International Journal of Economics and Management Research

E-ISSN: 2830-2508
P-ISSN: 2830-2664

Artikel Penelitian

The Influence of Corporate Governance on *Financial Performance* With *Bank Risk Taking* As a Moderating Variable

Jesslyn [1*], Mariska Ramadana [2], Anita [3]

[1] Program Studi Akuntansi, Fakultas Bisnis dan Manajemen, Universitas Internasional Batam, Indonesia ; email : jesslyn0414@gmail.com

[2] Program Studi Akuntansi, Fakultas Bisnis dan Manajemen, Universitas Internasional Batam, Indonesia ; email : mariska@uib.ac.id

[3] Program Studi Akuntansi, Fakultas Bisnis dan Manajemen, Universitas Internasional Batam, Indonesia ; email : anita.lec@uib.ac.id

* Correspondig Author : Jesslyn

Abstract: This study aims to examine the effect of CEO power, foreign ownership, independence, and voting rights on financial performance in banks with risk-taking as a moderating variable after the financial crisis in 2007-2008. The method used is quantitative using secondary data. The research data source uses the financial statements of Indonesian companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022. Sample collection used a purposive sampling approach. Data was obtained from the company's financial reports on IDX and official websites. Data analysis uses panel data regression. The author found that CEO power, independence, and bank risk taking had a significant negative effect on the financial performance of banks, while foreign ownership and voting rights did not have an effect on financial performance of banks. This study contributes to the literature on bank governance and risk-taking. The purpose of this empirical analysis is to examine in detail the subject and the dynamics among these variables in the macroeconomic environment of the financial system, particularly with regard to the regulatory and supervisory framework after the financial crisis in 2007-2008.

Keywords: Bank, Corporate Governance, Decision-making Risk, Indonesia

Received: June 08, 2024
Revised: June 30, 2024
Accepted: July 15, 2024
Published: July 16, 2024
Current Version: July 16, 2024

1. Introduction

Economic development is the primary goal of every country in its efforts to improve public welfare. Furthermore, macroeconomic stability and economic growth are also priorities in every country [1]. The role of banks and financial institutions cannot be ignored in achieving these goals.(Setiawan, 2020)Banks as financial intermediaries have a vital role in economic growth and are responsible for the country's financial stability [2]. As a financial institution that supports economic activity, banking not only plays a vital role in facilitating the flow of funds, but also has a significant impact on the stability of the financial system as a whole [3].

The development of the banking industry in Indonesia has undergone significant transformation along with advances in digital technology. One of the main impacts of this transformation is the emergence of digital banks offering a variety of technology-based financial services, such as mobile apps.*mobile banking,* Online loans and digital payments. Transactions using digital banking increased in 2010 and continue to increase today. [4] This transformation provides efficient solutions and easier access for customers and can improve*financial performance* [5] However, digital banks are not immune to challenges such as operational risks and cyber risks. In this regard, corporate governance is key to determining the company's future performance and sustainability.

Corporate governance plays an important role in achieving quality economic development and sustainable corporate development [6]. Governance practices are influenced by various parties involved in the company's management system, such as shareholders, investors, creditors, employees, and the government.(Supriyanto & Soe, 2021). The role of corporate governance is to ensure that institutions operate in accordance with established operational and strategic objectives, namely to improve*financial performance*. In addition, corporate governance contributes to the financial stability, accountability, transparency, and trust necessary for long-term investment [7].

Every company faces risks, including those in the banking sector. The more banking activities and processes develop, the greater the business risks they face. [8] defines this as*bank risk taking* is a crucial factor for a bank's survival, therefore, it is necessary to consider several factors that can influence a bank's risk-taking decisions. Five banks went bankrupt in 2023, one of which was*Silicon Valley Bank* (SVB) which is experiencing a liquidity crisis [9] This situation demonstrates that even though good corporate governance has been implemented, the risk of poor investment and financial management decisions can still occur.

The relationship between corporate governance and*financial performance* has been widely studied with varying findings [10]. Many researchers*financial performance*identified that weak implementation of corporate governance was one of the main causes of the financial crisis [11]. The global financial crisis caused by COVID-19 has highlighted the need to strengthen corporate governance mechanisms. Corporate governance in banking companies also played a significant role in the financial turmoil of 2007-2008.[1]. In addition, good corporate governance practices provide a framework for accountability, risk management, and ethical behavior [12].

Although this issue is very important, the influence between governance and*financial performance*The findings from several studies remain inconsistent. Furthermore, the moderating factors influencing bank decision-making have not been thoroughly examined. Therefore, this study is expected to contribute to the existing literature and the corporate decision-making process. This study aims to address the gap in research that has shown inconsistent results, necessitating further research. These inconsistent results are evident in research by [13] shows that corporate governance does not have a significant effect on*financial performance*, and work environment, social and corporate governance factors do not have an influence on*bank risk taking* [14]. *Bank risk taking*has the potential to moderate the relationship between governance structure and*financial performance* (Shatnawi et al., 2019). Research by [15] shows that the governance structure has an impact on*bank risk taking* And *financial performance*has a moderating effect. In line with research by [16] show that *bank risk taking*have an impact on*financial performance*, and acts as an intervening variable in the relationship between corporate governance and*financial performance*.

2. Theoretical Review

Agency Theory developed by Coase (1960), Jensen and Meckling (1976), Fama and Jensen (1983). This theory states the relationship between shareholders and agents such as senior management of the company. This theory attempts to overcome agency problems where there is a conflict of interest between company management and shareholders. Since the global financial crisis that occurred, several studies have focused on analyzing the causes of the shock. Previous literature states that there is a relationship between*financial performance* And *bank risk taking* [17]. Considering that banks have a crucial role in the country's economy, increasing*bank risk taking*can cause economic vulnerability.

Application of principles*agency theory*creating efficient corporate governance, aligning interests between agents and principals, reducing conflicts of interest and improving the performance of an organization or company [18]. According to [3] When dealing with diverse business ownership, a flexible and personalized management approach is crucial. This approach ensures that the company considers the interests of all stakeholders in a way that meets their individual needs and expectations, thus paving the way for long-term growth.

CEO Power **And** ***Financial Performance***

Getting stronger *CEO Power*, for *financial performance* will be even better because it is considered to have a deeper understanding of the business processes within the company so that they can make good decisions[2]. Research results by Cao et al., (2021) And Alifah & Harto (2021)revealed that there is a significant positive influence between*CEO Power* with *financial performance*. In line with research byAllgood & Farrell (2000)which concludes that this positive significant effect can be strengthened when CEOs receive higher cash compensation or have more stock ownership. On the other hand, it can be weakened when CEOs receive higher long-term incentives or when the companies receiving the incentives have more independent boards of directors. Meanwhile, the research results Siregar & Khomsiyah (2023) And Ngo et al., (2023)show that *CEO Power*has no influence on*financial performance*. Therefore, the following hypothesis can be derived:

H1: *CEO Power*has a significant positive effect on*Financial Performance*.

Foreign Ownership **And** ***Financial Performance***

According to *Agency Theory*, shares owned by foreign parties can minimize the occurrence of*Agency Conflict*in the company. Foreign investors can complete*Agency Conflict*by applying standards to interest management so that management can improve*financial performance* [8] Foreign investors are better able to manage companies through the use of advanced technology, business experience, and innovative ideas they have for company development[9].

Research byCarney et al., (2019)show that *foreign ownership*has a significant positive influence on*financial performance*. In line with research by Musallam (2015) which shows that*foreign ownership*has a significant positive influence on*financial performance*. According to researchBalagobei & Velnampy (2017), *foreign ownership*besides being able to improve*financial performance*, can also reduce operational costs. Meanwhile, according to research results by Hundary & Tarigan (2017), there is a significant negative influence between *foreign ownership* to *financial performance*. Therefore, the following hypothesis can be derived:
H2: *Foreign Ownership*has a significant positive effect on*Financial Performance*.

Independence And *Financial Performance*

Quality *independence* the bad tends to show*financial performance* the bad one [4]. Presence *independence*provide assurance that the interests of both majority and minority shareholders are not neglected[14]. Improvement*independence*can achieve the company's goals, namely maximizing shareholder wealth and stock market efficiency [6].

Research by Puni & Anlesinya (2020) And Suhadak et al., (2019) prove that*independence*has a significant positive effect on*financial performance*. In line with the research results byPaulina et al., (2020)which shows that the proportion*independence*can improve*financial performance*. Meanwhile, according to researchIsmail & Rahmawati (2016) And Ngo et al., (2023), *independence*has a significant negative impact on*financial performance*. Therefore, the following hypothesis can be derived:
H3: *Independence* has a significant positive effect on*Financial Performance*.

Voting Rights And *Financial Performance*

Voting Rights is one of the keys to corporate governance, because it can give power to its holders to participate in making important decisions in the company [7]. The higher it is *voting rights,* for *financial performance* will also increase.*Voting rights*allows shareholders to influence the company's strategic decision-making, such as mergers, acquisitions, restructuring which can then have a direct impact on*financial performance*.

According to research by [9], *voting rights*has a significant positive effect on*financial performance*, where a sustainable and consistent dividend policy can increase the company's value and*financial performance*. In line with research [13], which shows that*voting rights* high levels of control provide crucial decision-making. Meanwhile, according to [14], *voting rights*has a significant negative effect on*financial performance*. Therefore, the following hypothesis can be derived:
H4: *Voting Rights* has a significant positive effect on*Financial Performance*.

Bank Risk Taking to the relationship between *CEO Power* And *Financial Performance*

*CEO Power*can influence the decisions taken, such as*bank risk taking*and investment decisions [8]. *CEO Power* the strong can push*bank risk taking* which is more careful so that it can improve *financial performance.*According to research by [2], bank with *CEO Power* the tall ones have*bank risk taking* high, and vice versa. *CEO Power*high tends to increase*free cash flow* in the company [5].

Research by(Ali et al., 2022)prove that*bank risk taking*has a significant positive influence on the relationship between*CEO power* And *financial performance*in Jordan. In line with research by which highlights the importance of strengthening*bank risk taking*to improve relations between*CEO power* to *financial performance* [12]. Meanwhile, according to research by [11], application *bank risk taking*has a significant negative effect on*financial performance*and corporate governance.

H5:*Bank Risk Taking*can moderate the relationship between*CEO Power* to *Financial Performance*.

Bank Risk Taking on the Relationship between Foreign Ownership and Financial Performance

High-risk banks can attract more adventurous foreign investors, or conversely, experienced foreign investors can influence strategy.*bank risk taking*. So that, *Foreign ownership*can improve the company's ability to grow and compete globally [3]. *Bank risk taking* well-managed can strengthen the relationship between*foreign ownership* And *financial performance*.

Research by [5] show that *bank risk taking* significantly positively moderates the relationship between*foreign ownership* to *financial performance*. The higher the level*foreign ownership*then it can reduce the negative impact of*bank risk taking*which will lead to an increase*financial performance* [4]. Meanwhile, according to[1], variables*bank risk taking*has a significant negative influence on the relationship between*foreign ownership* to *financial performance*.

H6:*Bank Risk Taking* can moderate the relationship between*Foreign Ownership* to *financial performance*.

Bank Risk Taking* to the relationship between *Independence* And *Financial Performance

Level *independence*can influence how effective strategic decisions are made, which in turn can influence*financial performance* [9]. In situations where banks take riskier decisions, *independence*can have a greater impact on*financial performance*, as tighter controls are required to manage these higher risks.

According to research by [10], *bank risk taking*has a significant positive effect on the relationship between*Independence* And *financial performance*companies. greater risk taking can trigger innovation and diversification so that*independence*provide ideas and perspectives to seize new opportunities and improve*financial performance*. Meanwhile, according to [12], *bank risk taking*has a significant negative effect on the relationship between*independence* And *financial performance*.

H7:*Bank Risk Taking*can moderate the relationship between*Independence* And *Financial Performance*.

Bank Risk Taking* to the relationship between *Voting Rights* And *Financial Performance

Shareholders with *voting rights* greater control in determining the level of*bank risk taking*, which in turn can influence*financial performance*. *Bank risk taking* has a significant

positive effect on the relationship between*voting rights* And *financial performance,* because the shareholders who have*voting rights* taller tend to be more careful in*bank risk taking* which will improve*financial performance* [12]. Meanwhile, according to [13], *bank risk taking*has a significant negative effect on the relationship between*voting rights* And *financial performance.*This happens because shareholders with*voting rights* high decision-making potential *bank risk taking* which is high risk, which will then be detrimental *financial performance.*
H8: *Bank risk taking*can moderate the relationship between*voting rights* And *financial performance.*

3. Method

This study uses a quantitative approach that examines the influence of independent variables (*CEO Power*, *Foreign Ownership*, *Independence*, And *Voting Rights*) on the dependent variable (*Financial Performance*) with moderating variables (*Bank Risk Taking*The secondary data used are the annual reports of banking companies listed on the IDX for 2019-2022. The research population includes all banking companies listed on the IDX, and the sample used uses the random sampling method.*purposive sampling*with the following criteria: (1) banking companies that have been registered on the IDX in the 2019-2022 period, and (2) banking companies that have complete data for 2019-2022 consecutively.

There are 34 banking companies that meet the criteria, while the other companies do not have complete data and published financial reports in the period 2019 to 2022. Figure 1 shows the conceptual framework in this study.

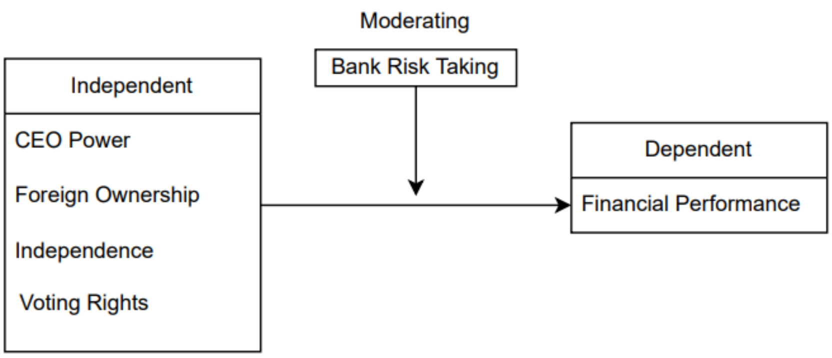

Figure 1. Conceptual Framework

This study uses descriptive statistical methods for minimum, median, maximum, average, and standard deviation values for measuring dependent and independent variables tested using the Eviews application.

Table 1. Variable Measurement

Variable Name	Variable Types	Measurement
Financial Performance (FP)	They depend	LENGTH = *Net Income* / *Total Assets*
CEO Power (PWR)	Independent	Number of years of term of office of the board of directors
Foreign Ownership (FOWN)	Independent	Number of foreign ownership shares / Outstanding Shares x 100%
Independence (BIND)	Independent	Independent Directors / Total Directors
Voting Rights (VR)	Independent	Direct control rights + Indirect control rights
Bank Risk Taking (ZS)	Moderation	Zscore = (ROA + Capital Adequacy Ratio) / Std Dev ROA

Financial Performance

Financial performance is defined as the financial condition in a specified period including the collection and allocation of funds measured by several indicators of capital adequacy ratio, liquidity, leverage, solvency and profitability.(Shenurti et al., 2022)Financial performance is a company's ability to manage and control its resources [13]. States that *Return On Assets (ROA)* is a type of profitability ratio that measures a company's ability to generate profits using its assets in carrying out business operations. Meanwhile, according to Sugiyono and Untung (2016), Return on Assets (ROA) is a ratio used to measure the return on assets of a business, or to indicate the efficiency of a company's use of funds. In this study, financial performance was measured using the formula*Return On Assets (ROA),* which has the following formula:

$$\boldsymbol{Return\ On\ Assets\ (LONG) = \frac{Net\ Income}{Total\ Assets}\ x\ 100\%}$$

CEO Power

CEO tenure is the length of the CEO's tenure in a company, a long tenure is considered to be able to control the company's activities better [11]. CEO tenure can be measured using the following formula:

$$\boldsymbol{TNR = Number\ of\ years\ of\ board\ of\ directors'\ term\ of\ office}$$

Foreign Ownership

Foreign ownership is shares owned by individuals or foreign companies in a country [14]. Foreign ownership can be measured using the following formula:

$$\boldsymbol{Fown = \frac{Number\ of\ foreign\ ownership\ shares}{Outstanding\ shares}\ x\ 100\%}$$

Independence

Role *Independence* can ensure that they carry out their duties and avoid corrupt practices*moral hazard* [16]. In addition to carrying out good supervision and control, the role of independent commissioners is very important because it can influence the decision-making process by the board of commissioners [17]. Independent commissioners can be measured using the following formula:

$$\boldsymbol{In = \frac{Number\ of\ independent\ directors}{Total\ number\ of\ directors}}$$

Voting Rights

Voting Rights Voting rights can be referred to as control rights. Excessive control rights can mean that shareholders with controlling rights use these rights to achieve their own interests [8]. Shareholder voting rights serve as the foundation for protecting company management. Shareholders have voting rights to make decisions such as electing directors and making acquisition and merger decisions. Voting rights can be measured using the following formula:

$$\boldsymbol{Voting\ Rights = Direct\ control\ rights + Indirect\ control\ rights}$$

Bank Risk Taking

Banks act as financial intermediaries, providing funding for businesses and individuals. Appropriate risk-taking enables banks to offer a variety of financial products and services that meet financing needs across various economic sectors.*Moral Hazard*regarding the relationship between government protection and bank risk-taking is based on two premises: (1) that bank exposure to government protection weakens market discipline and (2) that weakening market discipline is the primary or main cause of excessive bank risk-taking. Bank risk-taking can be measured using the following formula:

$$\boldsymbol{Zscore = \frac{(ROA + CAR)}{\sigma ROA}}$$

4. Results and Discussion

Descriptive analysis shows the number of studies, lowest, highest, average, and standard deviation values for each study variable. [2] Table 2 shows 172 observations from 43 companies from 2019 to 2022.*CEO Power* have value*mean* of 3.73, with a value of*standard deviation*of 2.90, the value*minimum* as big as 1, value*maximum*of 12. Value*mean* which is greater than the value*standard deviation*indicates that CEOs in Indonesian banking hold a high level of power within the company.*Financial performance*have value*mean* of 0.01 with a value of*standard deviation* of 0.02, the value*minimum*of -0.03 and the value*maximum* of 0.04. The value*mean* which is close to zero indicates that most banking companies in Indonesia have stable financial performance, but the value*standard deviation* shows that there is considerable variation in performance.

Table 2. Descriptive Statistical Test Results

	N	Mean	Standard Deviation	Minimum	Maximum
PWR	172	3,73	2,90	1	12,00
FOWN	172	0,29	0,3	0,00	0,99
BIND	172	0,18	0,07	0,08	0,33
VR	172	0,83	0,39	0,05	1,87
TBQ	172	0,01	0,02	-0,03	0,04
ZS	172	0,54	0,33	-0,35	1,44
PWR*ZS	172	1,81	1,44	-0,35	6,05
FOWN*ZS	172	0,12	0,14	-0,21	0,43
BIND*ZS	172	0,10	0,08	-0,12	0,30
VR*ZS	172	0,40	0,30	-0,36	1,17

The best regression model based on the results of the LM test is*fixed effect model* (FEM). The classical assumption test shows that the model is affected by autocorrelation and heteroscedasticity, but the model passes the multicollinearity and normality tests. Table 4 shows the results of the multiple linear regression analysis consisting of the F test, the coefficient of determination test, and the t test. The F test results have a value of 1010.840 with a probability value of 0.000000 (<0.05).). With these results, it indicates that the variable*foreign ownership, independence, voting rights* And *bank risk taking* in a stimulating manner has an influence on*financial performance*. In other words, the overall regression model is significant. The coefficient of determination test shows that the variable*foreign ownership, independence, voting rights* And *bank risk taking* able to describe*financial performance* of 99.76%. The remaining 0.24% is explained by factors outside the model. This indicates the model has excellent predictive ability.

Table 3. Multiple Linear Analysis Results

Variables	Coefficient	*t*	Prob.	Conclusion
Constant	-0,05	-0,03	0,98	
CEO Power (PWR)	-0,44	-1,20	0,05	significant negative
Foreign Ownership (FOWN)	0,05	0,34	0,74	insignificant
Independence (BIND)	-16,19	-3,21	0,01	significant negative
Voting rights (VR)	0,06	0,75	0,46	insignificant
Bank Risk Taking (ZS)	-0,48	-4,40	0,00	significant negative
PWR_ZS	0,02	3,88	0,00	significant
FOWN_ZS	0,03	3,17	0,01	significant
BIND_ZS	7,38	11,47	0,00	significant
VR_ZS	-0,03	-8,19	0,00	significant
	=			
F test	1010,840			

Variables	Coefficient	*t*	Prob.	Conclusion
Significance of F	= 0,000000			
R Square	= 0,997678			
Adjusted R-square	= 0,996691			

The results of the hypothesis testing explain that *CEO Power* has a significant negative impact on*Financial Performance,* then H1 is accepted. This shows that the increase*CEO Power* had a small, but significant impact on the decline*Financial Performance*. These results are supported by research [3] who found that*CEO Power* with higher power will prioritize personal income over company income, which can then have a significantly negative impact on*financial performance* company.

Research shows that*Foreign Ownership* does not have a significant influence on*Financial Performance*, then H2 is rejected. In line with research [5], which explains that with the existence of*foreign ownership* in the company does not always have a positive impact that can improve*financial performance*However, according to research [7], *foreign ownership* plays a significant role as a corporate governance mechanism in improving*financial performance*. In addition, the higher the concentration*foreign ownership* in the company, then*financial performance* will increase further.

Research has found that*Independence* has a significant negative impact on*financial performance,* then H3 is accepted. This means that the increase*Independence* related to the decline*financial performance*The results of this study are in accordance with research conducted by [11] which explains that the number*independence* increases, then it causes a decrease in*financial performance*However, according to research [12], level *Independence* high can reduce*agency conflict* which can then improve*financial performance*.

The research results found that*Voting Rights*does not have a significant influence on*financial performance,*then H4 is rejected. This is in line with research [16] which explains that there is a possibility that shareholders with concentrated or dispersed ownership structures are not long-term oriented and only think about maximizing short-term company profits, which ultimately maximizes the value of their shares. This shows that there is no asymmetric relationship between*voting rights* And *financial performance*However, according to research [14] revealed that*voting rights* which can consistently improve*financial performance,* because shareholders with*voting rights* High can focus more on management supervision before making decisions, so that it can encourage management to focus more on improvement and development.*financial performance* company.

Research has found that*Bank Risk Taking* can strengthen the influence *CEO Power* with *Financial Performance*, then H5 is accepted. These results are supported by research [11], which shows that*ceo power* Those with more power tend to be more willing to take high-risk decisions, and if the company has good risk management, these decisions can improve *financial performance*. The higher it is *CEO power,* then the activity*bank risk taking* will get bigger, which can then increase*financial performance* [12]. Besides that, *CEO power* strong able to influence decisions *CEO* other to pursue risky policies.

The test results show that*Bank Risk Taking*can strengthen the influence*Foreign Ownership* with *Financial Performance,* then H6 is accepted. In line with the research [15] who found that the bank had*foreign ownership* who is strong, then will be more open to *bank risk taking.* So that, *bank risk taking* can strengthen the relationship between*foreign ownership* And *financial performance.* Bank with *foreign ownership* high tend to be more open to diversification and*bank risk taking* larger ones, which can increase*financial performance*under certain conditions [7].

The results of the hypothesis testing stated that*Bank Risk Taking* can strengthen the influence*Independence* with *Financial Performance*, then H7 is accepted. In line with the research [9] which indicates that the bank with*independence* high can increase*financial performance,* especially when the bank is willing to take more measured and strategic risks.*independence* high level of expertise allows them to provide advice and counsel based on their expertise or experience in risk taking which will improve*financial performance* company.

Research indicates that*Bank Risk Taking* can strengthen the influence*Voting Rights* with *Financial Performance,* then H8 is accepted. In line with the research [18], a bank with a number of shareholders with*voting rights* the big ones have the potential to take bigger risks, so they can increase *financial performance* in the long term. If shareholders have*voting rights* Large banks take higher risks, banks with strong risk management systems can manage those risks better, which will lead to increased profitability.*financial performance*.

5. Conclusion

This research was conducted with the aim of testing the influence*CEO Power, Foreign Ownership, Independence,* And *Voting Rights* to *Financial Performance* in banking companies in Indonesia during the 2019-2022 period, as well as the role*Bank Risk Taking* in strengthening the relationship. Based on the results of the t-test,*CEO Power* And *Independence* has a significant negative impact on*Financial Performance*. The greater it is *CEO Power*, then the lower it is*Financial Performance* achieved. This supports previous research which shows*CEO Power* The strong tend to prioritize personal interests, which has a negative impact on the company. In addition,*Independence* which increases can cause a decrease *Financial Performance*. Whereas, *Foreign Ownership* And *Voting Rights* does not show a significant influence on*Financial Performance*. *Bank Risk Taking* proven to strengthen the influence*CEO Power, Foreign Ownership, Independence,* And *Voting Rights* to *Financial Performance*This study indicates that banking companies that take greater risks tend to have a stronger relationship between these factors and*Financial Performance.*

These findings have important implications for bank governance policies and practices, suggesting that CEOs*power* And *board independence*can influence financial performance through risk-related decisions taken by banks. In addition, these results indicate that although*foreign ownership* And *voting rights*While they may play a role in bank management, they do not directly affect financial performance, which may lead regulators and stakeholders to focus more on risk control and internal bank policies to improve financial performance.

A limitation of this study lies in the use of secondary data limited to companies listed on the Indonesia Stock Exchange (IDX) between 2019 and 2022, so the generalizability of the research results may be limited to the Indonesian context. Furthermore, the use of secondary data is limited to companies listed on the Indonesia Stock Exchange (IDX) between 2019 and 2022. *purposive sampling*Errors in sample selection can influence the broader representation of variables. Further research is recommended to expand the sample and use more varied data to obtain more comprehensive results.

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