profitability (ROA).

Discussion

This research indicates that independent commissioners, institutional ownership, and number of audit committees on the profitability (ROA) of banking companies listed on the Indonesia Stock Exchange for the 2017-2019 period is not fully in line with agency theory and stakeholder theory. The number of independent commissioners is not a guarantee of creating a more independent, objective, and fair environment to consider these interests interests of stakeholders. Institutional ownership does not guarantee to minimize conflict between management and shareholders. Likewise with the audit committee which also does not guarantee that it can ensure the implementation of an effective corporate control system, supervision of the process of preparing financial statements, as well as agency problems that occur in the company. This needs to be a concern for banks to learn and consistently review the existence and performance of independent commissioners, institutional ownership, and audit committees so that in the event of an unexpected benefit they can benefit from their impact on company profitability (ROA).

The existence of an independent board of directors in a banking company has a negative impact on profitability. (ROA). In addition, the results state that partially the proportion of independent commissioners has no significant impact on profitability (ROA). This indicates that the profitability (ROA) of banking companies is unaffected by the proportion of the independent commissioners. This is usually only a formality to respond to government policies, thus providing an illustration that the large number of independent commissioners does not guarantee the effective implementation of the monitoring function.

This study has the same results and is align with the research of Subiyanti and Zannati (2019) which states that there is a negative insignificant effect of the independent board of commissioners on ROA. Research by Subarnas & Gunawan (2019), Aryani (2019), Merryana, et al. (2019), Ayuningtyas, et al. (2020), Dewi & Badjra (2017), Candradewi & Sedana (2016), Diyanty & Yusniar (2019), Solekhah & Efendi (2020), and Irma (2019) which also stated that the influence of independent commissioners was not significant on ROA and positive. Unlike the research conducted by Putri & Muid (2017), Tertius & Christiawan (2015) which stated a significant and negative effect. It is also different from Dewi et al. research (2018).

The institutional ownership of banking companies has a positive effect on profitability (ROA). In addition, the results state that partially institutional ownership has no significant effect on profitability (ROA). This means that institutional ownership does not affect the ability of banking companies to maximize profits by utilizing assets. The level of institutional ownership does not affect the profitability (ROA) of banking companies. In addition, managers of the company can control the company because they know more about the company's internal conditions and the company's prospects in the future than shareholders because of the information asymmetry between shareholders and managers.

This study has the same results and is align with the research of Pangaribuan (2017) which states that there is a positive insignificant effect of institutional ownership on ROA. Research of Putra & Fidiana (2017) which also suggests that the influence of institutional ownership is not significant on ROA and is negative. Not consistent with research conducted by Merryana, et al. (2019), Pasaribu & Simatupang (2019), Solekhah & Efendi (2020) which stated a significant and negative influence. Likewise, the research of Dewi & Badjra (2017), Candradewi & Sedana (2016), and Irma (2019) which suggests that there is a significant positive influence of institutional ownership on ROA.

The number of boards of directors of banking companies has a positive influence on profitability (ROA). In addition, the results of the t-test state that partially the number of boards of directors has a significant effect on profitability (ROA). That is, the higher the number of the board of directors, the higher the profitability (ROA) of banking companies. The company's board of directors is entirely in charge of management both inside and outside the organization. Because the board of directors has direct control over the firm's operational operations, the more directors there are on the board, the more influence they have on the profitability (ROA) of the company.

Contrary to research by Wilar, et al. (2018) which implies that the number of boards of directors has a considerable negative impact on ROA. But this is in contrast to the research of Gunawan & Sutiono (2018), Sukmajati & Sudrajad (2018) which found results that were not significantly negative. The research of Ayuningtyas, et al. (2020) also found insignificant and positive results. This study has the same results as research by Subarnas & Gunawan (2019), Aryani (2019), Putra & Fidiana (2017), Pangaribuan (2017).

The audit committee of banking companies has a negative effect on profitability (ROA). The results state that partially the audit committee has no significant effect on profitability (ROA). This means that the level of audit committee does not affect the profitability (ROA) of banking companies. The effectiveness of the audit committee's performance in monitoring the company's profitability cannot be guaranteed by the number of audit committees. An audit committee is merely established in a corporation on the basis of regulatory compliance, and since it is not performing its supervisory and control duties as well as it could, the audit committee has little impact on the company's profitability (ROA).

This study has the same results and is align with the research of Ayuningtyas, et al. (2020), Pangaribuan (2017) which states that there is a negative insignificant effect of the number of audit committees on ROA. The research of Merryana, et al. (2019), Diyanty & Yusniar (2019), Sukmajati & Sudrajad (2018) which also stated that the influence of the number of audit committees was not significant on ROA and positive. Unlike the research conducted by Irma (2019) which stated that it had a significant and negative effect. Likewise, the research of Dewi & Badjra (2017), Putra & Fidiana (2017), and Solekhah & Efendi (2020) which suggests that there is a significant positive effect of the number of audit committees on ROA.

6. CLOSING

This research is to prove how independent commissioners, institutional ownership, number of directors, and number of audit committees influence profitability (ROA) with a research sample of banking companies listed on the Indonesia Stock Exchange for the 2017-2019 period. Based on the research conducted, the results obtained that the independent board of commissioners negatively does not significantly affect profitability (ROA). Positive institutional ownership does not significantly affect profitability (ROA). The number of the board of directors has a significant positive effect on profitability (ROA). The number of audit committees as a negative independent variable does not significantly affect profitability (ROA).

The implications of this research provide research benefits which are divided into practical benefits/operational benefits and theoretical benefits/benefits for the development of science. Practically, this research can provide information to banking companies in order to focus on good corporate governance, especially for the number of boards of directors in order to increase the company's profitability and is expected to be used as input and consideration for company management and shareholders related to good corporate governance variables that can affect company profitability. In addition, it is also used as a reference and basis for decision making as well as the basis for predicting the condition of the company in the future to improve its performance through the profitability generated by the company as well as for investors who will invest in the banking industry that has implemented good corporate governance.

Theoretically, the results indicate that the number of the board of directors has an effect on profitability (ROA). It is expected that the company can maintain the efficiency and effectiveness of the number of boards of directors in the company so that increasing the number of directors can also lead to increased company profitability (ROA). As is known, the responsibility of the directors is in establishing policies and strategies for company resources to improve company performance.

This research has limitations as follow: (1) only uses 4 independent variables, (2) sample is limited to banking companies listed on the Indonesia Stock Exchange in the period 2017–2019 and the sample used in this study were 36 companies.

Suggestions for further researchers are:: (1) Add independent variables such as managerial ownership, firm size, and so on (2) expected to research in other periods and periods longer than three years, add a sample of companies, and choose companies in other areas.

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