

## THE INFLUENCE OF RISK GOVERNANCE ON COMPANY PERFORMANCE



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### Abstract

Banking can give an impact on the economic sector's improvement; if the banking sector is healthy, a nation's financial industry can also be regarded as beneficial. The OJK study indicates a decrease in bank credit compared to the previous year when it reached 11.7 per cent. This study aims at elucidating the empirical evidence that risky governance affects the performance of financial and banking firms. Panel data regression was used to analyze the data, and the sample consisted of banks listed on the IDX from 2017-2020. The findings of this study demonstrated that risk governance at the enterprise level, board-level control, and risk governance are affecting firm performance. The effectiveness of this research is that Management-Level RGOV tends to decrease profitability because of the additional costs related to its implementation. Financial regulators may find this a helpful result as feedback to evaluate the effectiveness of regulation and possible future improvements.

### INTRODUCTION

Competition between businesses is becoming more complex as each company strives to survive in the industry in which it operates (Utami et al., 2017). Businesses can withstand commercial rivalry if they have specific advantages and can innovate to stay current. However, it does necessitate capital. If a company performs well, investors will be interested in putting their substance into it, hoping to profit handsomely in the future (Aprilliani & Totok, 2018). The banking sector's performance may be gauged by its strategy, which has its unique quirks (Olamide et al., 2015). Banking is one of the institutions that can give an impact on the economic sector's improvement; if the banking sector is healthy, a nation's financial industry can also be beneficial. A company's stability is based on various factors, including its assets, capital, income, and profitability, according to the Financial Services Authority (2018). This stability occurred from 2015 to 2018, even though the results collected indicated negligible growth. However, bank loans increased by only 6.08 per cent year on year at the end of 2019 (YoY). The data show a decline compared to the previous year when the figure reached 11.7 per cent. The banking sector's deteriorating performance in 2019 was purportedly also a result of poor risk governance. Lawrence (Chandra & Rusliati, 2019) defined governance as "actions that provide direction, control, and evaluation from outside the entity, its stages, and resources." Corporate governance is a strategy

guiding businesses to success (Aslam & Haron, 2021). Furthermore, A company's success is inextricably linked to its performance; in this situation, if a business's governance is executed properly and efficiently, the business's performance also improves, particularly in the banking industry.

The financial sector scored the highest in Indonesia's 2019 ASEAN Development Bank report regarded to governance disclosure. The financial industry is in the lead with the second-highest average score of all the other sectors and the highest absolute score. It may be significantly affected by the more stringent regulatory environment for the financial industry, particularly banking, compared to others. Due to strict regulations from regulators regarding disclosure of governance, risk management is essential not to harm customers. Bank Indonesia Regulations (PBI) No.11/19/PBI/2009 on Risk Management Certification for Management and Officers of Commercial Banks in Indonesia. Financial Services Authority (POJK) Banking Risk Management and Good Governance Regulations (18/POJK.03/2016, 27/POJK.03/2016, 55/POJK.03/2016, 8/POJK.04/2015, 45/ POJK.03/2015). Corporate governance decisions and actions intended to guarantee the efficacy of risk management included risk governance as a core component (IFC (International Finance Corporation Advisory Services in IFC (International Finance Corporation Advisory Services in Europe ad Central Asia), 2012).

Corporate governance implementation is crucial for enhancing a public company's performance and reputation. In addition, this concept is considered very important to be applied so that companies in Indonesia can be vital in facing crises and achieve more transparent company management for stakeholders. The corporate governance system signals to investors that the company had adequate protection for stockholders and stakeholders so that they would be sure to get a return on their investment properly. Risk governance benefits are risk benefits made by the best risk-related decisions possible and boosting public confidence in risk management practices, institutions, and conclusions (IRGC, 2008). An essential part of the governance of the banking sector is risk management. According to Battaglia & Gallo (2015) banks with strong risk management in the Chinese and Indian capital markets are rated favourably by the market. However, Karyani et al., (2020) show that the framework for board-level risk governance, risk management techniques, or overall risk governance had no appreciable impact on ROA. The significance of banking RGOVs in fostering efficient risk management and raising stakeholder confidence thus served as the driving force behind this study.

Numerous components must be in place to achieve sound governance, including risk management. Management's ignorance of their risks and boards' neglect of their risk management function are examples of governance flaws (Financial Stability Board, 2013; Tao & Hutchinson, 2013). Risk in a business is not always related to adverse outcomes, but additional risks typically occurred due to this process. It could be overcome by identifying and evaluating the hazards that exist. According to Kafidipe et al., (2021), risk management is an integral part of an organization's performance, particularly in the financial industry, where risk is a significant component of the economy.

According to agency theory, implementing a robust risk management system can help improve a company's performance (Wan Daud et al., 2016). According to Farrell & Gallagher (2019) research, risk management can help firms boost their value and Return on Assets. According to some research conducted by (Saeidi et al., 2021; Khan & Ali, 2017; Kafidipe et al., 2021) stated that risk management had a good correlation with business performance. It is in contrast with the research carried out by (Mohd Tahir & Razali, 2011; Quon et al., 2012; Otero González et al., 2020) which indicated that risk management did not increase firm performance. Previously, risk governance analysis was restricted to the use of a limited number of indicators. For instance, Battaglia & Gallo (2015) agreed on how well-managed risk affected the performance of Chinese and Indian banking stocks. They used the number of risk committees and how frequently they met indicators of good governance. In accordance, Faisal (2019), examined the level of risk disclosure and the number of risk committees to determine how risk governance affects the performance of banking organizations. As a result of the preceding, this study would concentrate on applying the scoring system to evaluate the effectiveness of risk management on firm performance.

Risk management is essential to mitigate the hazards associated with business operations. Risk management is a defined process that entailed identifying, quantifying, limiting, controlling, mitigating, and reporting on all material risks and related risk concentrations in a timely and complete manner. Risk governance divides into board-level and management-level risk management (Committee on Banking Supervision, 2015). The organizational structure and risks of the bank group must be known and understood by the board of directors and senior management. In agency theory, related to conflict of interest, governance is expected to maximize risk by providing the level of return desired by the principal. Maximal risk governance is required to build a financially integrated industry, particularly banking. This would affect healthy banking circumstances and result in a rise in performance (Committee on Banking Supervision, 2015). The ability of a business to fulfil its objectives is quantified by its return on assets (ROA) (Karyani et al., 2020). The power of a company to accurately report on and communicate the results of its operations to the board of directors, executive

management, and the various divisions within the company is directly related to that company's financial health. According to Erin et al., only the CRO centrality parameter had a detrimental impact on the performance of money deposits in Nigerian banks (2018). Nahar et al., (2016) discovered a statistically significant correlation between risk management in banks and the correlation. As presented above, the following probably can be constructed: Risk governance as a whole positively influences bank performance.

The Board of Directors (BOD) set the bank's risk appetite and policy. The Board Risk Management Committee (BRMC), which is in charge of the bank's risk management, supported the Board of Directors in carrying out its duties (Karyani et al., 2020). The board's responsibility is to actively assess risk appetite and ensure that it is consistent with strategic, capital, and financial strategies and bank remuneration standards (Committee on Banking Supervision, 2015). This is in line with the agency theory that BOD as an agent had the right to carry out governance to carry out risk management so that it did not interfere with the interests of shareholders. The board's critical role is always inextricably linked to responsibilities and competencies for attaining firm performance. This view was also confirmed by research carried out by Choi & Hasan (2005) which indicated that the board of commissioners had a beneficial influence on bank performance by lowering agency costs. Based on the explanation above, the following probably can be constructed: Risk governance at the board level positively influences bank performance.

A core group known as senior management oversees bank operations and reports to the board of directors. Financial institutions and banks must build a risk management framework to meet regulatory risk governance standards. Their rules expected some specifics about internal risk management, resulting in improved corporate performance (Committee on Banking Supervision, 2015). Making sure that the interests of shareholders and the company's financial success are aligned is another crucial duty of management (Karyani et al., 2020). A 2011 research conducted by Minton et al., (2011) positively correlated risk-taking and the performance of bank stocks with the level of financial expertise of non-executive directors. The following probably can be constructed based on the above explanation: Risk governance at the management level positively influences bank performance.

To measure the positive impact of risk management on bank performance, the current study used a risk governance index (ROA). In accordance, with agency theory, one of the procedures that help with agency issues and provide tools for monitoring how banks manage risk is bank risk management. Effective risk management may persuade investors to invest their capital and ensure that it manage appropriately, improving the bank's performance assert that risk management had a substantial and advantageous impact on financial success (Pratiwi & Kurniawan, 2018). According to agency theory, implementing a robust risk management system can help improve a business's performance (Wan Daud et al., 2016).

The originality of this research lies in developing new RGOV indexes based on the Basel Committee's 2016 updated bank governance guidelines. This research is primarily concerned with looking at Indonesian banks. As a result, Indonesia anticipated benefiting more from the research. In contrast, the research focused on banks in ASEAN. Even though this research only covered a small portion of the literature, it still promised to add new insights. It should first understand the RGOV structure and risk management procedures. The second approach is to create RGOV scores based on the "Guidelines of Corporate Governance Principles for Banks," particularly in Indonesia.

Based on the preceding explanation, the following probably can be constructed risk management implementation positively influences bank performance. This paper aims at elucidating the empirical evidence that risk governance affects the performance of financial and banking firms, with the sample consisting of banks listed on the IDX from 2017-2020.

## METHOD

The performance of the business is the dependent variable in this research (Y). According to Karyani et al., (2020) company performance is characterized as a company's capacity to achieve objectives and is measured through ROA. While risk governance, board-level risk governance, management-level risk governance, and risk management techniques as independent variables. Risk governance is a relatively recent word that refers to "the component of corporate governance decisions and activities that ensures successful risk management, including integrated policies, guidelines, processes, and decision rights in risk areas" (Europe, 2012). This variable is quantified using BCBS's content analysis or scoring method (2015). The board-level risk governance framework, the management-level risk governance structure, and risk management practices comprise the risk governance index, consisting of 17 criteria or items.

To further ensure that unobserved external factors did not affect the influence of the independent variable on the dependent, this research employed control variables, which are regulated or made constant (Sugiyono,

2019). The amount of corporate debt (leverage), the size of the company, the age of the company, and the capital adequacy ratio (CAR) are research control variables. Capital adequacy ratios helped accommodate the risk of loss that banks may face.

Table 1. Control Variables

Variables	Measurement
Leverage is the company's ability to meet its debt obligations with the number of its assets (Maryadi . A., 2019)	$LEV = \frac{\text{Total debt}}{\text{total asset}}$
The size of the company is seen from the amount of equity value, sales value or asset value (Karyani et al., 2020)	The logarithm of total asset
Age is the maturity of the company in managing the company to increase its value of the company (Istiyandra & Susila, 2018)	Research year- The year the company was founded
CAR (Capital Adequacy Ratio) is a capital adequacy ratio that shows the ability of banks to provide funds that are used to overcome the possible risk of loss. (Istiyandra & Susila, 2018)	$CAR = \frac{\text{Equity}}{\text{(Average weighted risk)}} \times 100\%$

The object of research that would use in this research was banks. The sampling technique used was saturated sampling, with the number of the total sample being 172. According to Sugiyono (2019) a saturated example is a sampling strategy when all population members are included as samples. Sampling under this research were all banks registered on the Indonesia stock exchange from 2017-2020. The data was used from 2017-2020 due to the latest Regulation on Risk Management and Good Corporate Governance rules published in 2016.

Descriptive causal analysis is also used. A descriptive causal analysis technique could explain a causal relationship between two or more variables. This research combined cross-sectional and time-series data to create panel data. Multiple regression used panel data as the method to analyze. E-views, a data processing application, would be used to analyze the data gathered from the research sample.

## RESULTS

According to the classical assumption test results, there were no issues indicating multicollinearity, autocorrelation, heteroscedasticity, or regularly distributed funds. As a result, the regression analysis could be resumed. Then, using panel data, multiple regression is performed. There are three ways to evaluate which method is more appropriate for panel data regression. The three-panel data models used in this research for the initial estimations were common effect, fixed effect, and random effect. Using two model estimation techniques, find the most effective model between the anticipated, fixed, and unexpected effects (Husnaint & Basuki, 2020).

Whether using a common effects model or a random effects model, the Lagrange Multiplier (LM) test is used to determine which model is more suitable for regression testing regression methods on panel data. The probably used in the Langrage Multiplier (LM) test is as follows:

Table 2. Criteria LM

Model estimation approach	Criteria	
Uji Chow	H0: Common Effect Model	Cross section $F > 0,05$
	Ha: Fixed Effect Model	Cross section $F < 0,05$
Uji Hausman	H0: Random Effect Model	Probability $> 0,05$
	Ha: Fixed Effect Model	Probability $< 0,05$
Uji Lagrange Multiplier	H0: Common Effect Model	Probabilitas Breusch-Pagan $> 0,05$
	Ha: Random Effect Model	Probabilitas Breusch-Pagan $< 0,05$

H0 = model follow common effect model 2) H1 = model follow random effect model

Table 3. LM Test

	Test Probably		
	Cross-section	Time	Both
Breusch-Pagan	10.50556 (0.0012)	0.877928 (0.3488)	11.38349 (0.0007)
Honda	3.241228 (0.0006)	-0.936978 --	1.629351 (0.0516)
King-Wu	3.241228 (0.0006)	-0.936978 --	-0.066758 --
Standardized Honda	4.287160 (0.0000)	-0.691271 --	-2.637025 --
Standardized King-Wu	4.287160 (0.0000)	-0.691271 --	-2.616671 --
Gourieriou et al.*	--	--	10.50556 ( $< 0.01$ )

Source: Output E-Views 9.0 (Data Processed, 2022)

The results of the evaluation of the model selection in the Langrage Multiplier (LM) test are probably table; it is known that the Breusch-Pagan cross section value is 10.50556, which meant  $> 0.05$ , thus according to the criteria in the Langrage Multiplier (LM) test, the fixed Effect model is the suitable model as the model that chosen.

The data used the coefficient of determination (R<sup>2</sup>) to gauge the model's capacity to explain changes in the dependent variable. R<sup>2</sup>, the coefficient of determination, ranging from 0 to 1. To determine this number, use R-Square (R<sup>2</sup>) or Adjusted R-Square (ARS)

Table 4. R-Squared

	Cross-section fixed (dummy variables)		
R-squared	0.993855	Mean dependent var	0.332241
Adjusted R-squared	0.991324	SD dependent var	0.080520
SE of regression	0.007500	Akaike info criterion	-6.706905
Sum squared reside	0.006694	Schwarz criterion	-5.780899
Log-likelihood	616.7334	Hannan-Quinn criteria.	-6.331114
F-statistic	392.7577	Durbin-Watson stat	2.289076
Prob (F-statistic)	0.000000		

Source: Output E-Views 9.0 (Data Processed, 2022)

The test mentioned above results for the coefficient of determination is known to have an R-Square value of 0.993855, which demonstrates the independent variable's large influence on the dependent variable to be 99.4%, indicating a high coefficient of determination. This meant that it showed the ability of the independent variables, namely risk governance, level risk management, board of directors, management level risk governance, and risk management practices. Additionally, explaining the dependent variable used company performance (ROA) was very limited. At the same time, 0.6% is influenced by control variables, namely company size leverage, company age, and CAR.

F-Test aims at determining the independent variables used in joint research to influence the related variables (Ratmono, 2017) Based on the significance level of 0.05 was used, provided that if the significance value of  $F > 0.05$  (degree of confidence), The Independent nor the dependent variable were influenced by each other simultaneously. F 0.05 (confidence level) indicated that one independent variable had an additive effect on the dependent variable. According to the F-table comparison, the independent variable also influenced the dependent variable if the estimated F-value is greater than the F-table. The independent variable impacted the dependent variable if the calculated F value exceeded the F table.

Table 5. F-Test

Effects Specification			
Cross-section fixed (dummy variables)			
R-squared	0.993855	Mean dependent var	0.332241
Adjusted R-squared	0.991324	SD dependent var	0.080520
SE of regression	0.007500	Akaike info criterion	-6.706905
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Log-likelihood	616.7334	Hannan-Quinn criteria.	-6.331114
F-statistic	392.7577	Durbin-Watson stat	2.289076
Prob (F-statistic)	0.000000		

Source: Output E-Views 9.0 (Data Processed, 2022)

The results of the simultaneous significance test showed; a value (F-statistic) of 0.993855. Thus, according to the decision of the simultaneous significance test, risk governance, board-level risk governance, management-level risk governance, risk management practices, leverage, company size, company age, and CAR have a significant effect on company performance (ROA) because the value (F-statistic) is  $0.993855 < 0.05$  (alpha).

A T-test or partial test is used to ascertain each independent variable's impact on the dependent variable (Ratmono, 2017). When using a significance value of  $t > 0.05$ , ensure that the independent variable did not affect the dependent variable by using a significance level of 0.05. (Confidence level). The independent variable influenced the dependent variable if the degree of confidence was greater than or equal to 0.05.

Table 6. T-Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.689571	1.115141	-1.515118	0.1346
LOGRG	0.597284	0.222988	2.678555	0.0094
LOGRTD	0.795310	0.129546	6.139228	0.0000
LOGRTM	-1.536447	0.968965	-1.585658	0.1177
LOGPMR	-0.285979	0.139074	-2.056315	0.0438
LOGLEVERAGE	0.082491	0.094159	0.876084	0.3842
SIZE	0.058414	0.028755	2.031427	0.0463
AGE	0.009127	0.015953	0.572123	0.5692
LOGCAR	0.065185	0.050745	1.284572	0.2035

Source: Output E-Views 9.0 (Data Processed, 2022)

The table above presented that risk governance had a significance value of  $0.0094 < 0.05$ , indicating that risk management impacts performance. Consequently, board-level governance had a significance value of  $0.0000 < 0.05$ , suggesting that it affected performance. Furthermore, risk governance at the management level had a significance value of  $0.1177 > 0.05$ , which meant that risk governance did not affect company performance. The risk management variable showed a significance value of  $0.0438 < 0.05$ , or it could be said to affect performance, but the regression coefficient was negative and inversely proportional to the probably built. Meanwhile, from the control variables, namely leverage, company size (Size), company age (Age), and CAR, only company size affected company performance because the sig value is  $0.0463 < 0.05$ .

The following provided the rationale for the multicollinearity test decision:

1. If the correlation coefficient between independent variables  $> 0.8$ , then multicollinearity occurs.
2. There is no multicollinearity if the correlation between the independent variables is  $< 0.8$ .

Table 7 Multicollinearity Test Output

	RTD	RTM	PMR	RG	LEVERAGE	SIZE	AGE	CAR
RTD	1	0.441157	0.291518	0.8292588	-0.048050	-0.038413	0.129610	-0.202419
RTM	0.441157	1	0.481240	0.7289684	-0.102450	0.160622	-0.016166	-0.181636
PMR	0.291518	0.4812408	1	0.7203100	0.176181	0.016406	-0.061512	0.138775

RG	0.829258	0.7289684	0.720310	1	-0.101054	-0.000489	0.067660	-0.102893
LEVERAGE	-0.048050	-0.1024509	-0.176181	-0.1010541	1	-0.231899	0.082163	0.016295
SIZE	-0.038413	0.1606223	0.016406	-0.0004890	-0.231899	1	0.100769	0.013437
AGE	0.129610	-0.016166	-0.061512	0.0676604	0.082163	0.100769	1	-0.007030
CAR	-0.202419	-0.1816361	0.138775	-0.1028931	0.016295	0.013437	-0.007038	1

Source: Output E-Views 9.0 (Data Processed, 2022)

Given that there are no independent variables with coefficients greater than 0.8 in table 7 above, it is clear that multicollinearity did not occur in the research's data.

Testing heteroskedasticity could do by observing whether a pattern is on the chart or made with a white test. The basis for making heteroskedasticity test decisions is as follows:

1.  $H_0$  = no heteroskedasticity occurs
2.  $H_a$  = heteroscedasticity occurs
3. If the probability value  $< \alpha$  (0.05), heteroskedasticity occurs
4. If the probability value  $> \alpha$  (0.05) no heteroskedasticity occurs

Table 8. Heteroscedasticity Test Output

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.058686	0.072087	-0.814097	0.4172
RTD	0.024287	0.027930	0.869576	0.3863
RTM	0.001233	0.017980	0.068593	0.9454
PMR	0.004864	0.023591	0.206172	0.8370
RG	0.010827	0.050324	0.215155	0.8300
LEVERAGE	0.009116	0.001813	5.027446	0.0901
SIZE	0.000594	0.000644	0.921669	0.3585
AGE	-0.011203	0.005158	-2.172125	0.0318
CAR	5.28E-07	1.10E-06	0.481324	0.6312

Source: Output E-Views 9.0 (Data Processed, 2022)

The results of the park test discussed above showed that the coefficient of each independent variable  $>$  probability value  $> 0.05$  (alpha 5 %); thus, the assumption of the heteroskedasticity having met.

## DISCUSSION

In conclusion, risk governance (RG) has a positive effect on firm performance (ROA) based on the probability value of  $0.0094 < 0.05$ ; hence the first Probably is accepted. Because the goal of the board of directors is to offer interconnectedness for each line of business, decreasing the risk of declining company performance, the independence of the board of directors on the risk committee and the panel indicated that there is a good association with bank performance (Erin et al., 2018). The board has responsibility and authority for risk management and internal management control functions. The board's primary duties included overseeing the bank's business strategy and financial stability. Thus, it must follow every decision risk management technique to avoid a drop in banking performance. The bank's governance framework must be implemented and maintained under the direction of the board and management, who must also consider significant changes to the bank's size, complexity, geographic reach, business strategy, markets, and regulatory requirements (Committee on Banking Supervision., 2015). This research aligned with those who examined bank performance in Nigeria and discovered that it positively impacted business performance (Erin et al., 2018).

The probability value of Board-level Risk Governance (BRG) is  $0.0000 > 0.05$ , indicating that board-level risk governance has an impact on corporate performance (ROA), confirming the second probably. Board members should be well-versed in relevant fields, have plenty of experience working in them, and come from various socioeconomic backgrounds. Appropriate areas of expertise include capital markets, concerns about financial stability, financial reporting, compensation, financial analysis, information technology, risk management, regulation, strategic planning, corporate governance, and management abilities. ROA is no exception; the board must consider it because it is a tool for assessing the company's financial success. The board mandated that banks have a robust economic function in charge of accounting and financial data (Committee on Banking Supervision., 2015) In risk management, the board must persuade investors through

the firm's financial performance; through return on assets, the company would attempt to manage its assets to produce income, the board's responsibility. The outcomes of this research supported by Choi & Hasan (2005) who stated that an independent panel has a good impact on bank performance.

The third probably is rejected since the probability value of Management Level Risk Governance (RTM) is  $0.1177 > 0.05$ , indicating that management-level risk governance does not affect firm performance (ROA). The bank must have a nearly independent risk management function with status, independence, resources, and board reporting under the supervision of the Chief Risk Officer (CRO). Due to banks' risks, management frequently took its risk appetite, risk limits, and necessary capital and liquidity requirements into account (Committee on Banking Supervision, 2015). The research from Asian Development Bank (2019) showed that shareholders also have the right to attend. Vote at general meetings effectively and access information on rules, such as voting procedures and general meeting rules, to help them feel included and continued to invest in successful business operations. Management's tight and severe monitoring is associated with lower cost and technical efficiency levels. Financial and banking businesses seek to avoid risk, although, with a high risk, asset management will also be good, resulting in superior performance. Put another way, putting a tight risk governance structure in place is costly for banks. According to agency theory, a conflict of interest between the principal and the agent would result in agency costs such as monitoring, bonding, and residual loss. The cost of compensation or salary for personnel at the management level who can comply with the regulation is one of the additional charges that tend to lower income. Banks with a higher level of risk will establish a risk management unit to lower risk (Karyani et al., 2020).

Risk management practices affected the performance of the company according to the probability value for risk management practices (PMR), which is  $0.04380.05$  (alpha) (ROA). The fourth probably is rejected since the regression coefficient is negative. Banks and businesses must continuously identify, evaluate, and control risks. It must update risk management and internal controls to reflect changes in a bank's risk profile, external risk environment, and industry norms (Committee on Banking Supervision, 2015). Agency theory can have different interests in corporate objectives and risk management in response to differences in the interests of shareholders and management. Shareholders may favour low-risk, high-reward investments, while management may opt for high-risk, high-reward investments. To complete this, the agency expenses must increase risk management to reduce performance (Karyani et al., 2020). Risk management strategies can improve performance and stock returns in US and European banks and financial institutions (Aebi et al., 2012).

The probability value for leverage is  $0.9771 > 0.05$  (alpha), indicating that it did not affect firm performance (ROA). Because of its high power and high-risk features, the banking industry frequently necessitated a thorough examination of its risk management function (Aebi et al., 2012). The bank's inherent risk is its high level of authority. The story of a company's financial leverage is a direct outcome of borrowing money. The bigger the financial risk, the higher value of financial leverage would be. As a result, the company's finance manager must weigh the risks of accepting economic leverage versus the importance of adopting economic leverage, leading to a failure (Maryadi . A., 2019). The probability value of company size is  $0.0463 < 0,05$ , indicating that firm size positively impacted strong performance (ROA). According to this research, a corporation's size considerably affected its version (return on assets). This suggests that the larger a company is, the greater its ability to profit. The company's size indicated its size, which could determine by the number of revenues, employees, or assets it owns and the size of a company used to assess market power and efficiency. If *Ceteris Paribus* was a corporation with excellent efficiency and significant market power, its profitability would be higher, implying that the company's size impacts profitability. The results of this research are consistent with those of Sunarto et al., (2014) who discovered a strong positive relationship between firm size and firm value. This suggests that increasing a firm's size made it easier to obtain capital, which management may use to increase its value.

The company's age has a probability value of  $0.5692 > 0.05$ , indicating that it did not affect its success (ROA). Because of its continued existence, the company's age demonstrated that it could compete and prosper in a market that values good corporate performance (Aprilliani & Totok, 2018). Companies that have been around are not expanding their activities. Lowered manufacturing of items will reduce company profits, lowering the quality of company profits. The conclusions of this research agree with those of Istiyandra & Susila (2018) who found that age has no favourable impact on corporate performance. CAR has a probability value of  $0.2035 > 0.05$  (alpha), indicating that it does not affect company performance (ROA). This research suggested that a commercial bank's capital adequacy ratio (CAR) has no direct impact on the bank's financial performance regardless of the amount it has set. CAR denoted the seriousness with which bank management intended to comply with Bank Indonesia laws requiring a minimum of 8% of capital to provide to the Bank for Indonesia Settlement (BIS) (Sochib, 2018). This research supported by Erin et al., (2018) 's conclusion that CAR has no impact on firm performance.



## CONCLUSION

According to the research, only the overall risk governance, management, and implementation variables impacted the organization's performance. The business strategy and financial stability of the bank are the primary responsibilities of the board of directors, which meant that it must follow every decision and risk management technique to avoid a fall in the bank's financial performance. Meanwhile, only the company's size impacted the company's performance regarding the control variable. This suggested that the greater the scale of a firm, the greater the ability of the company to generate profits. This research still has limitations. The use of the management governance index with the Basel Committee on Banking Supervision still has limitations because it only relied on specific criteria, namely overall governance, board level, management level, and governance implementation (Karyani et al., 2020) So the suggestion for further research is to be able to develop other criteria outside the Basel Committee. Second, the annual report is the only source of data in determining the probability, even though there is still information beyond that, so further research suggested adding data such as interviews with the board and management.

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