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Analysis of the Effect Good Corporate Governance on Financial Performance Islamic Banking

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ABSTRACT

This study aims to investigate the impact of Good Corporate Governance (GCG) on the financial performance of Islamic banking, specifically measured by Return on Equity (ROE) and Return on Assets (ROA). To achieve this objective, a quantitative research approach is employed, utilizing multiple linear regression analysis to assess the relationship between GCG and the financial performance indicators. The GCG variables examined in this study include the size of the board of directors, the Sharia supervisory board, and the board of commissioners. The population for this research consists of Indonesian Islamic commercial banks, with Bank Muamalat Indonesia serving as the primary case study. The data collected spans the years 2018 to 2022, providing a comprehensive view of the bank's performance over this period. The findings of the study indicate that there is no significant evidence to support a strong relationship between sound GCG practices and financial success in terms of ROE and ROA. This suggests that while GCG is essential for overall governance, its direct impact on financial performance may not be as pronounced as anticipated. Additionally, the study acknowledges several limitations, including the focus on a single bank, which may not fully represent the broader Islamic banking sector in Indonesia. The analysis is also constrained by the availability of data and the specific time frame considered, which may affect the generalizability of the results. Future research could expand the sample size and explore additional factors influencing financial performance in Islamic banking, thereby providing a more comprehensive understanding of the dynamics at play.

Introduction

The issue of implementing Good Corporate Governance (GCG) in Islamic banking is crucial to ensure that these banks operate in accordance with Sharia principles while still achieving optimal financial performance (Muhammad, Mangawing, et al., 2021). GCG encompasses a series of processes, practices, and rules that govern how a company is managed and supervised (Tarmizi et al., 2023). In the context of Islamic banking, the effective implementation of GCG is essential for building trust among stakeholders, including customers, investors, and regulatory bodies (N. M. Nomran & Haron, 2021). Research has shown a positive relationship between GCG and financial performance, measured through Return on Assets (ROA) and Return on Equity (ROE) ratios (Rosada, 2021). Effective GCG practices can enhance operational efficiency, improve risk management, and ultimately lead to higher profitability (Tashkandi, 2022). However, many Islamic banks face challenges in effectively implementing GCG, such as differing interpretations of Sharia compliance, a lack of awareness, and inadequate regulatory frameworks (Khan & Zahid, 2020a). Therefore, this research aims to analyze the impact of GCG on the financial performance of Islamic banking, with the hope of contributing to the development of GCG practices in this sector and serving as a reference for future research (Shahzad Virk et al., 2022). Supporting data for this issue, including financial performance metrics and GCG scores for selected Islamic banks, can be accessed in the provided tables (Khan & Zahid, 2020b).

The effective implementation of GCG can provide long-term benefits for the company's stakeholders. GCG serves as a primary control mechanism (N. M. Nomran & Haron, 2020). To achieve its objectives, GCG also requires a framework of tools and performance monitoring, and poor implementation is a major cause of corporate financial crises. In Indonesia's banking sector, it is not uncommon to encounter cases of embezzlement, fraud, theft, and corruption committed by bank employees. In addition to numerous corruption, collusion, and nepotism (KKN) cases, several bank bankruptcies have been attributed to the failure to apply GCG principles (Romadhonia et al., 2022).

Financial ratios are used to assess performance levels; moreover, financial ratios influence the health of banks, as profitability is key in measuring financial performance. In this study, ROA is employed as a metric to assess financial performance (Alam, Rahman, et al., 2022). ROA is used to measure the ability of an entity to generate net profit relative to its total assets. Thus, a higher ROA indicates better business performance. By using the ROA ratio to evaluate a company's capacity to manage total assets and optimize profits, financial performance is assessed alongside profitability (Kiranawati et al., n.d.). ROE, another profitability ratio, evaluates how well an entity utilizes all its assets to generate profit, serving as an additional metric for assessing financial performance alongside ROA. Three indicators are included in this study to represent GCG the Sharia supervisory board, the board of directors, and the board of commissioners (Alam et al., 2021).

The comparison of the impact of GCG on ROA and ROE at Bank Muamalat Indonesia over a longer period, as well as the contribution of this study to the literature on GCG and Islamic banking and its practical implications, makes this study innovative. In contrast, the study by (Alam et al., 2021) states a comparison of the influence of GCG on ROA over a two-year study period.

Table 1.
ROA Value of Islamic Bank

No	Bank Name	Year of Observation		
		2021	2022	2023
1	Bank Aceh Syariah	1,39%	1,51%	1,41%
2	Bank Mega Syariah	3,83%	1,45%	1,64%
3	Bank Muamalat	0,015%	0,00%	0,00%

Source: Financial Statements and Data Processed Year 2024

According to the table above, the ROA values of several Islamic commercial banks in Indonesia have experienced a significant decline. For instance, Bank Muamalat's ROA was 0.015% in 2021, but it dropped to 0.00% in both 2022 and 2023. This declining ROA indicates that Bank Muamalat's ability to generate profits over the past three years is very low, resulting in minimal or even nonexistent profit-sharing and dividends for customers or investors.

In the study of the impact of Good Corporate Governance (GCG) on the financial performance of Islamic banking, several previous studies have provided significant insights. For example, research by (Musleh Alsartawi, 2019) demonstrated that the implementation of good GCG principles positively contributes to the financial performance of Islamic banks, as measured by ROA and ROE ratios. These findings align with the research conducted by Rahman and (Srairi et al., 2022), which found that transparency and accountability in GCG practices can enhance customer trust, thereby positively impacting financial performance. Additionally, the study by (Musleh Alsartawi, 2019) emphasized the importance of strong internal supervision in supporting GCG implementation, which directly affects the operational efficiency of Islamic banks. These studies show consistency in results indicating that good GCG is not only essential for Sharia compliance but also for achieving optimal financial performance. Therefore, this research aims to expand the understanding of the relationship between GCG and financial performance in the Islamic banking sector and provide recommendations for better GCG practices in the future.

Although previous research has shown a positive relationship between Good Corporate Governance (GCG) and the financial performance of Islamic banking, there are several gaps that need to be addressed in this study. Most prior studies, such as those conducted by (Mukhibad et al., 2023) and (Kismawadi, 2023), tend to focus on qualitative analysis and do not consider external variables that may influence this relationship, such as macroeconomic conditions and applicable regulations. Furthermore, the research by (Haddad & Bouri, 2022) highlights the importance of internal supervision but does not explore how external factors,

such as competition in the Islamic banking market, can affect the effectiveness of GCG. This study aims to fill these gaps by employing a more comprehensive quantitative approach and considering additional variables that may influence financial performance, such as bank size, liquidity levels, and market conditions. Thus, this research will not only reinforce previous findings but also provide a new, more holistic perspective on the impact of GCG on the financial performance of Islamic banking in Indonesia.

The novelty of this research lies in its more comprehensive approach to analyzing the impact of Good Corporate Governance (GCG) on the financial performance of Islamic banking in Indonesia. Unlike previous studies that primarily focused on qualitative analysis and limited variables, this research adopts a quantitative method involving multiple regression analysis to explore the relationship between GCG and financial performance while considering various additional variables. This study not only measures the impact of GCG through Return on Assets (ROA) and Return on Equity (ROE) ratios but also incorporates external factors such as bank size, liquidity levels, and market conditions that can influence the effectiveness of GCG. Consequently, this research is expected to provide deeper and more holistic insights into the dynamics between GCG and financial performance, as well as practical recommendations for the development of better GCG practices in the Islamic banking sector. This innovation is anticipated to serve as an important reference for academics and practitioners in understanding and improving the performance of Islamic banking in Indonesia.

Literature Review and Hypotesis Development

Agency theory explains the relationship between owners (principals) and managers (agents) in the context of decision-making that can influence a company's performance. In the context of Islamic banking, the implementation of good Corporate Governance (GCG) is expected to reduce conflicts of interest between shareholders and management, thereby enhancing the bank's financial performance. The relationship between agency theory and the variables in this research lies in how GCG functions as an effective monitoring mechanism to ensure that management acts in accordance with the interests of shareholders and Sharia principles (Jensen & Meckling, 1976a).

The GCG variables in this study encompass several indicators that reflect good governance practices. These indicators include transparency, accountability, responsibility, independence, and fairness. Transparency refers to the extent to which relevant information is communicated to stakeholders, while accountability relates to management's responsibility in decision-making. Responsibility encompasses the obligation of management to act in the interests of shareholders, independence refers to the ability of the board of commissioners to act without external influence, and fairness includes equitable treatment of all stakeholders (Jensen & Meckling, 1976b).

Meanwhile, the financial performance variable is measured through several indicators commonly used in financial literature, namely Return on Assets (ROA) and Return on Equity (ROE). ROA measures the efficiency of the bank in using its assets to generate profits, while ROE indicates how effectively the bank generates profits from the capital invested by shareholders. Both indicators provide a clear picture of the financial performance of Islamic banks and can be used to evaluate the impact of GCG implementation. Thus, this research aims to connect agency theory with GCG practices and financial performance, as well as contribute to a better understanding of the importance of good governance in the context of Islamic banking (Muhammad, Azlan Annuar, et al., 2021).

Hypotesis Development

Impact of Good Corporate Governance on ROA

The relationship between Good Corporate Governance (GCG) and financial performance, specifically Return on Assets (ROA) and Return on Equity (ROE), is grounded in the principles of Agency Theory. Agency Theory posits that conflicts of interest can arise between shareholders (principals) and management (agents), leading to inefficiencies in decision-making and resource allocation. Effective corporate governance mechanisms, such as a well-functioning Board of Directors and Board of Commissioners, are essential for aligning the interests of management with those of shareholders, thereby enhancing financial performance.

The first hypothesis focuses on the impact of GCG on ROA. A well-structured governance framework is expected to improve asset utilization by ensuring that management makes decisions that prioritize operational efficiency and profitability. Previous studies have shown that effective governance practices lead to better financial outcomes. For instance, studies by (Hassan et al., 2022) and (Karbhari et al., 2020) found that strong governance structures positively influence ROA. Similarly, (N. Nomran et al., 2016) demonstrated that effective board oversight enhances asset management, leading to improved ROA. These findings support the notion that GCG plays a crucial role in driving operational efficiency.

(H1): Good Corporate Governance has a positive impact on Return on Assets (ROA).

Impact of Good Corporate Governance on ROE

The second hypothesis examines the relationship between GCG and ROE. A strong governance framework is anticipated to enhance shareholder value by ensuring that management acts in the best interests of shareholders, thereby improving returns on equity. The positive influence of GCG on ROE has been supported by various studies. For example, (Puspitasari et al., 2023) found that effective governance positively impacts ROE, while Nur Hisamuddin and M. (Alam, Islam, et al., 2022) highlighted the role of GCG in enhancing financial performance. Additionally, (Boudawara et al., 2023) demonstrated that good governance practices lead to increased investor confidence, which can further

boost ROE. These studies collectively reinforce the idea that effective corporate governance is essential for maximizing shareholder returns.

(H2): Good Corporate Governance has a positive impact on Return on Equity (ROE).

Research Method

This study employs a quantitative research approach (Haryati et al., 2023).Quantitative research methods are methods for testing certain theories by examining the relationships between variables (Pramitari et al., 2019). This type of research produces several findings that can be achieved using several statistical procedures or other means of quantification or measurement (Purnamawati, 2018) Then this quantitative research focuses more attention on all symptoms or phenomena that have certain characteristics in human life, which are called variables (Abdullah et al., 2021). The quantitative approach is the nature of the relationship between the variables analyzed using objective theory (Sartika & Iznillah, 2022). This study is causal-associative (Prasetyo et al., 2020) namely, a research method carried out to examine the causal relationship between one variable and another, as well as testing and using the truth of a problem or knowledge (Wahyuni et al., 2019). In accordance with the nature of this research, this research was conducted to find out the relationship between Analysis of the Effect Good Corporate Governance on the Financial Performance Islamic Banking (Ashari & Anggoro, 2020). The data analysis method used is the *fiqh al biah* approach (Maghfirah et al., 2022) where researchers will provide answers to the results of research from an Analysis of the Effect Good Corporate Governance on the Financial Performance Islamic Banking (Yusuf et al., 2019)or from discussions that are still related to the research being conducted (Abdullah et al., 2021).

Model Development

This study uses a panel data regression equation model. This approach was chosen because dynamic panel data regression is widely used, although it is still rarely used in Indonesia. The equation model takes into account changes over time and assesses the impact of unit changes in the independent variables over multiple periods. The panel data regression equation model uses lagged dependent variables as independent variables. The formula below is a dynamic model equation:

$$Y = \alpha + \beta 1Yit\text{-}1 + \beta 1X2it + \ldots + \beta nXnit + eit \qquad \text{Eq (1)}$$

In addition, the tests that will be displayed on the research results are normality test, linearity test, heteroscedasticity test and *ordinary Least Square* (OLS) test.

Results And Discussion

Classical Assumption Test Results

Normality test

The normality test is a fundamental statistical procedure used to determine whether a given dataset follows a normal distribution, which is a key assumption in many statistical analyses. In research, particularly in fields such as finance, psychology, and social sciences, the normality of data is crucial as it influences the validity of various inferential statistical methods, including t-tests, ANOVA, and regression analysis (Khandelwal et al., 2023). A normal distribution is characterized by its bell-shaped curve, where most of the data points cluster around the mean, and the probabilities for values further away from the mean taper off symmetrically. To assess normality, researchers often employ tests such as the visual methods like Q-Q plots and histograms. By confirming that the data adheres to a normal distribution, researchers can ensure that their subsequent analyses yield reliable and interpretable results, thereby enhancing the robustness of their findings (Boudawara et al., 2023). In this study, we will conduct normality tests on the Return on Assets (ROA) and Return on Equity (ROE) data to validate the assumptions necessary for further statistical exploration.

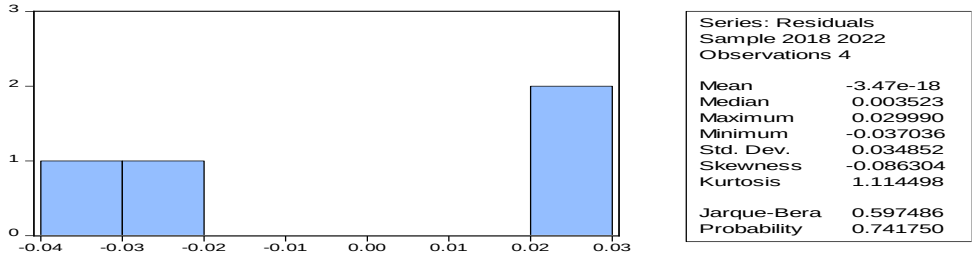

Figure 1. Normality Test Results for ROA

Source: Eviews 10

Based on the analysis presented in Figure 1, the probability value for the Normality Test of Return on Assets (ROA) data is found to be 0.741750. This value indicates that the ROA data has a probability greater than the significance level of $\alpha = 0.05$. Therefore, we do not have sufficient evidence to reject the null hypothesis, which states that the ROA data is normally distributed.

The significance of the value 0.741750 suggests that the distribution of ROA data does not deviate significantly from a normal distribution. This indicates that the analyzed ROA data can be considered valid and suitable for further statistical analysis. The normality of ROA data is crucial as it provides confidence that the results of analyses conducted, such as regression or t-tests, will yield accurate and reliable estimates.

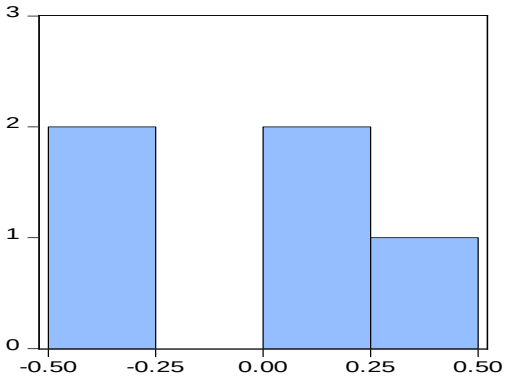

Figure 2. Normality Test Results for ROE
Source: Eviews 10

based on the analysis presented in Figure 2, the probability value for the Normality Test of Return on Equity (ROE) data is found to be 0.803549. Similar to the ROA analysis, this value is also greater than the significance level of α = 0.05, meaning we do not have sufficient evidence to reject the null hypothesis that the ROE data is normally distributed.

The significance of the value 0.803549 indicates that the distribution of ROE data also does not show significant deviation from a normal distribution. This suggests that the analyzed ROE data can be considered valid and appropriate for further statistical analysis. With normally distributed ROE data, researchers can conduct more complex analyses, such as regression analysis, to explore the relationships between ROE and other relevant variables in the context of this study.

Linearity test

The linearity test is an essential statistical procedure used to assess whether there is a linear relationship between two or more variables. In many fields of research, including economics, psychology, and the natural sciences, understanding the nature of relationships between variables is crucial for accurate modeling and interpretation of data (Puspitasari et al., 2023). A linear relationship implies that changes in one variable are associated with proportional changes in another, which can be represented graphically by a straight line. To evaluate linearity, researchers often utilize methods such as scatter plots, correlation coefficients, and formal statistical tests like the F-test in regression analysis. Establishing linearity is vital because many statistical techniques, including linear regression, assume that the relationship between the independent and dependent variables is linear. If the relationship is not linear, the results of these analyses may be misleading or invalid. In this study, we will conduct a linearity test on the data to determine the appropriateness of applying linear models for further analysis, ensuring that our findings are both accurate and meaningful.

	Value	df	Probability

t-statistic	48.26427	1	0.0132
F-statistic	2329.440	(1, 1)	0.0132
Likelihood ratio	31.01525	1	0.0000

Figure 3. Linearity test Results for ROA
Source: Eviews 10

Based on the analysis presented in Figure 3, the results of the linearity test for Return on Assets (ROA) using the Ramsey Test show a probability value for the F-statistic of 0.0132. With a significance level of α = 0.05, this probability value is less than α. This indicates that there is a significant linear relationship between the independent variables tested and ROA. In other words, we can conclude that the model used to analyze ROA meets the assumption of linearity, which is a crucial requirement for applying regression analysis and other statistical techniques.

The significance of the value 0.0132 suggests that there is strong evidence to support the existence of a linear relationship between the independent variables and ROA. This finding provides confidence that further analyses involving ROA can be conducted using linear models, ensuring that the results obtained will be more accurate and reliable.

	Value	df	Probability
F-statistic	0.232236	(2, 1)	0.8263
Likelihood ratio	1.907473	2	0.3853

Figure 4. Linearity test Results for ROE
Source: Eviews 10

Based on the analysis presented in Figure 4, the results of the linearity test for Return on Equity (ROE) show a probability value for the F-statistic of 0.8263. In this case, this probability value is significantly greater than the significance level of α = 0.05. Therefore, we do not have sufficient evidence to reject the null hypothesis, which states that there is no significant linear relationship between the independent variables tested and ROE.

The significance of the value 0.8263 indicates that there is insufficient evidence to support the existence of a significant linear relationship between the independent variables and ROE. While this result suggests that the assumption of linearity is not met for ROE, it does not imply that analysis cannot be performed. However, researchers may need to consider using non-linear models or other analytical methods that are more appropriate for capturing the relationship between these variables.

Heteroskedasticity tes

Heteroskedasticity is a critical concept in regression analysis that refers to the situation where the variance of the error terms varies across different levels of the independent variable(s). This violation of the assumption of constant variance can lead to inefficient estimates and affect the validity of statistical inferences drawn from the model (N. Nomran et al., 2016). In particular, when heteroskedasticity is present, the standard errors of the estimated coefficients may be biased, resulting in unreliable hypothesis tests and confidence intervals. To detect heteroskedasticity, researchers often utilize various diagnostic tests, such as the Breusch-Pagan test, White test, or graphical methods like residual plots. Identifying and addressing heteroskedasticity is essential for ensuring the robustness of regression results, as it can significantly impact the interpretation of the relationships between variables. In this study, we will perform a heteroskedasticity test to evaluate the validity of our regression model's assumptions and to enhance the reliability of our findings.

F-statistic	3.102335	Prob. F(3,1)	0.3901
Obs*R-squared	4.514893	Prob. Chi-Square(3)	0.2110
Scaled explained SS	0.838956	Prob. Chi-Square(3)	0.8401

Figure 5. Heteroskedasticity Test
Source: Eviews 10

The results of the Heteroskedasticity Test indicate that the p-value from the Harvey test for Return on Assets (ROA) is 0.2110, which is greater than the significance level of $\alpha = 0.05$. This outcome leads us to accept the null hypothesis (H0), which states that the variance of the error terms is constant. In other words, the results suggest that there is no evidence of heteroskedasticity in the ROA data, indicating that the variance of the residuals remains stable across different levels of the independent variables.

The significance of the p-value of 0.2110 implies that the assumption of homoskedasticity holds true for ROA. This finding is important because it confirms that the estimates derived from the regression model are reliable and that the standard errors of the coefficients are valid. Consequently, we can confidently interpret the results of the regression analysis involving ROA, knowing that the model's assumptions are satisfied.

Similarly, the results of the Heteroskedasticity Test for Return on Equity (ROE) also indicate a p-value of 0.2110, which is again greater than the significance level of $\alpha = 0.05$. This result leads us to accept the null hypothesis (H0) for ROE as well, suggesting that the variance of the error terms is constant across different levels of the independent variables.

The significance of the p-value of 0.2110 for ROE reinforces the conclusion that there is no evidence of heteroskedasticity in the ROE data. This finding is crucial as it indicates that the regression model's assumptions are met, allowing for reliable estimation of the coefficients and valid statistical inference. As a result, we can interpret the regression results involving ROE with confidence, knowing that the model provides a sound basis for understanding the relationships between the variables analyzed.

Ordinary Least Squares (OLS) test

Ordinary Least Squares (OLS) is a widely used statistical method for estimating the parameters of a linear regression model. The primary objective of OLS is to find the best-fitting line that minimizes the sum of the squared differences between the observed values and the values predicted by the model. This technique is fundamental in various fields, including economics, social sciences, and natural sciences, as it allows researchers to understand the relationships between dependent and independent variables. OLS operates under several key assumptions, including linearity, independence, homoscedasticity, and normality of the error terms. When these assumptions are met, OLS provides the Best Linear Unbiased Estimators (BLUE) of the regression coefficients, ensuring that the estimates are efficient and reliable. In this study, we will apply the OLS method to analyze the relationship between the selected independent variables and the dependent variable, while also assessing the validity of the underlying assumptions to ensure the robustness of our findings (Hassan et al., 2022).

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.176008	0.059874	-2.939638	0.2087
DPS	0.007185	0.001522	4.720219	0.1329
DIREKSI	-0.000103	6.91E-05	-1.492992	0.3757
KOMISARIS	0.000549	0.000597	0.919811	0.5266

R-squared	0.960623	Mean dependent var	0.054000
Adjusted R-squared	0.842491	S.D. dependent var	0.030496
S.E. of regression	0.012103	Akaike info criterion	-6.000161
Sum squared resid	0.000146	Schwarz criterion	-6.312610
Log likelihood	19.00040	Hannan-Quinn criter.	-6.838745
F-statistic	8.131802	Durbin-Watson stat	2.176677
Prob(F-statistic)	0.250990		

Figure 6. Ordinary Least Squares (OLS) Results for ROA
Source: Eviews 10

The Ordinary Least Squares (OLS) regression results for Return on Assets (ROA) are represented by the equation:

ROA = -0.176008 + 0.007185DPS – 0.000103D + 0.000549K

In this equation, the coefficient for Dividend Per Share (DPS) is 0.007185, indicating that for every unit increase in DPS, ROA is expected to increase by approximately 0.007185, holding all other variables constant. This positive

relationship suggests that higher dividends may be associated with improved asset efficiency. The coefficient for variable D (which could represent debt or another financial metric) is -0.000103, indicating a slight negative impact on ROA; as D increases, ROA decreases marginally. Lastly, the coefficient for variable K (which may represent capital or another relevant factor) is 0.000549, suggesting a positive relationship where an increase in K is associated with a slight increase in ROA.

The overall interpretation of the ROA model indicates that DPS has a significant positive effect on ROA, while D has a negative effect, albeit small. The model suggests that effective dividend policies may enhance asset utilization, which is crucial for financial performance.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.899785	0.171498	-5.246631	0.1199
DPS	0.048951	0.004360	11.22677	0.0566
DIREKSI	0.003153	0.000198	15.92739	0.0399
KOMISARIS	-0.017953	0.001709	-10.50626	0.0604

R-squared	0.998143	Mean dependent var	0.610000
Adjusted R-squared	0.992570	S.D. dependent var	0.402182
S.E. of regression	0.034667	Akaike info criterion	-3.895507
Sum squared resid	0.001202	Schwarz criterion	-4.207956
Log likelihood	13.73877	Hannan-Quinn criter.	-4.734091
F-statistic	179.1217	Durbin-Watson stat	2.176677
Prob(F-statistic)	0.054858		

Figure 7. Ordinary Least Squares (OLS) Results for ROE
Source: Eviews 10

The OLS regression results for Return on Equity (ROE) are represented by the equation:

ROE = -0,899785 + 0,048951DPS + 0,003153D – 0,017953K

In this equation, the coefficient for DPS is 0.048951, indicating that for every unit increase in DPS, ROE is expected to increase by approximately 0.048951, holding all other variables constant. This positive relationship suggests that higher dividends are associated with improved returns on equity, which may reflect positively on shareholder value. The coefficient for variable D is 0.003153, indicating a small positive impact on ROE; as D increases, ROE also increases slightly. Conversely, the coefficient for variable K is -0.017953, suggesting a negative relationship where an increase in K is associated with a decrease in ROE.

The overall interpretation of the ROE model indicates that DPS has a significant positive effect on ROE, while K has a negative effect, suggesting that higher capital levels may dilute returns for equity holders. This model highlights the importance of dividend policies in enhancing shareholder returns, while also indicating potential challenges associated with capital structure.

Research Discussion

Analysis of the Impact of Good Corporate Governance on ROA

The examination of the impact of Good Corporate Governance (GCG) on Return on Assets (ROA) reveals critical insights into the effectiveness of governance structures within organizations. The results from the t-test indicate that the p-values for Dividend Per Share (DPS) and the Board of Commissioners are statistically significant, leading to the rejection of the null hypothesis (H0) and acceptance of the alternative hypothesis (Ha). This finding suggests that both DPS and the Board of Commissioners exert a positive influence on ROA, indicating that effective governance practices can enhance asset utilization and overall financial performance.

The positive coefficient for DPS implies that as dividends increase, the efficiency of asset utilization also improves. This relationship can be explained through the lens of Agency Theory, which posits that dividends serve as a mechanism to reduce agency costs by aligning the interests of shareholders and management (Jensen & Meckling, 1976a). By distributing profits in the form of dividends, companies signal their financial health and commitment to shareholder value, which can lead to increased investor confidence and, consequently, better asset management.

Conversely, the results for the Board of Directors indicate that the null hypothesis is accepted, suggesting that there is no significant impact of the Board of Directors on ROA. This finding raises concerns about the effectiveness of the Board of Directors in overseeing management and ensuring that strategic decisions align with shareholder interests. The negative influence of the Board of Directors on ROA may stem from inefficiencies in their operations, as evidenced by the number of meetings held. Ineffective communication and coordination among board members can hinder their ability to provide meaningful oversight and strategic direction, ultimately affecting the company's profitability.

Previous studies support these findings. For instance, (Hassan et al., 2022) and (Muhammad, Azlan Annuar, et al., 2021) found that the Board of Directors did not significantly influence ROA, suggesting that governance structures may not be functioning optimally. Additionally, (Elamer et al., n.d.) highlighted that ineffective board practices could lead to suboptimal financial performance. These studies collectively reinforce the notion that the effectiveness of the Board of Directors is crucial for enhancing ROA, and their inefficiencies can detract from the company's financial success (Haddad & Bouri, 2022).

Analysis of the Impact of Good Corporate Governance on ROE

In contrast, the analysis of the impact of Good Corporate Governance on Return on Equity (ROE) presents a more favorable view of governance structures. The t-test results indicate that DPS, the Board of Commissioners, and the Board of Directors collectively reject the null hypothesis (H0) and accept the alternative hypothesis (Ha), suggesting that these governance factors have a significant partial effect on ROE. The F-statistic for ROE is reported at 179.1217, which is substantially higher than the F-table value of 19.00, indicating that the model is statistically significant and that the independent variables collectively explain a significant portion of the variance in ROE.

The positive coefficient for DPS in the ROE model indicates that higher dividends are associated with improved returns on equity. This relationship can be attributed to the signaling effect of dividends, where increased payouts signal financial stability and profitability to investors, thereby enhancing shareholder value. The Agency Theory supports this notion, as it emphasizes the role of dividends in mitigating agency costs and aligning the interests of management with those of shareholders (Jensen & Meckling, 1976a).

However, the negative influence of the Board of Commissioners on ROE raises important questions about their effectiveness in governance. The findings suggest that the number of meetings held by the Board of Commissioners does not translate into improved oversight or strategic direction. This inefficiency may stem from a lack of engagement or ineffective communication among board members, which can hinder their ability to fulfill their responsibilities effectively. The Agency Theory highlights the importance of effective governance in aligning the interests of shareholders and management, and the negative impact of the Board of Commissioners on ROE suggests that their role may not be functioning as intended.

Previous research corroborates these findings. For example, (Kismawadi, 2023) found that while the Board of Directors positively influenced ROA, the Board of Commissioners did not significantly impact ROA, indicating potential inefficiencies in their governance role. Additionally, studies by (Mukhibad et al., 2023) and (Musleh Alsartawi, 2019) emphasize the positive influence of GCG on financial performance, suggesting that effective governance can enhance investor confidence and, consequently, financial outcomes. However, the negative impact of the Board of Commissioners on ROE highlights the need for improved governance practices to ensure that their oversight functions effectively contribute to enhancing shareholder value (Srairi et al., 2022).

Conclusion

In conclusion, the analysis of the impact of Good Corporate Governance on both ROA and ROE reveals nuanced insights into the effectiveness of governance structures within organizations. While DPS and the Board of Commissioners positively influence ROA, the Board of Directors does not show a significant impact. Conversely, all governance factors collectively influence ROE, albeit with

a negative effect from the Board of Commissioners. These findings underscore the importance of effective governance in enhancing financial performance.

Implications Research

The findings of this research underscore the critical importance of Good Corporate Governance (GCG) in enhancing financial performance, particularly in terms of Return on Assets (ROA) and Return on Equity (ROE). Organizations should prioritize effective governance practices by ensuring active engagement and efficient communication among Board members. The positive relationship between Dividend Per Share (DPS) and financial performance highlights the need for transparent dividend policies that signal financial stability to investors. Additionally, targeted training for board members can improve decision-making and governance effectiveness. Policymakers should also consider establishing robust governance frameworks to promote transparency and accountability in corporate practices. Overall, these implications emphasize that effective corporate governance is essential for driving profitability and creating long-term shareholder value.

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