

# Influence of Managerial Ownership, Board Independence, and Leverage on Financial Performance in the Financial Sector

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## ABSTRACT

This study examines the impact of managerial ownership, independent commissioners, and leverage on the financial performance of financial sector firms in Indonesia, with the growth of Bank Indonesia's interest rates as a moderating variable. A quantitative research approach is employed, utilizing secondary data from the financial statements of financial sector companies listed on the Indonesia Stock Exchange (IDX). The analysis is conducted using Moderated Regression Analysis (MRA). The findings indicate that managerial ownership and independent commissioners positively influence financial performance, while leverage exhibits a nonlinear relationship with financial performance. Additionally, the growth of Bank Indonesia's interest rates moderates the relationship between leverage and financial performance, reinforcing specific interactions between the independent variables and firm performance. These results provide insights into the role of corporate governance mechanisms and capital structure in shaping financial outcomes within Indonesia's financial sector.

**Keywords:** Managerial Ownership; Independent Commissioners; Leverage; Financial Performance; Bank Indonesia Interest Rate Growth

## *Pengaruh Kepemilikan Manajerial, Komisaris Independen, Dan Leverage Terhadap Kinerja Keuangan Sektor Keuangan*

## ABSTRAK

Penelitian ini bertujuan untuk menganalisis pengaruh kepemilikan manajerial, komisaris independen, dan leverage terhadap kinerja keuangan perusahaan sektor keuangan di Indonesia, dengan pertumbuhan suku bunga Bank Indonesia sebagai variabel moderasi. Metode penelitian menggunakan pendekatan kuantitatif dengan data sekunder dari laporan keuangan perusahaan sektor keuangan yang terdaftar di Bursa Efek Indonesia (BEI). Teknik analisis data menggunakan regresi moderasi (Moderated Regression Analysis - MRA). Hasil penelitian menunjukkan bahwa kepemilikan manajerial dan komisaris independen memiliki pengaruh positif terhadap kinerja keuangan, sedangkan leverage memiliki hubungan nonlinier. Selain itu, pertumbuhan suku bunga Bank Indonesia memoderasi hubungan antara leverage dengan kinerja keuangan. Kesimpulannya, variabel moderasi suku bunga Bank Indonesia memperkuat sebagian hubungan antara variabel independen dan kinerja keuangan perusahaan.

**Kata Kunci:** Kepemilikan Manajerial; Komisaris Independen; Leverage; Kinerja Keuangan; Pertumbuhan Suku Bunga Bank Indonesia

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## INTRODUCTION

The financial sector plays a pivotal role in driving Indonesia's economic growth, making its stability essential, particularly amid global challenges such as the COVID-19 pandemic and geopolitical uncertainty. One of the most significant external factors influencing the financial sector's performance is fluctuations in Bank Indonesia (BI) interest rates. Rising interest rates increase borrowing costs, potentially suppressing profitability, while lower rates stimulate investment activity and economic expansion. Beyond external factors, corporate governance is fundamental in optimizing financial performance. Key governance mechanisms, including managerial ownership, independent commissioners, and leverage, are critical in maintaining financial stability and operational efficiency. Given their significance, this study examines the impact of managerial ownership, independent commissioners, and leverage on financial performance, with a particular focus on the moderating effect of BI interest rate growth.

**Table 1. Average BI Interest Rate for the 2019 – 2023 Period**

<i>Month / Year</i>	2019	2020	2021	2022	2023
<i>January</i>	6.00%	5.00%	3.75%	3.50%	5.75%
<i>February</i>	6.00%	4.75%	3.50%	3.50%	5.75%
<i>March</i>	6.00%	4.50%	3.50%	3.50%	5.75%
<i>April</i>	6.00%	4.50%	3.50%	3.50%	5.75%
<i>May</i>	6.00%	4.50%	3.50%	3.50%	5.75%
<i>June</i>	6.00%	4.25%	3.50%	3.50%	5.75%
<i>July</i>	5.75%	4.00%	3.50%	3.50%	5.75%
<i>August</i>	5.50%	4.00%	3.50%	3.75%	5.75%
<i>September</i>	5.25%	4.00%	3.50%	4.25%	5.75%
<i>October</i>	5.00%	4.00%	3.50%	4.75%	6.00%
<i>November</i>	5.00%	3.75%	3.50%	5.25%	6.00%
<i>December</i>	5.00%	3.75%	3.50%	5.50%	6.00%
<i>Average</i>	5.63%	4.25%	3.52%	4.00%	5.81%

Source: Bank Indonesia (2024)

The data indicates a downward trend in interest rates during the 2020–2021 pandemic period, reflecting Bank Indonesia's (BI) efforts to stimulate economic growth. However, this was followed by a significant increase in 2023 in response to global inflationary pressures. These fluctuations directly impact corporate leverage strategies and financial performance.

Previous studies have examined the relationship between corporate governance, leverage, and financial performance. Agency Theory suggests that managerial ownership mitigates conflicts of interest between management and shareholders by aligning their incentives (Jensen & Meckling, 1976). Fama & Jensen (1983) emphasize that independent commissioners enhance managerial oversight, strengthening governance effectiveness. Stewardship Theory posits that managers act as "stewards" who prioritize the long-term interests of shareholders and the firm (Donaldson & Davis, 1991).

Leverage decisions are also influenced by financial theories. Trade-off Theory suggests that optimal leverage balances the tax benefits of debt (tax shield) against bankruptcy costs. In financial sector firms, high leverage is an inherent

characteristic, as customer deposits are recorded as liabilities. This contrasts with other industries, where high leverage is often associated with increased financial risk. According to Trade-off Theory, high leverage can provide tax benefits by reducing taxable income through interest expense deductions (Myers, 1984). This advantage is particularly significant in the financial sector, where leverage is integral to routine operations. Furthermore, regulatory frameworks, such as the capital adequacy ratio (CAR) enforced by Bank Indonesia, ensure that leverage remains within prudent limits to maintain financial stability. Regulatory oversight also mitigates agency risks that may arise from high leverage structures. Thus, while leverage carries inherent risks, including potential insolvency, effective management and regulatory compliance allow firms to utilize debt strategically to enhance financial performance without compromising operational stability or stakeholder trust.

Pecking Order Theory suggests that firms prioritize internal financing (retained earnings) over external sources, with debt being preferred over equity issuance (Myers & Majluf, 1984). This implies that leverage is primarily utilized when internal funds are insufficient, influencing financial performance. Additionally, Signaling Theory posits that changes in BI interest rates serve as signals to the market regarding macroeconomic conditions (Spence, 1978). An increase in interest rates may indicate heightened economic risk, thereby influencing corporate leverage decisions and governance strategies. Interest Rate Parity Theory further explains how interest rate fluctuations affect financing costs and investment decisions (Dornbusch et al., 2011). In this study's context, BI interest rate growth may either strengthen or weaken the effects of leverage and corporate governance on financial performance.

Empirical research supports the importance of governance mechanisms in financial performance. Islami & Wulandari (2023) find that managerial ownership enhances firm performance, while Ernawati & Santoso (2022) highlight the effectiveness of independent commissioners in overseeing managerial decisions. However, a research gap remains. Most prior studies examine the direct effects of managerial ownership, independent commissioners, and leverage on financial performance without considering external moderating factors such as interest rate fluctuations. There is a lack of empirical evidence demonstrating the moderating role of BI interest rate growth in the governance-performance relationship.

The novelty of this study lies in integrating BI interest rate growth as a moderating variable in the relationship between corporate governance (managerial ownership and independent commissioners), leverage, and financial performance. By addressing this gap, the study contributes to a deeper understanding of how macroeconomic factors influence corporate governance and leverage decisions in the financial sector.

Based on this background, managerial ownership, independent commissioners, and leverage are key determinants of financial performance. Managerial ownership plays a crucial role in mitigating conflicts of interest between management and shareholders, aligning with Agency Theory. Independent commissioners enhance oversight, ensuring adherence to good corporate governance principles. Meanwhile, when optimally managed, leverage provides tax benefits (tax shield) and enhances returns, as proposed by Trade-off

Theory. However, the impact of these factors on financial performance is influenced by external conditions, particularly fluctuations in Bank Indonesia (BI) interest rates. The growth of BI interest rates can either strengthen or weaken the effects of managerial ownership, independent commissioners, and leverage on financial performance, given its influence on borrowing costs, risk exposure, and corporate investment decisions. In Indonesia's financial sector, which heavily relies on debt and leverage, interest rate fluctuations are highly relevant. The stability of the financial sector, as a cornerstone of economic resilience, depends on firms' ability to adapt to dynamic monetary policies. Therefore, it is crucial to explore how BI interest rate growth moderates the relationship between corporate governance and financial performance.

This study aims to examine the factors influencing the financial performance of financial sector firms in Indonesia, with a specific focus on managerial ownership, independent commissioners, and leverage. Managerial ownership is analyzed to assess its impact on decision-making processes that affect corporate profitability. Independent commissioners are evaluated to determine their effectiveness in strengthening oversight and improving financial performance in line with corporate governance principles. Additionally, this study investigates the role of leverage in financial performance, recognizing its significance in the capital structure of financial sector firms. Furthermore, the study explores the moderating effect of BI interest rate growth on the relationship between these three variables and financial performance. By analyzing this moderating role, the study seeks to provide insights into how interest rate fluctuations influence the effectiveness of corporate governance and leverage management in Indonesia's financial sector.

This study is expected to contribute both theoretically and practically. Theoretically, it advances the understanding of how governance mechanisms and leverage affect financial performance. Practically, it provides valuable insights for financial managers, policymakers, and regulators in managing corporate governance and leverage strategies while considering BI interest rate dynamics.

The study is grounded in a strong theoretical framework, incorporating Agency Theory, Stewardship Theory, Trade-off Theory, Pecking Order Theory, Signaling Theory, and Interest Rate Parity Theory. Agency Theory suggests that higher managerial ownership reduces conflicts of interest and enhances firm performance (Jensen & Meckling, 1976). Stewardship Theory argues that independent commissioners improve managerial oversight, thereby increasing transparency and accountability (Fama & Jensen, 1983). Trade-off Theory posits that firms achieve optimal leverage by balancing the tax advantages of debt with bankruptcy costs (Myers, 1984), aligning with Modigliani & Miller's (1958) findings that leverage can enhance shareholder returns if managed effectively. Pecking Order Theory further explains that firms prefer internal financing before resorting to external debt (Myers & Majluf, 1984). The moderating role of BI interest rate growth is supported by Taylor (1993), who suggests that interest rate fluctuations affect debt costs and managerial risk-taking behavior. Signaling Theory and Interest Rate Parity Theory highlight that rising BI interest rates serve as indicators of economic risk, affecting debt costs and requiring firms to carefully

manage leverage to mitigate financial instability (Spence, 1978) (Dornbusch et al., 2011).

Managerial ownership represents the proportion of shares held by company executives, including directors and senior managers. According to Agency Theory, managerial shareholding aligns management interests with those of shareholders, incentivizing managers to enhance firm performance for long-term benefits (Jensen & Meckling, 1976). When management owns shares, they become more accountable for corporate performance, as their financial gains are directly tied to firm success. Empirical studies (Setiawan & Setiadi; Liang & Renneboog, 2020) (Islami & Wulandari, 2023) (Romadoni & Pradita; Yoda et al., 2022) (Guay et al., 2001) confirm that managerial ownership positively influences financial performance.

However, excessive managerial ownership may lead to an entrenchment effect (Morck et al., 1988), where managers with significant ownership stakes become less responsive to external governance pressures and minority shareholder concerns. Despite this potential drawback, managerial ownership is generally expected to enhance financial performance.

H<sub>1</sub>: Managerial ownership has a positive effect on financial performance.

Independent commissioners act as objective supervisors who are free from conflicts of interest. Based on Stewardship Theory, the presence of independent commissioners enhances the supervision of management performance and ensures adherence to Good Corporate Governance (GCG) principles (Fama & Jensen, 1983). Due to their neutral position, independent commissioners can provide more effective oversight of management's strategic decision-making, ensuring that company policies align with shareholder interests. According to Setiawan & Setiadi (2020), Islami & Wulandari (2023), Romadoni & Pradita (2022), Titania & Taqwa (2023), and Situmorang & Simanjuntak (2019), independent commissioners can positively affect financial performance. Additionally, Bhagat & Bolton (2008) found that a high proportion of independent commissioners enhances efficiency and profitability through improved oversight and transparency. Aggarwal & Williamson (2006) concluded that a greater presence of independent commissioners increases firm value. Independent commissioners are expected to mitigate opportunistic managerial behavior and promote efficiency and transparency, ultimately improving financial performance.

H<sub>2</sub>: Independent commissioners have a positive effect on financial performance.

Leverage, as measured by the debt-to-equity ratio, reflects the extent to which a company relies on debt to finance its operations. According to Trade-off Theory, the use of debt provides tax benefits through interest deductions (tax shield), potentially increasing profitability (Modigliani & Miller, 1958). This is supported by research from Rajan & Zingales (1995) and Gropp & Heider (2010), which found that large companies often utilize leverage to maximize tax benefits. Debt also provides additional funding sources, enabling firms to capitalize on profitable investment opportunities. However, excessive leverage increases bankruptcy risk, potentially offsetting these benefits. Studies by Islami & Wulandari (2023), Anggara & Andhaniwati (2023), Murdiyanto & Kusuma (2022), and Pertiwi & Endang (2022) suggest that leverage positively affects financial performance. However, excessive leverage can elevate financial distress risks.



Frank & Goyal (2009) found that leverage positively impacts financial performance only up to an optimal level. Well-managed leverage is therefore expected to have a positive effect on financial performance (De Jonghe, 2010) (Diamond & Rajan, 2000).

H<sub>3</sub>: Leverage has a positive effect on financial performance.

Fluctuations in Bank Indonesia (BI) interest rates have the potential to influence investment and financing decisions. Rising interest rates increase debt costs, which can reduce profitability margins. In the context of managerial ownership, BI interest rate growth can moderate its effect on financial performance. Under high-interest rate conditions, managers who own shares tend to adopt a more conservative approach to risk to protect the value of their investments. Research by Islami & Wulandari (2023) and Taylor (1993) supports the notion that interest rate fluctuations moderate this relationship.

H<sub>4</sub>: The growth of Bank Indonesia's interest rate moderates the influence of managerial ownership on financial performance.

The role of independent commissioners amid BI interest rate fluctuations can either strengthen or weaken their influence on financial performance. When interest rates rise, independent commissioners may encourage management to adopt more cautious risk-taking and debt management strategies, consistent with Agency Theory, which states that independent commissioners aim to minimize conflicts of interest between management and shareholders (Jensen & Meckling, 1976). Conversely, Stewardship Theory suggests that independent commissioners serve as stewards who safeguard corporate interests (Donaldson & Davis, 1991). However, excessive oversight by independent commissioners may limit management's flexibility in capitalizing on profitable investment opportunities, even during periods of rising interest rates. Independent commissioners may also perceive interest rate fluctuations as macroeconomic risks (Spence, 1978) and guide management to adopt more conservative approaches, such as reducing investment spending or limiting risk exposure (Bhagat & Bolton, 2008), ultimately affecting financial performance. Under high-interest rate conditions, independent commissioners are likely to strengthen oversight to ensure more conservative risk management. While tighter supervision can enhance financial stability, it may also restrict managerial decision-making, which could negatively impact financial performance.

H<sub>5</sub>: The growth of Bank Indonesia's interest rate moderates the influence of independent commissioners on financial performance.

The growth of BI interest rates directly impacts corporate borrowing costs. In periods of rising interest rates, high leverage can increase interest expenses, reducing financial performance. However, according to Trade-off Theory, firms with effective debt management strategies, such as hedging or refinancing, can mitigate the negative effects of rising interest rates (Modigliani & Miller, 1958). Consequently, BI interest rate growth as a moderating variable may either strengthen or weaken the relationship between leverage and financial performance, depending on a firm's financial risk management strategy (Aivazian et al., 2005).

Pecking Order Theory asserts that companies prioritize internal financing over external debt, suggesting that leverage's influence on financial performance

weakens under rising interest rates (Myers & Majluf, 1984). Interest Rate Parity Theory posits that higher interest rates may deter foreign capital inflows, affecting firms' access to external financing (Dornbusch et al., 2011). In the context of leverage, companies that rely on foreign debt may face greater financial burdens when interest rates rise, significantly impacting financial performance.

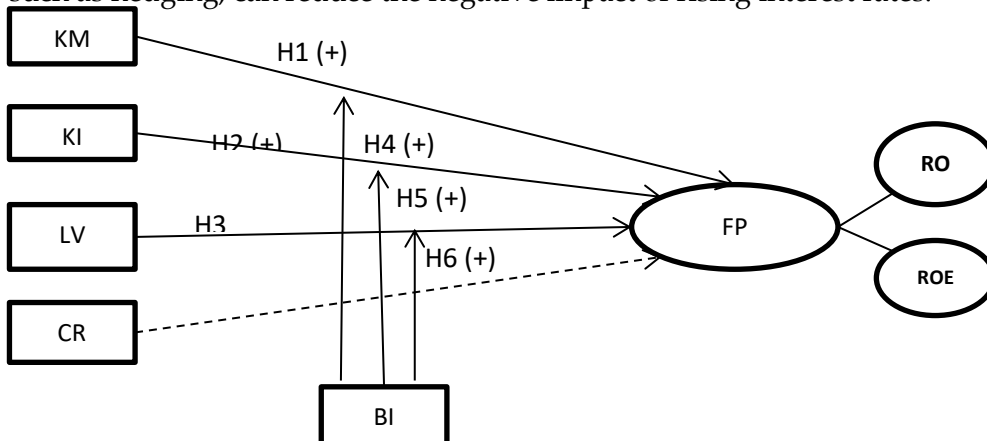
Interest rate fluctuations have the potential to weaken the positive effect of leverage on financial performance, particularly for highly leveraged firms. As interest rates increase, interest expenses rise, reducing the benefits of return on equity (ROE). However, companies with sound leverage management strategies, such as hedging, can minimize the adverse effects of rising interest rates (Flannery & Hankins, 2013).

H<sub>6</sub>: The growth of Bank Indonesia's interest rate moderates the effect of leverage on financial performance.

The growth of BI interest rates directly influences corporate borrowing costs. During periods of rising interest rates, high leverage can lead to increased interest expenses, negatively impacting financial performance. However, Trade-off Theory suggests that firms with strong debt management strategies, such as hedging or refinancing, can mitigate the negative effects of higher interest rates (Modigliani & Miller, 1958). Therefore, BI interest rate growth, as a moderating factor, can either strengthen or weaken the relationship between leverage and financial performance, depending on the firm's financial risk management approach.

Pecking Order Theory argues that firms prioritize internal financing over debt, meaning that the effect of leverage weakens when interest rates rise (Myers & Majluf, 1984). Interest Rate Parity Theory highlights that rising interest rates can hinder foreign capital inflows and outflows (Dornbusch et al., 2011). In the context of leverage, firms that rely on foreign debt may face additional financial burdens when interest rates increase, further impacting financial performance.

Interest rate fluctuations may weaken the positive impact of leverage on financial performance, particularly for firms with high debt levels. Rising interest rates drive up interest costs, diminishing the benefits of debt financing on return on equity (ROE). However, firms with effective leverage management strategies, such as hedging, can reduce the negative impact of rising interest rates.



Picture 1. Research Model

Source: Research Data, 2024

## RESEARCH METHOD

This study utilizes secondary data obtained from the annual financial reports of financial sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2019–2023. The dataset includes information on managerial ownership, the number of independent commissioners, leverage, financial performance (measured using Return on Assets [ROA] and Return on Equity [ROE]), and BI interest rate growth. The use of two financial performance proxies, ROA and ROE, aims to provide a more comprehensive and accurate perspective. ROA measures a company's efficiency in utilizing its assets to generate profits, making it a relevant indicator of operational capabilities irrespective of capital structure. Conversely, ROE focuses on returns generated from shareholder equity, offering investors a specific measure of the profitability of their capital investments.

Using both proxies enables the study to capture the impact of different variables, such as leverage, governance, and monetary policy. ROA reflects asset efficiency, whereas ROE is more sensitive to capital structure. Additionally, the combination of these proxies reduces measurement bias, as each has its limitations. For instance, ROA may understate the effects of high leverage, while ROE can be distorted by an unbalanced capital structure. By analyzing both indicators, the study aims to produce more robust and accurate results and identify patterns that may not be visible when using a single proxy. This approach is particularly relevant in the financial sector, where both operational efficiency and shareholder returns play a crucial role in assessing overall company performance. Additional data sources were obtained from official publications of the Financial Services Authority (OJK) and Bank Indonesia (BI).

The population of this study consists of financial sector companies, particularly banking institutions, with 45 companies listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 period. The sample was selected using purposive sampling based on the following criteria: (1) companies consistently listed on the IDX during 2019–2023, (2) companies with complete and publicly accessible annual financial reports for the observation period, (3) companies with a fiscal year ending on December 31, (4) companies reporting positive net income throughout the observation period, and (5) companies with a leverage ratio (Debt-to-Equity Ratio/DER) greater than 1. Based on these criteria, 27 financial sector companies, primarily banks, met the requirements, yielding a total of 135 observations.

This study employs three independent variables, one moderating variable, one dependent variable, and one control variable. Financial performance, the dependent variable, is measured using ROA and ROE. ROA is calculated by dividing net income by total assets, providing an indicator of management's efficiency in asset utilization for profit generation (Setiawan & Setiadi, 2020). ROE is calculated by dividing net income by total equity, offering insights into profitability from a shareholder's perspective (Anita et al., 2023). Data for these indicators were obtained from the financial statements of financial sector companies listed on the IDX.

The first independent variable, managerial ownership (X1), is defined as the percentage of company shares held by management, including directors and



commissioners (Alim & Assyifa, 2019). This variable is measured using the share ownership reports disclosed in the company's annual reports.

The second independent variable, independent commissioners (X2), is measured as the percentage of independent commissioners relative to the total number of board commissioners (Saifi, 2019). This variable reflects the degree of board independence in supervising management. Data for this variable were obtained from company annual reports.

The third independent variable, leverage (X3), is measured using the Debt-to-Equity Ratio (DER), which indicates the proportion of debt relative to a company's equity (Ningsih & Wuryani, 2021). DER is calculated by dividing total debt by total equity, providing insights into the extent to which a company relies on debt financing for its operations (Ernayani et al., 2023). The moderating variable in this study is BI interest rate growth, which represents monetary policy conditions affecting the cost of debt and corporate financial decision-making.

The control variable, liquidity, measures a company's ability to meet short-term obligations using its current assets (Ross et al., 2019). Data on current assets and current liabilities were obtained from the annual financial reports of IDX-listed companies. Liquidity is included as a control variable to ensure that the relationship between the independent variables (managerial ownership, independent commissioners, and leverage) and the dependent variable (financial performance) is not influenced by variations in a company's ability to manage liquid assets.

Liquidity remains a relevant control variable in financial sector research despite the generally high liquidity levels of banks. Variations in liquidity management arise due to differences in asset and liability management strategies, market conditions, regulatory requirements, and product and service composition. Excessive liquidity may indicate inefficiencies in asset utilization, while insufficient liquidity can heighten default risk, particularly during periods of market instability. According to Trade-off Theory, optimal liquidity balances financial risks with investment opportunities, while Agency Theory suggests that large liquid asset reserves provide managerial flexibility in decision-making, which may have either a positive or negative impact on financial performance.

The primary analytical tool used in this study is panel data regression analysis, employing the Random Effect Model (REM) and Fixed Effect Model (FEM) approaches. The selection of the most appropriate model is based on the Chow Test, Lagrange Multiplier (LM) Test, and Hausman Test. The final model aims to determine the effects of managerial ownership, independent commissioners, and leverage, as well as the moderating role of BI interest rate growth, on financial performance. The regression model used in this study is formulated as follows:

$$FP_{it} = \alpha + \beta_1 KM_{it} + \beta_2 KI_{it} + \beta_3 LV_{it} + \beta_4 KM_{it} * BI_{it} + \beta_5 KI_{it} * BI_{it} + \beta_6 LV_{it} * BI_{it} + \beta_7 CR_{it} + \varepsilon_{it} \dots \dots \dots (1)$$

Where:

- FP = Financial Performance
- KM = Managerial Ownership
- KI = Independent Commissaries

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LV	= Leverage
BI	= BI Interest Rate Growth
CR	= Liquidity
$\beta_0$	= Constant Coefficient
$\beta_1$	= Managerial Ownership Coefficient
$\beta_2$	= Independent Commissioners Coefficient
$\beta_3$	= Leverage Coefficient
$\beta_4$	= BI Interest Rate Growth Coefficient on Managerial Ownership
$\beta_5$	= BI Interest Rate Growth Coefficient on Independent Commissioners
$\beta_6$	= BI Interest Rate Growth Coefficient on Leverage
$\beta_7$	= Liquidity Coefficient
$\varepsilon$	= Standard error

Data analysis was conducted using EViews 13 statistical software, which facilitates panel data processing and regression analysis, including moderating variables. This study employs several statistical tests to evaluate the suitability of the regression model and the significance of the relationships between variables.

The F-test is used to assess the overall fit of the regression model by examining whether all independent variables collectively influence the dependent variable. The t-test evaluates the significance of individual regression coefficients, determining whether each independent variable has a statistically significant effect on financial performance.

Additionally, R-squared and Adjusted R-squared are utilized to measure the model's explanatory power. R-squared indicates the proportion of variance in financial performance explained by the independent variables, while Adjusted R-squared refines this measure by accounting for the number of explanatory variables in the model, preventing overfitting. The significance of the regression coefficients is determined based on the p-value, where a coefficient is considered statistically significant if  $p < 0.05$ .

This methodological approach ensures the accuracy and validity of the results, providing reliable conclusions regarding the effects of managerial ownership, independent commissioners, and leverage, as well as the moderating role of BI interest rate growth on the financial performance of financial sector firms in Indonesia.

## RESULTS AND DISCUSSION

Before conducting regression analysis, it is essential to ensure that the classical assumptions of multiple linear regression analysis are met. These assumptions include homoscedasticity, which requires that the variance of error terms remains constant across all levels of predictors to prevent bias in parameter estimation. The heteroscedasticity test is performed using the Likelihood Ratio Test, where the model is considered free from heteroscedasticity if the Prob Likelihood Ratio value is greater than 0.05, indicating homogeneity of variance (Gujarati & Porter, 2009) (Wooldridge, 2012). If  $p < 0.05$ , heteroscedasticity is detected, and the Weighted Least Squares (WLS) method is applied to improve the model's reliability. Additionally, for panel data, the Cross-Section Weights approach can be employed to address heteroscedasticity issues between cross-sectional units (Greene, 2012).

Furthermore, a multicollinearity test is conducted to ensure that there is no strong linear correlation between independent variables. Multicollinearity is assessed using correlation values, with a threshold of  $<0.8$  indicating the absence of multicollinearity (Hair et al., 2010). If multicollinearity is detected, remedial measures include removing redundant variables or applying Principal Component Analysis (PCA) to reduce data dimensionality while retaining key explanatory power.

Descriptive statistics provide an initial overview of the characteristics of the research variables. This includes the mean, maximum, minimum, and standard deviation for the primary variables: financial performance (ROA and ROE), managerial ownership, independent commissioners, leverage, Bank Indonesia (BI) interest rate growth, and liquidity. These descriptive measures offer insight into data distribution, variability, and potential patterns within the dataset.

**Table 2. Descriptive Statistics of Research Variables (N = 135)**

Variable	Mean	Median	Maximum	Minimum	Standard Deviation
FP (ROA)	1.43%	1.16%	9.10%	0.02%	1.44%
FP (ROE)	8.34%	7.32%	25.95%	0.11%	5.88%
KM	1.40%	0.00%	74.70%	0.00%	9.20%
KI	57.30%	57.10%	100%	25%	12.20%
LV	5.51	5.16	16.08	1.44	2.78
BI	4.60%	4.30%	5.80%	3.50%	0.90%
CR	1.22	1.18	1.69	1.06	0.13

Source: Research Data, 2024

Financial performance, as proxied by ROA, has an average value of 1.43%, while ROE has an average of 8.34%. This indicates that, on average, financial sector companies generate net income equivalent to 1.43% of total assets and 8.34% of total equity. The higher variability of ROE compared to ROA suggests substantial differences in performance across companies.

Managerial ownership has an average of 1.4%, with a median of 0%, indicating that many companies do not have managerial ownership. However, the maximum value of 74.7% suggests that some firms exhibit high levels of managerial ownership.

Independent commissioners constitute an average of 57.3% of the board of commissioners, reflecting strong adherence to good corporate governance (GCG) principles in the financial sector.

Leverage, measured by the Debt-to-Equity Ratio (DER), has an average value of 5.51, indicating that financial sector firms in Indonesia typically utilize five times more debt than equity. The substantial variability in leverage is reflected in the standard deviation of 2.78, highlighting the presence of firms with high debt utilization (maximum DER of 16.08) as well as more conservative firms (minimum DER of 1.44).

Bank Indonesia (BI) interest rate growth has an average of 4.6%, with values ranging from 3.5% to 5.8%, indicating relatively stable monetary policy fluctuations during the observation period.

To examine the effects of managerial ownership, independent commissioners, leverage, and the moderating role of BI interest rate growth on financial performance, panel data regression analysis is employed.

**Table 3. Panel Data Regression Results (ROA as Dependent Variable)**

Variable	Coefficient	t-Statistic	p-value
c	2.937	6.821	0.000
KM	-1.659	-3.046	0.002
KI	-1.595	-4.407	0.000
LV	0.037	1.139	0.129
KM * BI	33.687	3.201	0.001
KI * BI	16.214	2.635	0.005
LV * BI	-1.344	-2.060	0.021
CR	-0.727	-3.000	0.002

Source: Research Data, 2024

**Table 4. Panel Data Regression Results (ROE as Dependent Variable)**

Variable	Coefficient	t-Statistic	p-value
c	18.399	6.145	0.000
KM	-9.844	-2.160	0.017
KI	-11.212	-4.514	0.000
LV	0.701	3.038	0.002
KM * BI	220.613	2.486	0.007
KI * BI	117.595	2.562	0.006
LV * BI	-11.910	-2.293	0.012
CR	-6.243	-3.556	0.000

Source: Research Data, 2024

The regression results for ROA and ROE exhibit a similar pattern of influence. Managerial ownership has a significant negative effect on ROA (-1.659,  $p = 0.002$ ) and ROE (-9.844,  $p = 0.017$ ), indicating that higher managerial ownership is associated with lower financial performance. One possible explanation is that managers with substantial ownership stakes tend to adopt more conservative decision-making, which may reduce risk but also limit opportunities for higher profits.

The negative effect of managerial ownership on financial performance can be explained through Agency Theory, which suggests that in firms with high managerial ownership, conflicts of interest between managers and shareholders may arise (Jensen & Meckling, 1976). Managers may prioritize risk aversion to protect personal wealth, ultimately constraining profit potential. While Islami & Wulandari (2023) found a positive relationship between managerial ownership and financial performance due to its role in enhancing governance, the findings of this study diverge, aligning instead with the results of Azzah (2021), Pramudityo & Sofie (2023), Sembiring (2020), Wendy & Harnida (2020), and Leatemia & Mangantar (2019), which also indicate a negative impact of managerial ownership on financial performance. This suggests that excessive managerial ownership may restrict firms from pursuing profitable, yet riskier, opportunities.

Independent commissioners also exhibit a negative effect on ROA (-1.595,  $p = 0.000$ ) and ROE (-11.212,  $p = 0.000$ ), implying that a higher proportion of

independent commissioners may limit risk-taking, thereby affecting profitability. This finding aligns with the argument that excessive oversight can curtail managerial discretion, potentially hindering strategic decision-making. Stewardship Theory, in contrast to Agency Theory, posits that managers act as stewards who prioritize the company's long-term interests (Fama & Jensen, 1983). However, the negative effect observed in this study suggests that overly strict supervision by independent commissioners may reduce management flexibility in making strategic decisions that could improve performance.

Ernawati & Santoso (2022) found a positive effect of independent commissioners on financial performance due to their role in ensuring good governance. However, this study's findings differ, aligning with Sondokan et al. (2019), Fatimah (2020), Hartati (2020), Lestari & Mutmainah (2020), and Umam & Ginanjar (2020), who also report a negative effect. This suggests that overly stringent oversight may discourage risk-taking, limiting the firm's ability to capitalize on profitable investment opportunities.

Leverage has an insignificant positive effect on ROA (0.037,  $p = 0.129$ ) but a significant positive effect on ROE (0.701,  $p = 0.002$ ). This suggests that debt utilization enhances equity-based profitability, supporting Modigliani & Miller's (1958) capital structure theory. The positive relationship between leverage and ROE reinforces Trade-off Theory, which suggests that firms can leverage debt to maximize tax benefits (tax shield) and enhance financial performance (Myers, 1984). These findings are consistent with Bagaskara et al. (2021), Pertiwi (2021), and Sembiring (2020), who also report a positive relationship between leverage and financial performance. However, the increased financial risk associated with rising BI interest rates suggests that firms with high leverage face greater bankruptcy costs if debt is not managed effectively.

The growth of Bank Indonesia (BI) interest rates moderates the effects of managerial ownership and independent commissioners in a negative direction, consistent with findings by Mohamed et al. (2023). However, when interacting with leverage, interest rate growth has a positive effect on ROA and ROE, suggesting that highly leveraged firms are better equipped to manage the effects of rising interest rates, potentially through debt restructuring or hedging strategies.

The novelty of this study lies in identifying BI interest rate growth as a moderating variable, revealing how increasing interest rates exacerbate the negative effects of managerial ownership and independent commissioners on financial performance. This highlights governance limitations in adapting to tighter monetary policies. Moreover, rising interest rates motivate highly leveraged firms to improve debt management efficiency, such as hedging or refinancing, allowing leverage to positively contribute to financial performance.

The negative impact of managerial ownership and independent commissioners on ROA and ROE underscores the need for corporate governance improvements. Management must ensure that both managerial ownership and independent commissioners contribute to strategic decision-making, particularly in environments with volatile interest rates.

The positive effect of leverage on ROE suggests that properly managed leverage can enhance equity-based performance. However, the negative



interaction between leverage and interest rate growth indicates that excessive leverage poses a significant risk in a rising interest rate environment. Therefore, firms must balance debt levels with macroeconomic conditions to sustain profitability.

The growth of BI interest rates demonstrates a significant moderating effect, particularly in amplifying the negative impact of managerial ownership and independent commissioners on financial performance. This finding has critical implications for regulators, suggesting that interest rate policies should account for their impact on financial sector firms, especially regarding governance effectiveness. Additionally, corporate management should adjust leverage strategies in response to macroeconomic interest rate conditions to mitigate financial risk.

For investors, these results provide insight into evaluating firms with weak governance structures and high leverage in volatile interest rate environments.

Finally, these findings emphasize the importance of liquidity and financial risk management. With liquidity exhibiting a significant negative effect in both models, companies should not only focus on maintaining high liquidity but also ensure efficient allocation of productive assets to support long-term profitability.

## CONCLUSION

This study concludes that managerial ownership and independent commissioners have a significant negative effect on financial performance (ROA and ROE) in Indonesia's financial sector. Meanwhile, leverage has a significant positive effect on ROE but does not significantly impact ROA. Furthermore, Bank Indonesia's interest rate growth acts as a moderating variable that exacerbates the negative impact of managerial ownership and independent commissioners on financial performance, while strengthening the effect of leverage. These findings underscore the importance of balancing governance structures, leveraging financial policies, and managing interest rate fluctuations to sustain optimal corporate performance.

The primary limitation of this study is its sample scope, which is restricted to financial sector companies, limiting the generalizability of the findings to other industries. Additionally, the study considers only Bank Indonesia's interest rate growth as a moderating variable, without incorporating other macroeconomic factors such as inflation or exchange rates, which could also influence financial performance. Future research should expand the sample to include other industrial sectors to enhance generalizability. Moreover, incorporating additional macroeconomic variables as moderating or control factors would provide a more comprehensive understanding of the determinants of corporate financial performance.

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