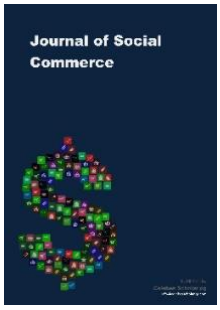

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What is More Important on Gcg and Financial Performance: The Independent Commissioner or Affiliated Commissioner? Evidence from Indonesian Banks

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Abstract

Traditionally, an independent Board of Commissioners (BoC) has been considered one of the most important pillars of Good Corporate Governance (GCG). However, unlike agency theory, stewardship theory proposes that BoCs originate from internal companies, and not from outsiders. Thus, this study aims to investigate the comparative importance of affiliated commissioners versus independent commissioners in moderating the relationship between GCG and financial performance in Indonesian banks. Using a sample of 37 Indonesian banks over a ten-year period (2013-2022), the research employed moderated regression analysis to examine these relationships while controlling for various bank-specific characteristics. The study confirms a significant positive relationship between GCG implementation and bank financial performance, as measured by Return on Assets (ROA). The most significant finding of this study relates to the moderating effects of board composition. When control variables are included in the analysis, both independent commissioners and affiliated commissioners demonstrate significant moderating effects on the GCG-performance relationship. However, several important nuances emerge: Independent commissioners show a slightly stronger moderating effect (-2.82455) than affiliated commissioners (-2.613125), suggesting that independent oversight provides marginally greater value in enhancing the effectiveness of GCG practices. Both types of commissioners contribute positively to the GCG-performance relationship, indicating that the traditional dichotomy between agency theory and stewardship theory may be overly simplistic in the Indonesian banking context.

Introduction

Good Corporate Governance (GCG) is a good implementation of control and monitoring of management performance and corporate accountability to stakeholders (Rizani et al., 2022). The importance of GCG has been recognized since the financial scandals and sudden collapse of large firms; such as Enron, WorldCom, and Xerox; in the early 2000s (Abdullahi et al.,

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2018; Gyamerah et al., 2020; Kaymak & Bektas, 2008). In banking and financial institutions, the importance of GCG was further realized due to the collapse of many banks during The Asian economic crisis in 1997-1998 and the collapse of Lehman Brothers and Goldman Sachs during the 2008 financial crisis (Iramani et al., 2018; Napitupulu et al., 2020). This is because GCG can improve company performance by creating a better decision-making process; protecting investors' and stakeholders' interests by preventing manipulation, excessive risk-taking, and scandals in the company; and facilitating the acquisition of cheaper funds (Gyamerah et al., 2020; Napitupulu et al., 2020; Peni & Vähämaa, 2012; Purwanto et al., 2020). Thus, GCG is also an important precursor of firms' excellent financial performance (Arora & Sharma, 2016; Felicio et al., 2014; Haryati & Kristijadi, 2014; Wang, 2014). This is also supported by the findings of several studies, such as Core et al. (2006), Marciukaityte et al. (2006), Bhagat and Bolton (2008) and Ammann et al. (2011).

In corporate governance, there are generally two board systems: the one-tier board system, comprising a single board with executive and non-executive directors, and the two-tier board system, characterized by a clear separation between executive and supervisory boards. Indonesia adopts a two-tier board system for bank management, consisting of the Board of Directors (*Direksi*) responsible for daily operations and the Board of Commissioners primarily serving a supervisory and advisory role. This study specifically examines the role of the Board of Commissioners (BoC or *Dewan Komisaris*), which comprises two distinct types of commissioners: independent commissioners, who have no affiliation with shareholders, and affiliated commissioners, who represent the interests of certain shareholders (Haryati & Kristijadi, 2014). Traditionally, an independent BoC has been considered as one of the most important pillars of GCG (Felicio et al., 2014; Liu et al., 2015). An independent BoC can perform more effectively and objectively in monitoring and controlling CEOs (Song et al., 2017; Wang, 2014).

This understanding is based on agency theory, which was first conceived by Jensen and Meckling (1976). This theory states that an agency and its principal problems exist within a company. An agent (CEO or company management) does not always act in the principal's best interests (shareholders and stakeholders), and can abuse his or her power to benefit himself or herself at the expense of shareholders and stakeholders (Chou & Buchdadi, 2018; Iramani et al., 2018; Jensen & Meckling, 1976). Thus, monitoring and control of the company's management needs to be established through the implementation of GCG, which can only be achieved by independent BoCs, as independent BoCs cannot be controlled and influenced by the company's management and, therefore, will effectively and objectively monitor and control the company's management (Melón-Izco et al., 2019; Ramachandran et al., 2020).

However, other researchers, especially proponents of stewardship theory, have argued against the role of an independent BoC in particular, and agency theory in general (Kyere & Ausloos, 2021; Wang, 2014). Stewardship theory acts as a mirror image of agency theory, and was first conceived by Donaldson & Davis (1991). Unlike agency theory, stewardship theory proposes that BoCs originate from internal companies and not from outsiders (Chrisman, 2019; Duong et al., 2020; Kyere & Ausloos, 2021). Despite its perceived lack of independence, proponents of stewardship theory argue that affiliated BoCs are good stewards of the firm's interests and will work more diligently to further the company's success than independent BoCs do. They further argue that affiliated BoCs are better informed about a company than independent BoCs; thus, affiliated BoCs can provide better advice to CEOs than independent BoCs (Song et al., 2017; Wang, 2014).

Several previous studies have examined both the role of independent BoCs and affiliated BoCs in the implementation of GCG and on companies' financial performance (Black & Kim, 2012;

Combs et al., 2007; Friday & Sirmans, 1998; Horváth & Spirollari, 2012; Melón-Izco et al., 2019; Wang, 2014; Yammeesri & Herath, 2010). The findings of these studies are sometimes in conflict, with several studies finding a better impact of independent BoCs on GCG and companies' financial performance (Baker & Powell, 2009; Black & Kim, 2012; Friday & Sirmans, 1998; Liu et al., 2015; Melón-Izco et al., 2019), whereas others find a better impact of affiliated BoCs on GCG and companies' financial performance (Combs et al., 2007; Horváth & Spirollari, 2012; Wang, 2014; Yammeesri & Herath, 2010).

Thus, our study takes a novel approach by comparing the impact of independent BoCs and affiliated BoCs on GCG and companies' financial performance by positioning independent BoCs and affiliated BoCs as moderating variables in the relationship between GCG and companies' financial performance. This study also uses the banking industry in Indonesia as a research setting, as the banking industry is widely used as the research setting for GCG in many other studies, and research on GCG is still lacking in developing countries. This study contributes to the existing literature by exploring the role of independent and affiliated BoCs on GCG and companies' financial performance in the banking industry. The subsequent sections of this study are structured as follows: Section Two provides a comprehensive review of the relevant literature, Section Three outlines the research methodology employed, Section Four presents the results and discussion, and Section Five concludes the study by offering recommendations based on the findings.

Theoretical Review

Good Corporate Governance (GCG) refers to a comprehensive system that includes three essential elements: structure, process, and outcome (Simanjuntak, 2024). The structure component explicitly defines the roles and responsibilities of the Board of Directors and the Board of Commissioners, providing clear guidelines for corporate oversight. The process element consists of robust control mechanisms and systematic checks and balances designed to prevent mismanagement and fraud, thereby ensuring accountability toward management, shareholders, internal stakeholders, and external stakeholders (Napitupulu et al., 2020; Rizani et al., 2022). Ultimately, the outcome of GCG is the creation of added value, demonstrated by consistently improved and sustainable corporate performance that aligns transparently, accountably, responsibly, independently, and fairly with the interests of all shareholders and stakeholders (Simanjuntak, 2024).

The purpose of GCG is to improve company performance through the creation of a better decision-making process, protecting investors' and stakeholders' interests by preventing manipulation, excessive risk-taking, and scandals in the company, and facilitating the acquirement of cheaper funds for the company (Gyamerah et al., 2020; Napitupulu et al., 2020; Peni & Vähämaa, 2012; Purwanto et al., 2020). Several large financial scandals in large firms such as Enron, WorldCom, Xerox, Lehman Brothers, and Goldman Sachs have made GCG come into prominence (Abdullahi et al., 2018; Gyamerah et al., 2020; Iramani et al., 2018; Kaymak & Bektas, 2008; Napitupulu et al., 2020). These financial scandals were caused by excessive risk-taking and manipulation within these companies because of the weak control and monitoring of company management (Kaymak & Bektas, 2008; Peni & Vähämaa, 2012; van Essen et al., 2013). Thus, GCG is an important part of ensuring investor and stakeholder confidence in a company and preventing financial scandals (Arora & Sharma, 2016; van Essen et al., 2013). Therefore, GCG makes an important contribution to a company's financial performance (Baker & Powell, 2009; Bhagat & Bolton, 2008). This is because GCG could ensure that the company's management prioritizes the achievement of good financial performance by limiting agency risks (the risk of the company's management pursuing its own

interests at the expense of shareholders' and stakeholders' interests), such as managerial shirking, overinvestment, perquisite consumption, excessive risk-taking, or manipulation (Core et al., 2006; van Essen et al., 2013).

This, in turn, will protect the company's image and investors' confidence in the company, bringing additional benefits such as lower cost of capital for the company (Purwanto et al., 2020; Ramachandran et al., 2020). Several studies also found that GCG has a positive impact on a company's financial performance (Ammann et al., 2011; Bhagat & Bolton, 2008; Core et al., 2006; Marciukaityte et al., 2006). Marciukaityte et al. (2006) found that improvement in GCG on companies charged with fraud or regulatory violation in the US helps repair the company's damaged reputation and reinstate confidence in the company, thus improving their financial performance and stock price. Using data from the Investor Responsibility Research Center, Core et al. (2006) indicate that companies with GCG have better financial performance than companies with poor corporate governance. Bhagat and Bolton (2008) also used IRRC surveys and found that GCG is significantly related to a company's financial performance. Ammann et al. (2011) using the dataset from Governance Metrics International (GMI) also indicated that GCG is significantly related to a better company's valuation. Therefore, we propose the following hypothesis:

H1: GCG is positively related to financial performance.

An independent Board of Commissioners (BoC) is considered one of the most important pillars of the GCG (Felicio et al., 2014; Liu et al., 2015). This understanding is based on agency theory, which was first conceived by Jensen and Meckling (1976). This theory states that an agency and its principal problems exist within a company. An agent (CEO or company management) does not always act in the principal's best interests (shareholders and stakeholders) and could abuse his or her power to benefit himself or herself at the expense of shareholders and stakeholders (Chou & Buchdadi, 2018; Iramani et al., 2018; Jensen & Meckling, 1976). This abuse of power usually comes in several forms such as managerial shirking, overinvestment, perquisite consumption, excessive risk-taking, and manipulation (Core et al., 2006; van Essen et al., 2013). Such abuse can negatively impact a company's image and financial performance (Marciukaityte et al., 2006). Thus, based on agency theory, many scholars advocate for the strong implementation of GCG through independent BoCs (Baker & Powell, 2009; Song et al., 2017).

An independent BoC is a member of a BoC that is independent, free, impartial, not under pressure from certain parties, neutral, objective, has integrity, and is not in a position of conflict of interest with the company (Goh et al., 2014; Napitupulu et al., 2020). Independent BoCs usually consist of outsiders, who tend not to be affiliated with the company's management and are free from conflicts of interest (Napitupulu et al., 2020; Song et al., 2017). Therefore, independent BoCs cannot be controlled or influenced by the company management. Thus, independent BoCs will vigilantly, effectively, and objectively monitor and control a company's management, ensuring the strong implementation of GCG (Li et al., 2015; Melón-Izco et al., 2019; Ramachandran et al., 2020; Shaukat & Trojanowski, 2018; van Essen et al., 2013).

Through this mechanism, independent BoCs are known to have a positive impact on both GCG implementation and financial performance (Aldaoud, 2019; Baker & Powell, 2009; Liu et al., 2015). Several studies support this understanding (Baker & Powell, 2009; Black & Kim, 2012; Liu et al., 2015; Melón-Izco et al., 2019). Black and Kim (2012) indicated that independent BoCs positively impact a company's valuation in South Korea. Liu et al. (2015) found that independent BoCs have an overall positive effect on the company's financial performance in China. Melón-Izco et al. (2019) indicated that independent BoCs positively impacted GCG implementation in Spanish companies. Based on these findings, it can be surmised that

independent BoCs positively moderate the relationship between GCG and financial performance. Therefore, we propose the following hypothesis:

H2: The higher the proportion of independent BoCs, the stronger is the relationship between GCG and a company's financial performance.

The prominence of agency theory has drawn criticism and disagreement among scholars, especially proponents of stewardship theory (Chrisman, 2019; Kyere & Ausloos, 2021; van Puyvelde et al., 2012). Stewardship theory itself acts as a mirror image of agency theory and was first conceived by Donaldson & Davis (1991) (Donaldson, 1990; Donaldson & Davis, 1991). Unlike agency theory, stewardship theory rejects the principal-agency problem and the agency cost due to the potential of the company's management abuse of power (Donaldson & Davis, 1991; Kyere & Ausloos, 2021; Nicholson & Kiel, 2007). Instead, according to the stewardship theory, company managers are responsible for their functioning and strive to ensure that their personal motivations are in line with the goals of their key shareholders.

The stewardship perspective ensures that the steward (manager) is satisfied and motivated to achieve the organization's goals to achieve organizational success, even at the expense of the personal goals of the steward. Even when the interests of the steward and principal are not aligned, the steward can attain a higher utility level by acting in the principal's interest because doing so might lead to opportunities for desired personal outcomes such as achievement, affiliation, and self-actualization. The steward would also be very unlikely to abuse his or her power to avoid jeopardizing their reputation (Iramani et al., 2018; Nicholson & Kiel, 2007; van Puyvelde et al., 2012).

Based on these arguments, proponents of the stewardship theory have proposed that BoCs originate from the internal company itself and not from outsiders (Chrisman, 2019; Duong et al., 2020. Despite its perceived lack of independence, this does not concern proponents of stewardship theory, since they believe that affiliated BoCs are good stewards of the firm's interests, and therefore will not abuse their power at the expense of shareholders and stakeholders (Iramani et al., 2018; Nicholson & Kiel, 2007). They also believe that affiliated BoCs work more diligently than independent BoCs do to further a company's success (Chrisman, 2019).

They further argue that affiliated BoCs are better informed about a company than independent BoCs; thus, affiliated BoCs can provide better advice to CEOs than independent BoCs (Song et al., 2017; Wang, 2014). Through this mechanism, affiliated BoCs can positively impact both GCG implementation and financial performance (Song et al., 2017; Wang, 2014). Several studies have supported this understanding (Combs et al., 2007; Horváth & Spirollari, 2012; Yammeesri & Herath, 2010). Combs et al. (2007) find that increased affiliated ownership is positively associated with abnormal stock return. Yammeesri and Herath (2010) indicated a positive link between a high ratio of affiliated directors and shareholder returns. Horváth and Spirollari (2012) also found that a high ratio of affiliated directors is critical for improving firm performance because it reduces the information asymmetry between managers and owners. Wang (2014) also indicates that an affiliated-dominated board is as effective as an outsider board in monitoring if the CEO was initially hired from outside the firm. Based on these findings, it can be surmised that affiliated BoCs positively moderate the relationship between GCG and financial performance. Therefore, we propose the following hypothesis:

H3: The higher the proportion of affiliated BoCs, the stronger is the relationship between GCG and a company's financial performance.

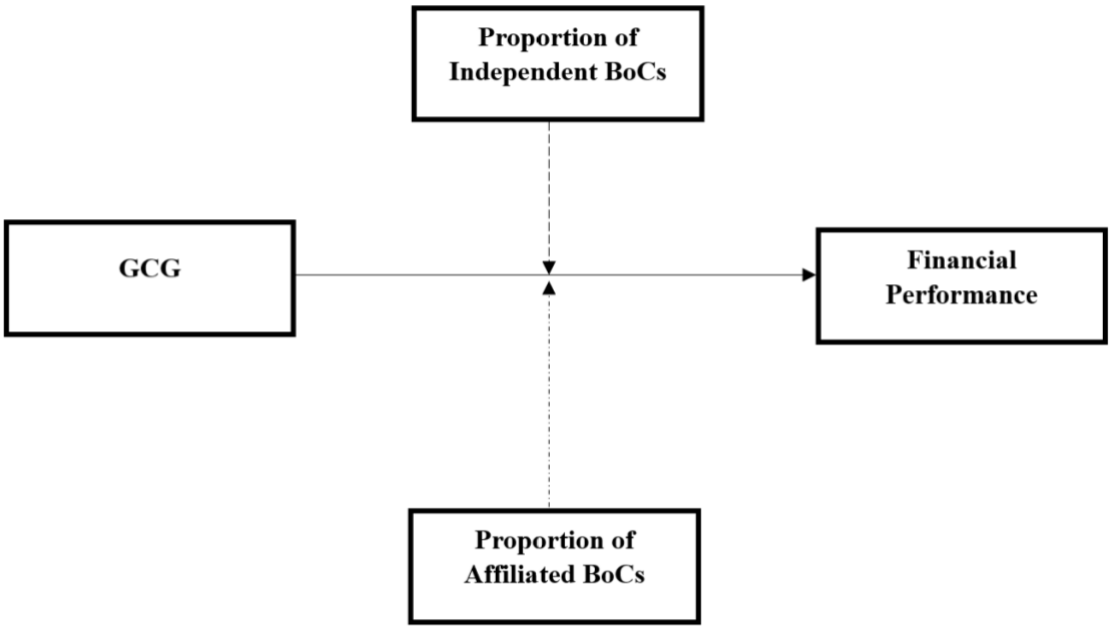

Figure 1. Conceptual Framework

Source: Author Own Analysis

Methods

This study uses an associative causal method that is quantitative in nature. This approach was selected because quantitative research uses statistical analysis and numerical data to evaluate hypotheses (Neuman, 2014). This study first retrieved data on all listed banks on the Indonesian Stock Exchange (IDX) for the period from 2013 to 2022. For a fair comparison, this study created a balanced panel sample and eliminated all banks without complete information on their boards, financial output, and that were not established during the sample period. Finally, we established a sample of 37 Indonesian banks. Data related to GCG scores, BoC characteristics, and ROA were collected from the annual reports of banks that were openly available on banks' official websites. Moreover, all the financial data collected were from Rp million. This study investigates the link between GCG and bank financial performance. This study also investigates the moderating role of BoC characteristics. Bank performance is measured based on ROA for financial performance. The GCG is based on the bank's self-assessment of GCG scores by the Indonesian regulator (*Bank Indonesia* and *Otoritas Jasa Keuangan*, or the Financial Service Authority). BoC characteristics are based on the proportion of independent BoCs and the proportion of affiliated BoCs. The full descriptions of the variables are presented in Table 1.

Table 1. Research Variables

Variables	Codes	Definition	References
Bank Performance Indicator (Independent)			
Return on Assets	ROA	Ratio of operating income over assets.	Arora & Sharma, 2016; Duong et al., 2019
BoC Characteristics (Moderator)			

Variables	Codes	Definition	References
Ratio of Independent BoC	Z1	Proportion of independent board members on BoCs.	Liu et al., 2014; Aldaoud, 2019; Van Essen et al., 2013
Ratio of Affiliated BoC	Z2	Proportion of affiliated board members on BoCs.	Horváth & Spirollari, 2012
Good Corporate Governance (Dependent)			
Self-Assessed GCG Score	GCG	The results of the self-assessment of GCG rating in accordance with Bank Indonesia and OJK regulation (Surat Edaran Bank Indonesia Nomor 15 Tahun 2013).	Haryati & Kristijadi, 2014
Bank Characteristics (Control Variables)			
Bank Size	K1	Bank total assets.	Van Essen et al., 2013; Kyere & Ausloos, 2020; Ramachandran et al., 2020
Gross Non-Performing Loan	K2	The ratio of gross non-performing loan.	Iramani et al., 2018
Net Non-Performing Loan	K3	The ratio of net non-performing loan.	Iramani et al., 2018
Capital Adequacy Ratio	K6	The ratio of Total Capital to Risk Weighted Assets (RWA).	Iramani et al., 2018
Efficiency Ratio	K7	Operations efficiency, measured as the percentage of cost to income.	Iramani et al., 2018

This study uses linear regression and Moderated Regression Analysis (MRA) to measure the link between GCG and bank financial performance, and the moderating role of BoC characteristics (*H1-H3*). For this purpose, the following regression model was developed:

Model 1 (Linear Regression):

$ROA_{it} = \beta_o + \beta_1 GCG_{it}$

i = 1 ……. 37

t = 1 …… 10

Model 2.1 (MRA)

$ROA_{it} = \beta_o + \beta_1 GCG_{it} + \beta_2 Z_{1it} + \beta_3 Z_{2it} + \beta_4 Z_1 GCG_{it} + \beta_5 Z_2 GCG_{it}$

Where,

Z_1 = Ratio of Independent BoC
Z_2 = Ratio of Affiliated BoC
$Z_1 GCG_{it}$ = The Interaction Between Ratio of Independent BoC With GCG Score
$Z_2 GCG_{it}$ = The Interaction Between Ratio of Affiliated BoC With GCG Score

Model 2.2 (MRA)

$ROA_{it} = \beta_o + \beta_1 GCG_{it} + \beta_2 Z_1 GCG_{it} + \beta_3 Z_2 GCG_{it}$

Where,

Z_1GCG_{it} = The Interaction Between Ratio of Independent BoC With GCG Score
Z_2GCG_{it} = The Interaction Between Ratio of Affiliated BoC With GCG Score

Model 3.1 (Control Model)

$$ROA_{it} = \beta_o + \beta_1 GCG_{it} + \beta_2 Z_{1it} + \beta_3 Z_{2it} + \beta_4 Z_1 GCG_{it} + \beta_5 Z_2 GCG_{it} + \beta_6 K_{1it} + \beta_7 K_{2it} + \beta_8 K_{3it} + \beta_9 K_{6it} + \beta_{10} K_{7it} + \beta_{11} K_{8it}$$

Where,

Z_1 = Ratio of Independent BoC
Z_2 = Ratio of Affiliated BoC
Z_1GCG_{it} = The Interaction Between Ratio of Independent BoC With GCG Score
Z_2GCG_{it} = The Interaction Between Ratio of Affiliated BoC With GCG Score

Control Variables

K_1 = Total Asset (TA)
K_2 = NPL Gross
K_3 = NPL Netto
K_6 = CAR
K_7 = BOPO
K_8 = LDR

Model 3.2:

$$ROA_{it} = \beta_o + \beta_1 GCG_{it} + \beta_2 Z_{1it} + \beta_3 Z_{2it} + \beta_4 Z_1 GCG_{it} + \beta_5 Z_2 GCG_{it} + \beta_6 K_{1it} + \beta_7 K_{2it} + \beta_8 K_{3it} + \beta_9 K_{6it} + \beta_{10} K_{7it} + \beta_{11} K_{8it}$$

Where,

Z_1GCG_{it} = The Interaction Between Ratio of Independent BoC With GCG Score

Z_2GCG_{it} = The Interaction Between Ratio of Affiliated BoC With GCG Score

Control Variables

K_1 = Total Asset (TA)
K_2 = NPL Gross
K_3 = NPL Netto
K_6 = CAR
K_7 = BOPO
K_8 = LDR

To ensure the robustness of the findings, this study uses several robustness tests, such as the Wooldridge test for autocorrelation, Breusch–Pagan Lagrange multiplier panel heteroscedasticity test, and correlation matrix (Gujarati & Porter, 2009).

Results and Discussion

Regression Results

Regression results for Model 1. supports H1 (sig. 0.000<0.01) (Table 2).

Table 2. Results from Model 1

Variable	Model 1
gcg	-2.641 (0.000) ***

Constanta	6.286
	(0.000) ***
F (1,368)	106.63
Probability	(0.000) ***)
R-squared	0.2247
Adj R-squared	0.2225

Note: ***) significant at 1%

Regression results for Model 2.1. and Model 2.2 as shown in Table 3. did not support Hypothesis H2 (sig. 0.990>0.01) and H3 (sig. 0.693>0.01).

Table 3. Results from Model 2.1 and 2.2

Variable	**Model 2.1**	**Model 2.2**
gcg	57.28444	-2.85425
	(0.808)	(0.017) **
z1	1.197231	
	(0.800)	
Z2	1.209318	
	(0.798)	
z1gcg	-59.8776	0.0150992
	(0.800)	(0.990)
Z2gcg	-59.97717	0.4671623
	(0.799)	(0.693)
F	21.34	35.77
Probability	(0.000) ***	(0.000) ***
Testparm,F	0.27	0.49
Probability	(0.8979)	(0.6157)

Regression results for Model 3.1. and 3.2, respectively, as listed in Table 4., thus supporting hypothesis H2 (sig. 0.000<0.01) and H3 (sig. 0.000<0.01). These results were achieved by including the control variables.

Table 4. Results from Model 3.1 and 3.2

Variable	**Model 3.1**	**Model 3.2**
gcg	107.1486	2.241114
	(0.314)	(0.000) ***
z1	2.1114	
	(0.321)	
Z2	2.080101	
	(0.328)	
z1gcg	-108.3277	-2.82455
	(0.308)	(0.000) ***
Z2gcg	-106.6822	-2.613125
	(0.328)	(0.000) ***
k1	0.0038552	0.001553
	(0.897)	(0.958)
k2	0.0106638	0.0160081
	(0.796)	(0.697)
k3	-0.1889436	-.1945413
	(0.009)***	(0.007) ***
k6	-0.0113767	-.0115027

	(0.002) ***	(0.002) ***
k7	-0.0690408	-.0689766
	(0.000) ***	(0.000) ***
k8	0.0009451	.0008024
	(0.596)	(0.562)
Constant	-201.2611	8.624527
	(0.344)	(0.000) ***
F	178.99	370
Probability	(0.000) ***	(0.000) ***
Testparm,F	144.62	180.00
Probability	(0.000) ***	(0.000) ***

Robustness Test Results

Model 3.2 was checked for robustness with the Chow Test, Hausman test, and LM Test, as shown in Table 5.

Table 5. Results for Chow Test, Hausman Test and LM Test

Chow Test	
F	5.82
Probability	0.000***
Hausman test	
chi2(6)	2.53
Probability	0.8652
LM test	
chibar2(01)	165.05
Probability	0.000***

Model 3.2 was further checked for autocorrelation and heteroscedasticity using the Wooldridge and Breusch-Pagan Lagrange tests, as shown in Table 6.

Table 6. Results for Wooldridge Test and Breusch-Pagan Lagrange Test

Wooldridge test for autocorrelation in panel data	
F(1,36)	10.761
Probability	0.0023***
Pesaran's test of cross-sectional independence	
Test	4.288
Probability	0.0000***
Breusch-Pagan Lagrange Multiplier Panel Heteroscedasticity Test	
Lagrange Multiplier LM Test	1219.37680
Df	36
Probability	0.0000***

Model 3.2 was further checked for multicollinearity (Table 7).

Table 7. Result for Multicollinearity Test

	GCG	**Z1GCG**	**Z2GCG**	**K3**	**K6**	**K7**
GCG	1.0000					
Z1GCG	0.7151	1.0000				
Z2GCG	0.6173	-0.0652	1.0000			
K3	0.3715	0.1856	0.3084	1.0000		
K6	0.0317	0.0797	-0.0462	-0.2607	1.0000	

K7	0.4252	0.3098	0.2139	0.3213	0.2263	1.0000

Based on these tests, there were no autocorrelation, heteroscedasticity, or multicollinearity issues. Thus, the models and findings of this study can be considered robust (Gujarati & Porter, 2009).

The Effect of GCG on Financial Performance

The analysis of Model 1 provides robust empirical evidence confirming a significant positive relationship between Good Corporate Governance (GCG) scores and financial performance as measured by Return on Assets (ROA), thus supporting Hypothesis 1. The GCG scores among the sampled banks range between 1 and 3, aligning with the standards stipulated by *Surat Edaran Bank Indonesia Nomor 15 Tahun 2013*, whereby a score of 1 indicates a very satisfactory implementation of GCG, a score of 2 represents satisfactory implementation, and a score of 3 signifies somewhat satisfactory implementation (Surat Edaran Bank Indonesia Nomor 15, 2013). Consequently, a lower numeric score indicates superior GCG implementation. In this regard, the negative correlation coefficient of -2.641 clearly signifies that banks with better GCG implementation (denoted by lower numeric scores) tend to achieve superior financial performance in terms of higher ROA.

This finding is substantively consistent with prior research conducted by Bhagat & Bolton (2008), Core et al. (2006), and Marciukaityte et al. (2006), who collectively underscore the crucial role of corporate governance as a determinant of financial outcomes, both within banking institutions specifically and corporate entities in general. The alignment of the present study's results with this body of literature not only strengthens the theoretical underpinnings provided by agency theory emphasizing rigorous oversight mechanisms but also reinforces empirical justifications for Indonesian banks to regard GCG implementation not merely as a matter of regulatory compliance, but as a strategic driver integral to enhancing and sustaining financial performance. Hence, this study provides meaningful support for the proposition that diligent governance practices constitute a pivotal element for achieving long-term institutional success within the Indonesian banking sector.

The Moderating Effect of Independent BoCs and Affiliated BoCs

The empirical findings from the analyses of Models 2.1 and 2.2 initially indicated no moderating effects of Independent Board of Commissioners (BoCs) and Affiliated BoCs on the relationship between GCG scores and financial performance (ROA), thereby initially leading to the rejection of Hypotheses 2 and 3. However, the subsequent analyses incorporating control variables namely bank size (total assets), gross and net non-performing loans (NPL), capital adequacy ratio (CAR), efficiency ratio (BOPO), and loan-to-deposit ratio (LDR) revealed a markedly different result. In Models 3.1 and 3.2, both independent and affiliated commissioners demonstrated significant moderating effects on the relationship between GCG implementation and bank performance. Thus, when contextual bank-specific factors are systematically accounted for, Hypotheses 2 and 3 receive robust empirical support. These nuanced results underscore the critical importance of considering firm-specific characteristics when evaluating corporate governance mechanisms within the banking sector. This finding aligns closely with previous studies conducted by Aldaoud (2019), Baker & Powell (2009), Liu et al. (2015), which collectively acknowledge that the effectiveness of board compositions can only be accurately assessed within the broader context of institutional-specific conditions and constraints.

Furthermore, it is particularly noteworthy that the moderating effect exerted by Independent BoCs (correlation coefficient of -2.82455) is marginally stronger than that of Affiliated BoCs (-2.613125). This subtle yet crucial difference lends support to the argument grounded in

agency theory, suggesting that independent commissioners provide enhanced oversight capabilities due to their reduced potential for conflicts of interest and external pressures. Nonetheless, the highly comparable magnitudes of these coefficients simultaneously suggest that the value provided by affiliated commissioners, consistent with stewardship theory, is also substantial and cannot be underestimated. Affiliated commissioners often possess a depth of institutional knowledge and internal insight that is essential for informed decision-making and advisory functions. Hence, these findings suggest that the optimal approach to corporate governance within Indonesian banks likely lies not in a rigid adherence to either purely independent or purely affiliated commissioners, but rather in the strategic integration of both.

A combined presence of independent and affiliated commissioners evidently strengthens the effectiveness of governance practices, enhancing the beneficial impact of GCG implementation on banks' financial outcomes. This integrative governance model offers banks the dual advantage of rigorous external oversight (from independent BoCs) and invaluable internal expertise (from affiliated BoCs), which together foster an environment conducive to effective governance and sustained financial performance. In summary, the nuanced empirical evidence presented herein demonstrates that governance effectiveness is intricately dependent upon both the composition of the board and the specific operational contexts of the institution. The subtle predominance of independent BoCs in moderating the GCG-ROA relationship underscores the ongoing relevance of agency theory perspectives. Nevertheless, the parallel significance of affiliated commissioners highlights the considerable merits of stewardship theory. Thus, this study strongly advocates for an integrative governance framework, acknowledging that superior financial performance arises most consistently from governance structures that carefully balance both independence and affiliation in board composition.

Conclusion

This study rigorously examined the comparative significance of affiliated and independent commissioners in moderating the relationship between Good Corporate Governance (GCG) implementation and financial performance among Indonesian banks. Utilizing a comprehensive dataset comprising 37 Indonesian banks over a ten-year period (2013-2022), the analysis employed moderated regression analysis (MRA), systematically incorporating critical bank-specific characteristics as control variables. The empirical results robustly confirm a significant positive relationship between the implementation of GCG and banks' financial performance, as measured by Return on Assets (ROA). This result lends strong support to Hypothesis 1, clearly demonstrating that sound corporate governance practices directly enhance financial outcomes for banks in Indonesia. This finding substantiates the propositions of agency theory, reinforcing the fundamental importance of effective governance mechanisms within the banking industry as essential tools for safeguarding stakeholder interests and driving superior performance.

One of the most notable empirical findings of this study pertains to the moderating effects of board composition. Initially, independent and affiliated commissioners appeared to have no moderating influence on the GCG-ROA relationship when examined in isolation. However, upon inclusion of key bank-specific control variables—such as bank size, non-performing loans, capital adequacy, operational efficiency, and liquidity indicators—both independent and affiliated commissioners emerged as significant moderators. Thus, this finding strongly supports Hypotheses 2 and 3 and highlights a crucial point: governance mechanisms cannot be adequately understood or assessed without considering the institutional and operational contexts in which they operate. Further nuanced analysis revealed a marginally stronger moderating influence from independent commissioners (-2.82455) compared to affiliated

commissioners (-2.613125). This subtle yet important distinction indicates that independent commissioners, as posited by agency theory, offer greater oversight effectiveness due to their impartiality and reduced susceptibility to conflicts of interest. However, the fact that affiliated commissioners also exerted a strongly significant moderating influence underscores the stewardship theory perspective, suggesting that these internal members offer deep institutional knowledge, strategic guidance, and internal cohesion crucial for effective governance.

The empirical evidence, therefore, indicates that the traditional dichotomy between agency theory and stewardship theory may be overly simplistic within the Indonesian banking sector. Rather than promoting one theoretical perspective over another, this study contributes to the corporate governance literature by proposing an integrative perspective, acknowledging the complementary nature of both independent oversight and internal expertise. Indeed, the findings strongly imply that governance effectiveness is context-dependent, reinforcing the importance of carefully tailored governance structures that reflect the unique operational and regulatory environments in which banks operate. Practically, these results offer significant implications. Banks in Indonesia should strategically pursue an optimal combination of independent and affiliated commissioners rather than emphasizing one category exclusively. Such balanced governance frameworks will likely yield more consistent and sustainable improvements in financial performance. The appointment of commissioners, therefore, should prioritize expertise, integrity, and commitment to effective oversight, beyond mere compliance with regulatory definitions of independence.

Moreover, regulatory authorities such as Bank Indonesia (BI) and the Financial Services Authority (OJK) should support governance policies that facilitate the flexible integration of both independent and affiliated expertise within boards, thus maintaining rigorous governance standards while enabling banks to adapt to their specific circumstances. Additionally, this study recommends that investors and stakeholders evaluate board composition holistically, emphasizing both the independence and expertise of commissioners. Strong GCG practices should serve as vital indicators of long-term sustainability and financial health. Given the intricacies revealed by this study, policymakers should consider institution-specific characteristics when designing governance frameworks, promoting flexibility within effective oversight parameters. Despite the robustness of the findings, several limitations remain. The study focused exclusively on Indonesian banks, which may limit generalizability to other contexts or industries. The analysis period (2013-2022) might not have captured all possible economic cycles or regulatory developments.

Additionally, reliance on self-assessed GCG scores, while reflective of regulatory practice, might introduce potential biases. Consequently, future research avenues are suggested, including extending analysis to different regulatory or cultural contexts, examining other industries with different risk profiles, and assessing long-term impacts of changes in board composition. Further studies could also more deeply investigate the specific qualifications, experience, and expertise of commissioners beyond their independence status, as well as variations in governance effectiveness during periods of economic stress or regulatory transitions. In summary, based on these robust empirical findings, this study strongly advocates for Indonesian banks to adopt a balanced governance framework incorporating both independent and affiliated commissioners. Recognizing these roles as complementary rather than competing will enable banks to maximize governance effectiveness.

Maintaining meaningful independence remains crucial, yet the significant positive contribution of affiliated commissioners emphasizes the importance of internal knowledge and strategic commitment. Therefore, Indonesian banks are encouraged to construct boards that synergistically blend independent oversight with deep institutional insights, ensuring that all

board members possess the expertise, integrity, and strategic alignment necessary for superior governance. As the financial sector continues to evolve amidst complex challenges and dynamic opportunities, effective governance will remain an essential determinant of sustainable success, rendering the insights derived from this study increasingly valuable to practitioners, regulators, policymakers, and researchers alike.

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