

THE EFFECT OF LEVERAGE AND GOOD CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE IN STATE-OWNED BANKING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

Alya Putri Nabila¹, Masithah Akbar², Yanuar Bachtiar³, Rofiqah Wahdah⁴

¹Institut Bisnis dan Teknologi Kalimantan (Indonesia)

²Institut Bisnis dan Teknologi Kalimantan (Indonesia)

³Institut Bisnis dan Teknologi Kalimantan (Indonesia)

⁴Institut Bisnis dan Teknologi Kalimantan (Indonesia)

*) email: alyaaapnb@gmail.com

Abstract

Investigates effect of leverage and GCG on financial standing of state-owned banks listed on BEI. Financial standing is measured using ROE, while leverage is proxied by DER. GCG is represented by executive ownership, BOD, BOC, also audit committee. Study employs a quantitative approach with a causal associative research design. Sample consists of four state-owned banks observed over 2017–2024 period, yielding 32 firm-year observations. Data were analyzed using multiple linear regression with SPSS.

Leverage also GCG, when tested simultaneously, don't conveying strong on ROE. Partially, executive ownership, BOD, BOC, also audit committee also show no significant influence on financial standing. However, leverage is found to have a negative and significant effect on ROE, suggesting that higher debt levels tend to reduce bank profitability. R^2 reveals that independent variables explain only a limited proportion of variation in ROE.

These findings suggest that current implementation of GCG mechanisms in state-owned banks has not yet effectively contributed to improving financial standing, whereas leverage management remains a critical factor in sustaining profitability.

Keywords: GCG, Leverage, ROE, State-Owned Banks, financial standing

1. INTRODUCTION

Implementation of GCG is a crucial aspect in maintaining sustainability and stability of financial institutions. According to OJK, GCG refers to processes and structures used by corporate organs to enhance business performance and accountability in realizing long-term shareholder value while taking into account interests of stakeholders. Effective GCG implementation is expected to create a transparent, accountable, responsible, and fair business environment, thereby increasing investor confidence, operational efficiency, and ensuring long-term corporate sustainability (Englbert et al., 2024).

Executive ownership reflects share ownership by management, indicating direct involvement in corporate decision-making (Pramesti & Priyadi, 2023). An increase in

executive ownership proportion can align interests of managers and shareholders, thereby encouraging improved corporate financial standing (T. D. Sari et al., 2020).

Board of Directors holds full responsibility for corporate management in accordance with POJK Number 33 of 2014, which includes management functions, risk management, internal control, communication, also CSR.

Board of Commissioners serves as a supervisory mechanism and provides strategic direction to ensure accountability and effective implementation of corporate strategies. This role is strengthened by Audit Committee, which assists Board of Commissioners in carrying out comprehensive oversight, thereby minimizing potential for manipulation also enhancing corporate financial standing (Inge Andhitya Rahmawati et al., 2017).

relationship between owners and corporate management is explained by Agency Theory proposed by Jensen and Meckling (1976), which states that conflicts of interest may arise due to differing objectives between principals also agents. In this context, GCG functions as a control mechanism to minimize agency conflicts and ensure that management decisions remain aligned with shareholder interests (Ernawati & Santoso, 2021).

Leverage is a financial ratio that indicates extent to which a company uses debt to finance its assets and operational activities. Concept of leverage plays an important role in analyzing relationship between risk and rate of return earned by company (Elisetiawati & Artinah, 2016). Based on Trade-Off Theory, use of debt provides tax benefits through interest expense deductions but simultaneously increases bankruptcy risk. Therefore, management is required to balance benefits and risks of debt usage so that leverage can have a positive impact on corporate profitability (Rahmadita & Amri, 2024).

Financial standing is an important indicator in assessing corporate success and serves as a primary source of information for both internal and external decision-making (Noviala et al., 2024). Financial standing is commonly analyzed using financial ratios, particularly ROE, which reflects a company's ability to generate profits from shareholders' equity. Meanwhile, DER is used as a leverage indicator to show company's level of dependence on debt financing (Andriyani et al., 2022). A high DER value indicates greater financial risk, whereas an excessively low DER may indicate suboptimal utilization of external financing (Ernawati & Santoso, 2021).

Several previous studies have reported mixed findings regarding effects of GCG and leverage on financial standing. Olimsar et al., (2022) sounded corporate governance mechanisms and leverage simultaneously affect financial standing, although not all variables partially showed a significant effect on ROE. Furthermore, Agung et al., (2024) revealed that GCG and leverage, both simultaneously and partially, don't conveying strong on ROE. In contrast, Haryanto et al., (2022) demonstrated that GCG and leverage simultaneously conveying strong on financial

standing, even though not all governance mechanisms showed significant partial effects.

This study focuses on state-owned banks listed on BEI during 2017–2024 period, using ROE as an indicator of financial standing and DER as a proxy for leverage. Expected to provide empirical evidence on impact of GCG implementation and leverage policy on financial standing of state-owned banks in Indonesia.

2. METHODOLOGY

In this study, data analysis techniques were conducted using SPSS program. Research employs a quantitative approach with a causal associative research design. This design is used to analyze effect of GCG and leverage as independent variables on financial standing, measured by ROE, as dependent variable in state-owned banking sector listed on BEI during 2017–2024 period.

Data were statistically processed to explain relationships among variables using time-series data collected at regular and sequential intervals. This approach is deductive in nature, whereby study is grounded in established theories and previous research findings, which are then empirically tested using data derived from financial statements of state-owned banks. Four state-owned banking companies were selected as research sample based on predetermined criteria.

Quantitative data measured on a ratio scale. Quantitative data consist of numerical values representing financial ratios and GCG indicators, namely institutional ownership, BOD, BOC, also audit committee for each state-owned bank. DER is used as basis for measuring leverage variable.

Analytical model applied in this study is a multiple linear regression model, formulated as follows:

$$Y : \alpha + \beta_1 X_1 + \beta_2 X_2 + e$$

Where:

Y : Financial Performance (measured by ROE)

α : Constant, representing value of Y when all independent variables = 0

β : Regression coefficients of each independent variable, indicating magnitude of effect each X variable on Y

X_1 : GCG

X_2 : Leverage

e : Error term

3. FINDINGS AND DISCUSSION

This section presents results of data analysis and discussion related to effect of leverage and GCG on financial standing of state-owned banks listed on BEI. Results of tests conducted are presented as follows.

Table 1. R² Test

	R	R ²	Adjusted R ²	Std. Error of Estimate
	.526 ^a	.277	.138	.036170

Source: SPSS Output, 2026

Based on Model Summary results, R value of 0.526 indicates a positive relationship between leverage and GCG and ROE. R² 0.277 indicates that 27.7% of variation in ROE explained by variables included in model, while remaining variation is influenced by other factors outside scope of this study.

Adjusted R² 0.138 after adjustment, model explains 13.8% of variation in ROE. Meanwhile, Standard Error of Estimate value of 0.036170 reflects level of prediction error of model in estimating ROE.

Table 2. F-test

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.013	5	.003	1.993	.113 ^b
Residual	.034	26	.001		
Total	.047	31			

Source: SPSS Output, 2026

Based on results of F-test presented in ANOVA table, it can be concluded that leverage and GCG variables consisting of executive ownership, BOD, BOC, also audit committee don't jointly conveying strong on financial standing as measured by ROE.

Table 3. T-test

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.216	.101		2.124	.043
X1	.152	.144	.209	1.054	.301
X2	.000	.009	-.004	-.012	.990
X3	-.009	.008	-.314	-1.109	.278
X4	.008	.007	.258	1.208	.238

X5	-7.191E-5	.000	-.608	-2.296	.030
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Source: SPSS Output, 2026

Most of independent variables representing GCG don't conveying strong on financial standing as measured by ROE. However, one variable shows a significant effect with a negative direction on ROE. These findings indicate that each variable has a different influence in explaining financial standing and reflect complexity of factors affecting financial standing of banking sector.

3.1 Effect of Leverage and GCG on Financial Performance

F value is 1.993 (ANOVA), significance level $0.113 > 0.05$, indicating leverage and GCG proxied by executive ownership, BOD, BOC, also audit committee don't simultaneously conveying strong on financial standing as measured by ROE.

Consistent Englbert et al., (2024), reported CGC mechanisms, particularly BOC also BOD, when tested simultaneously, don't significantly affect ROE in banks listed on BEI during 2018–2022 period.

3.2 Effect of Managerial Ownership on Financial Performance

Executive ownership has a significance $0.301 < 0.05$ significance level. Therefore, although executive ownership has a positive coefficient, it does not conveying strong on company's financial standing.

Rode, (2019) found that executive ownership has a positive but insignificant effect on financial standing. This finding is consistent with Haryanto et al., (2022), who also reported a positive yet insignificant influence of executive ownership.

3.3 Effect of Board of Directors on Financial Performance

Findings show that BOD variable has a significance value of 0.990, which is greater than 0.05. This indicates that BOD does not conveying strong on financial standing.

R. N. Sari et al., (2023) demonstrated that size of BOD does not have a positive and significant effect on firm performance. This result aligns with Rikasari & Hardiyanti, (2022), who argued that a larger BOD may increase likelihood of differing opinions in policy decision-making.

3.4 Effect of Board of Commissioners on Financial Performance

Results show that BOC has a significance value of 0.278, which exceeds 0.05 threshold. Thus, BOC does not conveying strong on financial standing.

Olimsar et al., (2022) found that BOC has a positive relationship with firm performance, but effect is not statistically significant.

3.5 Effect of Audit Committee on Financial Performance

Audit committee variable has a significance value of 0.238, which is greater than 0.05, indicating that audit committee does not significantly affect financial standing.

Agung et al., (2024) reported that existence of an audit committee was not yet able to improve quality of financial reporting, resulting in no significant impact on firm performance, which is consistent with findings of this study.

3.6 Effect of Leverage on Financial Performance

Results show that leverage has a significance value of 0.030, which is lower than 0.05 significance level. Therefore, leverage has a significant effect on financial standing. Negative regression coefficient indicates that higher leverage tends to reduce a firm's financial standing.

Mauliddah & Sari, (2022) stated that DER has a significant negative effect on ROE, as an increase in DER is followed by a decline in profitability due to higher interest expenses. This finding is further supported by Agung et al., (2024), who found that leverage, proxied by DER, has a significant and negative relationship with financial standing measured by ROE, indicating that higher leverage leads to lower firm performance.

4. CONCLUSION

Based on results of this study examining effect of leverage and GCG on financial standing of state-owned banking companies listed on BEI during 2017–2024 period, it can be concluded that leverage also GCG proxied by executive ownership, BOD, BOC, also audit committee don't simultaneously conveying strong on ROE.

Partially, executive ownership, BOD, BOC, also audit committee also don't conveying strong on ROE. Meanwhile, leverage has a negative and significant effect on ROE, indicating that a high level of dependence on debt financing tends to reduce company profitability due to increased debt-related costs.

Overall, this study provides empirical evidence that leverage management remains a crucial aspect in maintaining stability and profitability of state-owned banks in order to contribute more effectively to financial standing.

These findings are expected to serve as a basis for consideration for management, investors, also regulators in formulating policies related to capital structure and corporate governance to improve performance of state-owned banking sector in future.

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