THE PERFORMANCE OF BANKS IN INDONESIA: THE EFFECT OF AUDIT COMMITTEE, BOARD OF COMMISSIONERS, AND PROPORTION OF INDEPENDENT COMMISSIONERS

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Abstract

This research was conducted to examine the factors that influence company performance, especially those related to the role of corporate governance. With good corporate governance, company performance can grow. This study aims to determine the effectiveness of implementing good corporate governance through the existence of an audit committee, a board of commissioners, and an independent board of commissioners in improving performance. ROA is used to measure company performance. This study focuses on conventional banks registered with OJK in Indonesia from 2019-2021. Purposive sampling was used for the sampling technique, and 41 samples were obtained. Multiple linear regression was the analytical method used to test the hypothesis.

Keywords: Audit Committee, Board of Commissioners, Independent Commissioner, Company Performance

INTRODUCTION

In an increasingly competitive business era, companies are required to maintain and improve their performance. Company performance describes the company's situation as a whole in a certain period as a result of implemented policies that can affect the activities and productivity of companies that utilize all company resources (Pardanawati et al., 2020). To achieve good company performance, a good corporate governance mechanism is needed (Rahmawati & Sukmaningrum, 2020).

The Indonesian Institute for Governance reveals that good corporate governance consists of several structured systems and efforts that are implemented in response to a company's vital objectives to increase the company's growth consistently over a long period of time (Bukhori & Raharja, 2012; Muslih, 2019).

For investors, information about company performance is a medium that can be used to predict the company's prospects in the future. Declining performance in the company will result in decreased profits generated; if the profits generated decrease, investors will be reluctant to invest in the company.

The implementation of good corporate governance requires several important components, namely the audit committee, the board of commissioners, and a proportion of independent board members. In addition, there is a ratio analysis that can measure a company's performance, especially within the scope of Indonesian banking, namely the ratio analysis of Return On Assets (ROA) as measured by assets whose funds mostly come from public savings funds so that Return On Assets (ROA) is considered more representative measurement of banking financial performance (Munir, 2018).

The first factor that influences company performance in this study is the audit committee. The audit committee is tasked with ensuring that all financial information before it is published to all stakeholders is accurate and reflects the actual situation within the company (Hussain et al., 2021). The audit committee can be seen from the size or number

of members owned by each company. The size of the audit committee is considered to have an impact on the performance of the company because if it is larger, it can carry out its duties and obligations more effectively and efficiently than an audit committee with a smaller size.

The second factor is the board of commissioners. In Indonesia, the board of commissioners, also known as the supervisory board, is a group of individuals appointed by the shareholders to oversee the company's management and provide direction in strategic decision-making. The board of commissioners is responsible for ensuring that the company's activities comply with relevant laws and regulations and that management acts in the best interest of the company and its shareholders. Commissioners can provide oversight over financial reporting, internal control, and risk management, which can help ensure that financial decisions are made responsibly and with the best interests of the company and its shareholders in mind.

And the third factor is the proportion of independent commissioners. According to Boedex (2010), independent commissioners are members of the board of commissioners who are not affiliated with directors, other members of the board of commissioners, or controlling shareholders and are free from business relationships or other relationships that may affect their ability to act independently or solely in the interests of the company.

LITERATURE REVIEW

Agency Theory

Agency theory was first put forward by Michael C. Jensen and William H. Meckling in 1976. This theory discusses the relationship between the principal and the agent. What is meant by a principal is a company owner or shareholder, while an agent is a company manager. An agency relationship occurs when the principal (shareholder) gives authority to the agent (management) to make decisions about running the company. This relationship between principal and agent can lead to information asymmetry. This can be because the agent has more information about the condition of the company than the principal.

Corporate Governance.

Corporate governance is a management mechanism based on agency theory. The application of the concept of corporate governance is expected to give trust to agents (management) in managing the wealth of owners (investors), and owners will become more confident that agents will not commit fraud for the welfare of agents (Darwis, 2009). Corporate governance mechanisms include internal mechanisms (board structure and managerial ownership) and external mechanisms (institutional ownership). In addition, to build an effective monitoring and control system within a company, two parties are needed, namely the audit committee and the independent commissioner.

Audit Committee

The Indonesian Audit Committee Association (IKAI) defines an audit committee as a committee that works professionally and independently and is formed by the board of commissioners; thus, its task is to assist and strengthen the function of the board of commissioners in carrying out the supervisory function of the processes of financial reporting, risk management, audit implementation, and corporate governance in companies.

Arrangements regarding the number of audit committees for issuers and public companies are regulated in BAPEPAM-LK Regulation No.IX.I.5 concerning the Establishment of Audit Committee Work Implementation Guidelines. Under this regulation, issuers and public companies are required to form an audit committee of at least three people, one of whom is an independent

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commissioner of the company and acts as chairman of the audit committee.

Board of Comissioners

The board of commissioners, also referred to as the supervisory board, is a group of individuals appointed by shareholders to oversee a company's management and provide guidance in strategic decision-making. The board of commissioners bears the responsibility of ensuring that the company's activities comply with applicable laws and regulations while ensuring that management acts in the best interest of the company and its shareholders. Similar to a board of directors, an effective board of commissioners can play a significant role in shaping a company's financial performance. Commissioners can provide oversight over financial reporting, internal control, and risk management, which can help ensure that financial decisions are made responsibly and with the best interests of the company and its shareholders in mind.

Independent Board of Commissioners

The Independent Board of Commissioners is comprised of members who are not financially, managerially, or otherwise related to other members of the board, directors, controlling shareholders, or any other parties that could potentially influence their independent judgment. As noted by Christin et al. (2019), the presence of independent commissioners is believed to provide an objective and impartial oversight function for the company, which can positively impact its performance. Independent commissioners can fulfill a crucial role in reviewing financial reports and ensuring that businesses adhere to best practices and regulatory requirements, thus promoting transparency and accountability within the organization. Their valuable contributions can support the management team and help to maintain the integrity of the company's operations.

a. The audit committee's impact on company performance

The presence of an audit committee within a corporation will enhance management performance since the audit committee's oversight will mitigate or overcome the rise of financial report manipulation and tightening internal controls. Additionally, audit committees make sure that managers disclose firm results in an ethical manner. make sure the company's performance is met (Amaliyah and Herwiyanti, 2019).

Compared to audit committees with fewer members, those with more members frequently become distracted and exhibit lower levels of participation. A tiny audit committee, on the other hand, won't be efficient because there won't be enough background and expertise in business and financial reporting. a righteous audit committee.

H_1: The Audit Committee has a positive effect on company performance

b. The board of Commissioners's impact on company performance

The board of commissioners is a body appointed by the principal with the purpose of overseeing the company's GCG practices, supervising the directors, and providing recommendations on the directors' policies (Kartorahardjo and Yuliati, 2022). The efficacy and efficiency of the board of commissioners' performance in overseeing management can improve the sense of responsibility in managing the company's operations and resources more carefully and seriously, consequently optimizing profits. When earnings rise, so does financial performance. Furthermore, fraud due to opportunistic conduct by management may be adequately managed and reduced, hence lowering agency concerns.

H_2: The Board of Commissioners has a positive effect on company performance

c. The Proportion of Independent Commisioners's impact on company performance

The independent board of commissioners, like the commissioners, serves as a supervisory agency but has no strong contact with the company's shareholders, who have the ability to monitor and protect minority shareholders and play an essential part in decision-making. According to the findings of Purnomo et al. (2021) and Intia & Azizah (2021), the board of commissioners has a positive effect on financial performance. More independent commissioners will provide a higher level of monitoring, reducing the potential of managers engaging in methods to profit themselves while improving the company's financial performance. As a result, the study hypothesis is

H_3 : The proportion of independent Commissioners has a positive and significant influence on company performance

RESEARCH METHODS

The descriptive research method was employed in this study. Descriptive research is undertaken to discover and explain the features of the variables researched in a given context. Descriptive research is defined as research that is undertaken to discover the value of an independent variable, either one or more independent variables, without drawing comparisons or linking to other variables (Harefa et al., 2022).

The Population and the Sample

This research's population is the banking industry, which publishes financial statements in the year of study. Purposive sampling was utilized, which means selecting firms based on certain criteria, such as audit committees, boards of commissioners, and independent commissioners, with the sample consisting of 41 conventional bank companies listed on the IDX between 2019 and 2021.

Operational Variables

a. Company performance

ROA is significant for businesses since it measures a company's capacity to create net profit based on its assets (Saputra, 2022; Wiranthie & Putranto, 2020). Furthermore, Amelia and Sunarsi (2020) defined return on assets (ROA) as a metric that gauges a company's success in producing profits. As a result, the higher the ROA, the better the company's success since the rate of return is higher.

ROA (Return of Assets) = (Net Income / Total Assets) x 100%

b. Audit Committee

The size or number of members held by each corporation reveals the audit committee. The size of the audit committee is said to have an impact on the company's performance since the larger the audit committee, the more effectively and efficiently it can carry out its duties and responsibilities when compared to smaller audit committees. A larger audit committee is also deemed more competent, owing to the rise in size. The audit committee will be made up of several people with diverse talents (Al-Okaily & Naueihed, 2020).

Audit Committee = The number of members of the Audit Committee in the company.

c. Board of Commissioners

The amount of members of the board of commissioners in the corporation determines the size of the board of commissioners. The following formula is used to determine the size of the Board of Commissioners:

Board of Commissioners = Total Members of the Company's Board of Commissioners

d. Proportion of Independent Commissioners

The proportion of members of the board of commissioners who come from outside of the company from all sizes of the company's board of commissioners is used to

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figure out the independent board of commissioners. According to Sam'ani (2008).

$$\text{Proportion of Independent Commissioners} = \frac{\text{Number of Independent Commissioners}}{\text{Total Board of Commissioners}} \times 100\%$$

RESULTS AND DISCUSSION

Hypothesis Testing Results

Table 1. Hypothesis Test Results

Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	std. Error	Betas		
1	(Constant)	-.162	.033		-4,857	.000
	Audit Committee	013	006	.162	2.165	032
	board of Commissioners	-.005	003	-.111	-1,432	.154
	Independent Commissioner	.343	048	.466	7.171	.000

a. Dependent Variable: ROA

The multiple linear of this study are as follows, based on the regression coefficient table above:

Y (KP) = - 0.1162 + 0.013 (KA) – 0.005 (DK) + 0.343 (KI)

Because the audit committee variable's regression coefficient is positive, any increase in the audit committee variable will enhance company performance. According to the hypothesis test results, the audit committee variable has a significance value of 0.032 < 0.05. As a result, it is possible to infer that the audit committee has a positive and significant effect on corporate performance.

Because the board of commissioners variable has a positive regression coefficient, any increase in the board of commissioners variable would enhance company performance. The hypothesis show that the board of commissioners variable has a significance value of 0.132 > 0.05. As a result, the board of commissioners has no effect on company performance.

Because the independent commissioner variable coefficient is positive, every increase in the independent commissioner variable enhances corporate performance. The independent commissioner variable has a significance value of 0.00 > 0.05. As a result, it is possible to infer that the independent commissioner has a positive and significant effect on company performance.

The imbalance of knowledge possessed by principals and agents concerning the company's situation is referred to as information asymmetry in agency theory. The presence of asymmetry can influence earnings management behavior; therefore, proper corporate governance is required. According to Jensen and Meckling, there is a conflict of interest between the agent and the principal in every connection, resulting in agency costs. According to study results, the audit committee has an important role to enhancing company performance, particularly from a control standpoint. Having an efficient audit committee is a key component of implementing good corporate governance. An audit committee is in charge of monitoring financial reports and external audits.

The board of commissioners has no effect on company performance. Supervising and directing management performance is the responsibility of the board of commissioners. An excessive number of commissioners in an organization results in less optimal and effective supervision and management and will cause various difficulties, especially in communication and coordination among members.

Meanwhile, independent commissioners have a significant influence on company performance, which means that the more independent commissioners a company has, the better its financial performance; conversely, the fewer independent commissioners a company has, the worse its financial performance. It is possible to conclude that increasing the number of commissioners enhances financial performance. This is because the more there are, the greater the degree of monitoring will be, reducing the chance of managers engaging in techniques to benefit their own management while improving the company's financial performance (Farida, 2018).

CONCLUSION

Based on the results of the research and hypothesis testing, it is possible to conclude:

1. The audit committee has a positive and significant effect on company performance
2. The board of commissioners has no effect on company performance
3. Independent commissioners have a positive and significant effect on company performance.

Suggestion

Future researchers who want to do more research on company performance might use a longer entirely period so that the outcomes of this research are better. In additional to characteristics like as ownership structure, good corporate governance, activity ratios, capital structure, and other variables that might impact company performance.

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