




Bank Profitability Level Based on Good Corporate Governance, Macroeconomics, and Specific Banks in Foreign Exchange Banks in Indonesia

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Received: July 15, 2025

Revised : November 13, 2025

Accepted : March 25, 2026

Online : April 30, 2026

Abstract

This study examines how Good Corporate Governance (GCG), macroeconomic conditions, and bank-specific characteristics influence the profitability of foreign exchange banks in Indonesia. Using a quantitative approach, the research analyzes secondary data from the annual financial statements of foreign exchange banks listed on the Indonesia Stock Exchange over the period 2014–2022. The study investigates the direct effects of GCG on profitability, the influence of macroeconomic factors on bank-specific characteristics and profitability, and the role of bank-specific characteristics in determining profitability. Data were analyzed using partial least squares with a resampling technique to test the significance of relationships. The results show that GCG contributes positively to overall bank financial performance; however, its direct effect on profitability is positive but not statistically significant. Macroeconomic conditions are found to positively affect bank-specific characteristics, while exerting a negative influence on profitability. In contrast, bank-specific characteristics—particularly bank size, total assets, and deposit growth—have a significant and positive impact on profitability. These findings suggest that strengthening governance practices alone is not sufficient to directly increase profitability. Banks also need to improve asset management and expand deposit bases to enhance financial performance. In addition, effective management of macroeconomic risks is essential to reduce their adverse effects on bank profitability. This study provides empirical insights into the interaction between governance, economic conditions, and internal bank factors in Indonesia's banking sector.

Keywords: *Corporate Governance, Macroeconomics, Bank Specific, Profitability, Foreign Exchange Bank*

INTRODUCTION

Banking policies aim to address risks and challenges to maintain economic growth momentum. Key challenges include pressures on the current account deficit, driven by a production lag compared to consumer needs, and global economic factors like U.S.-China trade tensions. The rise of fintech startups also demands strong legal enforcement for consumer protection.

To address these issues and support priority sectors, financial policies focus on enhancing medium and long-term financing alternatives for strategic industries. This includes offering incentives via limited participation mutual funds, asset-backed securities, and real estate investment funds. Sharia-based investment products like Sukuk waqf are also being promoted. Sustainable finance programs and blended finance models are encouraged for environmentally and

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socially responsible projects. Additionally, technology-driven improvements in banking supervision, licensing processes, and increased banking efficiency are prioritized ([Handriani & Anggara, 2025](#); [Pradipta & Prirayani, 2025](#)).

Good Corporate Governance (GCG) is crucial in ensuring stable financial institutions. GCG defines policies and processes that reduce agency problems by balancing the interests of owners and managers. Effective GCG assigns responsibilities while maintaining productive relationships with key stakeholders. Poor GCG practices, such as those seen in Bank Century's failure, highlight the importance of regulatory oversight. Consequently, Indonesia's Financial Services Authority (OJK) issued Regulation Number 55/POJK.03/2016 to improve governance standards ([Fidriansyah et al., 2025](#); [Kotten et al., 2025](#); [Alemu & Worku, 2025](#)).

GCG is essential to banking functions as an intermediary institutions that redistribute public funds via credit provision. Bank-specific characteristics, such as non-performing loans (NPL), operating costs (OC), capital adequacy ratio (CAR), third-party funds (TPF), and return on assets (ROA), influence credit distribution and profitability. Factors like asset composition, operational efficiency, leverage, and technology adoption further impact banking performance ([Aditya et al., 2025](#); [Bagiana, 2025](#)).

Research has shown that GCG positively influences financial performance. Studies by [Ria \(2023\)](#), [Ali et al. \(2021\)](#), and [Chabachib et al. \(2020\)](#) demonstrate GCG's positive effect on company performance, focusing on ownership structure, board composition, and institutional involvement. Similarly, research by [Pucheta-Martínez and Gallego-Álvarez \(2020\)](#), and [Kusuma and Ayumardani \(2016\)](#) confirms this relationship. However, some studies, such as those by [Pintea et al. \(2020\)](#) and [Muhammad et al. \(2021\)](#), found no significant impact between GCG (e.g., executive compensation or independent directors) and financial performance, revealing inconsistencies in the literature ([Abdullah & Tursoy, 2023](#); [Dey & Sharma, 2020](#); [Gyamerah et al., 2020](#)).

GCG also impacts financial metrics such as leverage. Research by [Amin et al. \(2022\)](#) highlights that a well-structured board of directors improves leverage efficiency. Conversely, other studies show that improved GCG can reduce leverage, and capital structure significantly supports profitability when debt levels are effectively managed ([Jouida, 2018](#)). However, findings by [Abubakar \(2020\)](#) suggest that a higher debt-to-equity ratio (DER) can reduce shareholder value, indicating that excessive leverage poses a risk to financial stability.

Capital structure's impact on performance is further explored in studies by [Sedovandara and Mahardika \(2023\)](#), and [Hartanto et al. \(2022\)](#) who found that short-term and long-term debt negatively affect performance. Similarly, [Olusola et al. \(2022\)](#) and [Khodavandloo et al. \(2017\)](#) reported that leverage has a negative or insignificant impact on performance. These results suggest that excessive reliance on debt may undermine profitability.

Macroeconomic conditions also affect banking performance. Studies by [Liu and Sheng \(2019\)](#) found that economic uncertainty inhibits investment and debt issuance. Meanwhile, [Khemiri and Noubbigh \(2018\)](#) identified macroeconomic factors as strong determinants of capital structure, while [Moradi and Paulet \(2019\)](#) found that economic growth can negatively impact leverage ([Upadhaya & Singh, 2023](#); [Attatur et al., 2024](#)).

To address performance gaps, policymakers are encouraged to develop sustainable financial systems that integrate robust corporate governance and economic strategies. Initiatives like alternative financing for strategic sectors and improved financial infrastructure are key to supporting economic stability. Funding sources such as third-party funds, retained earnings, and stock issuance remain crucial for banks in managing financial risks.

Indonesian banking's financial performance between 2019-2022 reflected fluctuating net profits, with a significant decline in 2020 followed by growth in 2021 and 2022. These profit trends aligned with inflation patterns. Despite increased TPF, equity trends showed inconsistent

performance, indicating the need for improved governance and financial strategies.

Given these insights, researchers like [Itan and Angellina \(2023\)](#) and [Huynh et al. \(2022\)](#) stress the importance of strengthening GCG, improving macroeconomic frameworks, and enhancing bank-specific characteristics. This approach is essential to maximizing profitability and ensuring long-term banking stability ([Nasution et al., 2022](#); [Handriani & Anggara, 2025](#); [Bagiana, 2025](#)).

Considering the evidence (Gap) of theory and empirical facts, [Itan and Angellina \(2023\)](#), [Ria \(2023\)](#), [Huynh et al. \(2022\)](#), and [Al-Homaidi et al. \(2018\)](#) still believe that banking performance (profitability) has hope in efforts to improve and enhance GCG, macroeconomics, and bank specifics. Thus, the purpose of this study is to analyze the role of corporate governance (GCG) variables in explaining their respective effects on profitability (H_1), and on bank specifics (H_2). Then, analyze the role of each macroeconomic variable on bank specifics (H_3), and profitability (H_4), and analyze the role of bank-specific variables on profitability (H_5).

LITERATURE REVIEW

Theoretical Foundation

This study is grounded in several complementary theoretical perspectives to explain the relationships among governance, macroeconomic conditions, bank-specific characteristics, and profitability. Agency theory provides the foundation for understanding how GCG mechanisms reduce conflicts of interest between managers and stakeholders, thereby improving decision-making quality and organizational outcomes ([Abdullah & Tursoy, 2023](#); [Molla et al., 2023](#)).

In addition, the Resource-Based View (RBV) perspective is reflected in the role of bank-specific characteristics—such as asset structure, capital adequacy, liquidity, and operational efficiency—which represent strategic internal resources that drive competitive advantage and profitability ([Pradipta & Prirayani, 2025](#); [Yuan et al., 2022](#)). These internal capabilities enable banks to achieve superior performance by effectively managing resources and operational efficiency.

Furthermore, macroeconomic theory and financial intermediation perspectives explain how external economic conditions influence credit allocation, risk exposure, and banking performance ([Handriani & Anggara, 2025](#); [Athari et al., 2023](#); [Al-Homaidi et al., 2018](#)). Changes in macroeconomic indicators such as economic growth, inflation, and interest rates directly affect banking activities, including lending behavior and risk management.

By integrating these perspectives, this study develops a comprehensive framework in which governance and macroeconomic factors influence profitability both directly and indirectly through bank-specific characteristics. This integrated approach highlights the mediating role of internal banking factors in transmitting the effects of governance quality and macroeconomic conditions on profitability outcomes, which is consistent with the empirical structure tested in this study.

Good Corporate Governance and Bank Performance

Good Corporate Governance (GCG) is a fundamental mechanism for reducing agency problems and ensuring alignment between management and stakeholders' interests, particularly in the banking sector where risk exposure and public trust are critical. Agency theory emphasizes that effective governance structures—such as board oversight, independent commissioners, and audit committees—play a central role in monitoring managerial behavior and improving organizational performance. Prior studies largely support the positive role of GCG in enhancing financial performance and firm value ([Ria, 2023](#); [Ali et al., 2021](#); [Chabachib et al., 2020](#)). Strong governance is also associated with improved operational efficiency, transparency, and investor confidence.

From a global perspective, evidence from developed economies generally shows a more consistent and stronger relationship between governance quality and financial performance due to more mature regulatory systems and stronger institutional frameworks (Dey & Sharma, 2020; Doğan & Ekşi, 2020). In contrast, studies in emerging economies—including Indonesia, Ethiopia, and Sub-Saharan Africa—often report mixed findings due to institutional gaps, regulatory differences, and varying governance practices (Alemu & Worku, 2025; Asiamah et al., 2024; Gyamerah et al., 2020).

Empirical findings regarding the direct effect of GCG on profitability remain inconclusive. Several studies report an insignificant or weak relationship between specific governance mechanisms—such as board independence or executive compensation—and profitability indicators (Nasution et al., 2022; Muhammad et al., 2021; Pintea et al., 2020). Meanwhile, other studies find significant positive effects of governance on profitability and firm performance (Fidriansyah et al., 2025; Kotten et al., 2025).

This inconsistency suggests that while GCG strengthens institutional quality and financial stability, its impact on short-term profitability may be indirect. In line with the Resource-Based View, governance mechanisms may first influence internal bank characteristics—such as risk management, capital structure, and operational efficiency—which subsequently determine profitability outcomes. This highlights the importance of examining bank-specific characteristics as a mediating mechanism.

Macroeconomic Conditions and Banking Performance

Macroeconomic variables play a crucial role in shaping banking performance by influencing credit demand, funding costs, and risk exposure. Indicators such as GDP growth, inflation, interest rates, exchange rates, and money supply affect banks' balance sheets and income-generating capacity. Previous studies indicate that favorable macroeconomic conditions generally support banking expansion and capital structure optimization (Liu & Sheng, 2019; Al-Homaidi et al., 2018).

However, cross-country evidence shows that the impact of macroeconomic factors varies significantly across different economic environments. In developed economies, stable inflation and steady economic growth tend to enhance bank profitability. In contrast, in emerging markets, macroeconomic volatility often weakens banking performance due to higher uncertainty, credit risk, and institutional instability (Athari et al., 2023; Zeqiraj et al., 2020).

Empirical findings remain mixed. Some studies report a positive and significant relationship between economic growth and profitability (Le & Ngo, 2020), while others find negative or insignificant effects, particularly during periods of crisis or regulatory intervention (Upadhaya & Singh, 2023; Batten & Vo, 2019). More recent evidence also shows that macroeconomic variables such as inflation and GDP growth may not directly affect profitability but instead influence internal banking conditions (Aditya et al., 2025; Attatur et al., 2024).

These findings suggest that macroeconomic conditions affect profitability indirectly, primarily through their influence on bank-specific characteristics such as asset quality, liquidity, and capital adequacy.

Bank-Specific Characteristics and Profitability

Bank-specific characteristics are consistently identified as the most dominant determinants of profitability across both developed and emerging banking systems. According to the Resource-Based View, internal resources and capabilities play a critical role in determining firm performance. Factors such as bank size, capital adequacy, credit quality, liquidity, and operational efficiency directly influence a bank's ability to generate income and manage risks.

Empirical studies across various countries consistently confirm that internal financial indicators—particularly asset growth, capital strength, and credit management—have a strong and significant impact on profitability (Yuan et al., 2022; Gemar et al., 2019). Studies in emerging economies, including Indonesia, further emphasize that internal efficiency, risk management, and bank scale are the primary drivers of sustainable profitability (Handriani & Anggara, 2025).

Recent evidence also highlights the importance of governance-related internal factors such as board diversity, firm size, and risk management in enhancing profitability (Bagiana, 2025; Alemu & Worku, 2025). Conversely, excessive leverage, poor asset quality, and inefficient operations may weaken performance (Abubakar, 2020; Khodavandloo et al., 2017).

Although these findings are consistent globally, the magnitude of their effects varies depending on regulatory quality, market structure, and economic development level. This reinforces the argument that bank-specific characteristics serve as a key transmission channel linking governance and macroeconomic conditions to profitability.

Research Gap and Conceptual Framework

Although extensive research has examined the roles of GCG, macroeconomic conditions, and bank-specific factors in banking performance, most prior studies analyze these determinants in isolation or within specific national contexts. As a result, findings remain fragmented and often inconsistent, particularly regarding the direct effects of GCG and macroeconomic variables on profitability.

Moreover, limited studies integrate these variables within a unified framework, especially in emerging economies such as Indonesia. Existing evidence increasingly suggests that governance and macroeconomic conditions may not directly influence profitability but instead operate through internal banking mechanisms.

Therefore, this study contributes to the literature by developing an integrated empirical model that captures both direct and indirect relationships among variables. Specifically, it positions bank-specific characteristics as a mediating mechanism linking GCG and macroeconomic conditions to profitability. This approach provides a more comprehensive understanding of banking performance and helps reconcile inconsistencies in prior empirical findings.

Hypothesis Development

H1: Good Corporate Governance has a positive effect on profitability

Agency theory suggests that effective corporate governance mechanisms reduce agency conflicts and improve managerial efficiency, which in turn enhances firm performance. Strong governance structures—such as independent boards and effective audit committees—are expected to improve transparency, accountability, and decision-making quality, ultimately leading to higher profitability (Abdullah & Tursoy, 2023; Molla et al., 2023).

However, empirical evidence remains mixed, particularly in emerging economies, where governance practices may not directly translate into financial outcomes due to institutional and regulatory differences (Nasution et al., 2022; Pintea et al., 2020). Despite these inconsistencies, governance is generally expected to have a positive influence on profitability.

H2: Good Corporate Governance has a positive effect on bank-specific characteristics

From the Resource-Based View perspective, governance mechanisms play a critical role in shaping internal organizational capabilities. Effective governance improves risk management, capital allocation, and operational efficiency, which are reflected in bank-specific characteristics such as asset quality, liquidity, and capital adequacy (Fidriansyah et al., 2025; Yuan et al., 2022). Empirical studies consistently show that strong governance structures enhance internal banking

conditions, even when their direct impact on profitability is weak or inconsistent.

H3: Macroeconomic conditions have a positive effect on bank-specific characteristics

Macroeconomic theory and financial intermediation theory suggest that external economic conditions significantly influence banks' internal operations. Variables such as GDP growth, inflation, and interest rates affect credit demand, liquidity management, and risk exposure, thereby shaping bank-specific characteristics (Athari et al., 2023; Al-Homaidi et al., 2018). Empirical evidence from both developed and emerging economies confirms that macroeconomic conditions significantly affect internal banking performance indicators.

H4: Macroeconomic conditions have a positive effect on profitability

Macroeconomic conditions are also expected to influence bank profitability through changes in economic activity, borrowing demand, and financial stability. Favorable economic conditions generally enhance profitability, while economic instability may reduce it (Le & Ngo, 2020). However, empirical findings remain inconsistent, particularly in emerging markets where macroeconomic volatility does not always translate directly into profitability changes (Upadhaya & Singh, 2023; Batten & Vo, 2019).

H5: Bank-specific characteristics have a positive effect on profitability

According to the Resource-Based View, firm performance is primarily driven by internal resources and capabilities. Bank-specific characteristics—such as size, capital strength, liquidity, and operational efficiency—directly determine a bank's ability to generate profits and manage risks (Pradipta & Prirayani, 2025; Yuan et al., 2022).

Extensive empirical evidence consistently shows that internal financial factors are the most significant determinants of bank profitability across different countries and banking systems (Handriani & Anggara, 2025).

RESEARCH METHOD

This study employs a quantitative approach within a positivist paradigm, aiming to examine causal relationships among variables through hypothesis testing. An explanatory research design is used to analyze the influence of GCG, macroeconomic factors, and bank-specific characteristics on bank profitability.

To support the research objectives, five hypotheses are proposed and tested. The conceptual framework underlying this study illustrates the relationships among GCG, macroeconomic variables, bank-specific characteristics, and profitability. The model positions bank-specific characteristics as a mediating variable linking governance and macroeconomic factors to profitability.

As shown in Figure 1, GCG and macroeconomic conditions are modeled as exogenous variables influencing both bank-specific characteristics and profitability. Bank-specific characteristics are treated as an endogenous mediating variable that directly affects profitability. This structure reflects the theoretical assumption that internal bank conditions serve as a transmission mechanism through which governance practices and macroeconomic factors influence financial performance.

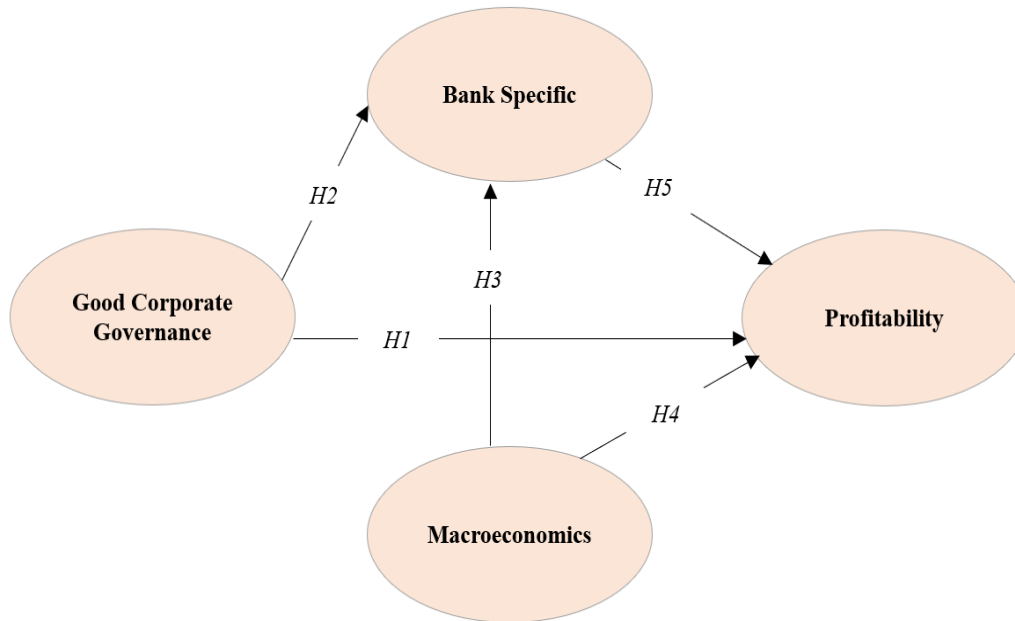


Figure 1. Research framework and hypotheses

The study utilizes secondary panel data obtained from audited annual reports of foreign exchange banks listed on the Indonesia Stock Exchange (IDX) over the period 2014–2022. The data were collected from official company websites and the IDX website (www.idx.co.id). The research process was conducted over six months in 2023.

The population consists of all foreign exchange banks listed on the IDX during the observation period. A purposive sampling technique was applied with the criterion that banks must consistently publish complete annual reports throughout 2014–2022. Based on this criterion, 36 banks were selected, resulting in 324 panel observations.

The variables in this study are measured using established proxies widely adopted in prior banking literature to ensure validity and comparability. Profitability is measured using ROA, calculated as net income divided by total assets (Le & Ngo, 2020; Batten & Vo, 2019). Bank-specific characteristics are proxied by financial ratios including bank size (logarithm of total assets), CAR, liquidity, and operational efficiency (BOPO), consistent with prior studies (Handriani & Anggara, 2025; Al-Homaidi et al., 2018). Macroeconomic variables include inflation, interest rates, and economic growth. Good Corporate Governance is measured using governance-related indicators such as board structure, audit committee, and managerial ownership, as commonly used in prior empirical studies (Fidriansyah et al., 2025; Chabachib et al., 2020).

Data analysis is conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS version 4. The analysis consists of two stages: evaluation of the measurement model (outer model) and evaluation of the structural model (inner model). The outer model is assessed using indicator loadings, composite reliability, Cronbach’s alpha, and average variance extracted (AVE) to ensure validity and reliability. The inner model is evaluated using path coefficients, coefficient of determination (R^2), predictive relevance (Q^2), effect size (f^2), and model fit indices such as SRMR (Hair et al., 2021).

Hypothesis testing is performed using the bootstrapping method to obtain t-statistics and p-values. A significance level of 5% ($p < 0.05$) is used to determine the statistical significance of the relationships among variables (Hair et al., 2019). The proposed structural model is estimated using PLS-SEM to simultaneously assess both direct and indirect relationships among variables.

FINDINGS AND DISCUSSION

After conducting the measurement model testing, such as outer loading, construct reliability, construct validity, and discriminant validity, have met the requirements, then continued with the evaluation of the structural model (inner model) for hypothesis testing. The output results of the hypothesis testing of the influence of good corporate governance (GCG), macroeconomics, and bank specifics on profitability. The results of the analysis are presented in Table 1.

Table 1. Path Coefficients and Hypotheses (Direct Effect)

Hypotheses	Influence Between Variables	Original Sample	STDEV	T-Statistics	P-Value
H_1	Good corporate governance-> Profitability	0.111	0.109	1.020	0.308
H_2	Good corporate governance -> Specific banks	0.668	0.037	18.064	0.000
H_3	Macroeconomics -> Specific banks	0.108	0.040	2.684	0.007
H_4	Macroeconomics -> Profitability	-0.032	0.043	0.732	0.464
H_5	Specific banks -> Profitability	0.651	0.088	7.397	0.000

Source: Author's Analysis (2024)

Based on the results presented in Table 1, the outcomes of the hypothesis testing can be interpreted as follows: The relationship between corporate governance and profitability is shown by a path coefficient of 0.111, with a corresponding t-statistic of 1.020 and a p-value of 0.308. Since this p-value exceeds the significance threshold of 0.05, it indicates that while corporate governance has a positive influence on profitability, the effect is statistically insignificant. Consequently, the proposed hypothesis ($H1$) is accepted, albeit with limited statistical support.

In terms of corporate governance's impact on bank-specific characteristics, the analysis reveals a path coefficient of 0.668, accompanied by a t-statistic value of 18.064 and a p-value of 0.000. As this p-value is well below the α threshold of 0.05, it signifies a strong and statistically significant positive influence, thereby confirming the validity of the proposed hypothesis ($H2$). This finding highlights the substantial role that governance practices — such as board composition, audit committee effectiveness, and director oversight — play in shaping the unique characteristics of individual banks.

When examining the impact of macroeconomic variables on bank-specific characteristics, the results show a path coefficient of 0.108, a t-statistic of 2.684, and a p-value of 0.007. Since the p-value remains below 0.05, this outcome demonstrates that macroeconomic conditions exert a positive and statistically significant effect on bank-specific features. As a result, the proposed hypothesis ($H3$) is supported, reinforcing the idea that economic factors such as inflation rates, exchange rates, and GDP growth can meaningfully influence key banking attributes.

Conversely, the effect of macroeconomic variables on profitability is represented by a path coefficient of -0.032, with a t-statistic of 0.732 and a p-value of 0.464. Because this p-value surpasses the significance threshold, it suggests that although macroeconomic factors exhibit a negative effect on profitability, the impact is not statistically meaningful. Consequently, the proposed hypothesis ($H4$) is rejected. This result implies that macroeconomic volatility may not always translate directly into profitability fluctuations for foreign exchange banks in Indonesia.

Lastly, the influence of bank-specific characteristics on profitability is reflected in a path coefficient of 0.651, with a t-statistic of 7.397 and a p-value of 0.000. This outcome, with its highly significant p-value below 0.05, indicates a strong positive relationship, confirming the proposed hypothesis ($H5$). This finding underscores the critical role that internal bank attributes — such as

asset size, capital structure, and deposit levels — play in driving profitability outcomes.

The next analysis result is model quality. According to Rianto and Rahadi (2023), model quality evaluation is part of the model quality criteria. Model quality evaluation can be seen from several measures, namely: R-Square; Q-Square; F-Square; Goodness of Fit (GoF) Index; SRMR; PLS Predict; and CPVAT. The results of the R-Square calculation obtained the value of R Square presented in Table 2.

Table 2. R-Square Overview

	R-Square	R Square Adjusted
Specific banks	0.466	0.463
Profitability	0.528	0.523

Source: Author's Analysis (2024)

The impact of corporate governance and macroeconomic variables on specific banks is measured at 0.466 or 46.6%. Meanwhile, the combined effect of corporate governance, macroeconomic factors, and specific bank characteristics on profitability stands at 0.528 or 52.8%. According to Hair et al. (2021), the R-Square interpretation framework classifies values into three categories: 0.19 represents a low effect, 0.33 indicates a moderate effect, and 0.66 signifies a strong influence. Based on these benchmarks, the variables examined in this research fall under the moderate influence category.

The Q-Square statistic assesses the model's predictive capability, illustrating how well variations in exogenous variables can predict changes in endogenous variables. This measure acts as a validity indicator in PLS analysis to evaluate the model's predictive accuracy. A Q-Square value greater than zero indicates the model possesses predictive relevance. As explained by Hair et al. (2019), Q-Square values are qualitatively interpreted as follows: 0 signifies a low impact, 0.25 reflects a moderate effect, and 0.50 suggests a strong influence. The detailed Q-Square calculation outcomes are presented in Table 3.

Table 3. Q-Square Overview

	Q² Predict
Specific banks	0.456
Profitability	0.281

Source: Author's Analysis (2024)

The Q-Square value for specific banks is recorded at 0.456, which exceeds 0.25, indicating a moderate level of influence. Similarly, the Q-Square value for profitability is 0.469, also surpassing 0.25, signifying a moderate effect.

The F-Square value is a crucial metric used to assess the extent to which a particular variable contributes to the structural model's overall explanatory power. According to the interpretation guidelines provided by Hair et al. (2021), the F-Square value can be categorized into three effect sizes: a value of 0.02 suggests a minimal effect, indicating that the variable has only a slight influence on the model. An F-Square value of 0.15 represents a moderate effect size, signifying a more noticeable impact on the structural framework. Meanwhile, a value of 0.35 or higher is indicative of a substantial effect, demonstrating that the variable exerts a strong and meaningful influence within the model's structure.

In this study, the F-Square values are analyzed to determine the extent to which GCG practices and macroeconomic variables shape both the distinctive characteristics of individual

banks and their profitability outcomes. The detailed breakdown of these F-Square values is presented in Table 4, offering insights into the strength and significance of these relationships.

Table 4. F-Square Overview

	Specific banks	Profitability
Good corporate governance	0.834	0.014
Macroeconomics	0.022	0.002
Specific banks		0.479

Source: Author's Analysis (2024)

The analysis highlights how governance improvements — such as enhancing board oversight, strengthening audit committee roles, and ensuring transparent managerial practices — can contribute to improved financial performance. Similarly, the influence of macroeconomic conditions, such as inflation, GDP growth, and exchange rate fluctuations, is examined to understand their role in shaping bank stability and profitability. This comprehensive evaluation underscores the diverse factors that contribute to the financial dynamics of foreign exchange banks in Indonesia.

F-Square refers to the influence of variables at the structural level. The interpretation of the F-Square test results is as follows:

- a) GCG and Macroeconomic Variables Against Bank-Specific Variables. That GCG against a specific bank is $0.834 > 0.35$, which means that the influence of GCG on a specific bank has a high effect size. Macroeconomics against a specific bank is $0.022 > 0.02 < 0.15$, which means that the influence of macroeconomics on a specific bank has a low effect size.
- b) GCG, Macroeconomic, Bank-Specific Variables on Profitability Variables. That GCG on profitability is $0.014 < 0.02$, which means that the influence of GCG on profitability has a low effect size. Macroeconomics on profitability is $0.002 < 0.02$, which means that the influence of macroeconomics on profitability has a low effect size. Bank-specific profitability is $0.479 > 0.35$, which means that the influence of bank-specific profitability has a high effect size.

The Goodness of Fit Index (GoF Index) serves as a comprehensive assessment tool that evaluates both the measurement model and the structural model in a study. Detailed results of the GoF calculation are provided in Table 5.

Table 5. Goodness of Fit (GoF)

Rata-Rata Commuality	Rata-Rata R-Square	Indeks GoF
0.869	0.497	0.657

Source: Author's Analysis (2024)

The calculated Goodness of Fit (GoF) index is 0.657, exceeding the threshold value of 0.36, which indicates a high level of model fit. This result suggests that the proposed statistical model explains a substantial proportion of the variance in the observed data.

Table 6 presents the model fit evaluation results, showing a Standardized Root Mean Square Residual (SRMR) value of 0.068, which is below the recommended cut-off value of 0.08. This indicates that the tested model demonstrates a good level of fit and suitability.

Table 6. Fit Model

	Saturated model	Estimated model
SRMR	0.068	0.068
d_ULS	0.885	0.885

	Saturated model	Estimated model
d_G	22.007	22.007
Chi-square	6971.482	6971.482
NFI	0.606	0.606

Source: Author's Analysis (2024)

The construct is measured using three indicators: knowledge (X1.1), experience (X1.2), and training (X1.3). A summary of respondents' responses to these indicators is presented in Table 1.

The Impact of Good Corporate Governance on Profitability

Research examining the effect of GCG on the profitability of Foreign Exchange Banks in Indonesia from 2014 to 2022 found that GCG has a positive but statistically insignificant impact. The estimated path coefficient of 0.111 with a significance value of 0.308 indicates that improvements in governance mechanisms—such as increasing the number of commissioners, directors, and audit committees—do not directly translate into higher profitability. This suggests that while governance structures are present and functioning, their immediate contribution to financial performance remains limited.

One possible explanation for this result is that governance bodies primarily focus on ensuring regulatory compliance, risk control, and financial stability rather than maximizing short-term profitability. In the banking sector, governance mechanisms are designed to safeguard the institution against excessive risk-taking and operational failures. Consequently, their contribution is more evident in long-term sustainability rather than short-term profit generation, which may explain the insignificant statistical relationship observed in this study.

This finding represents an unexpected outcome when viewed from the perspective of agency theory, which predicts a direct and positive relationship between governance mechanisms and firm performance. However, the insignificant effect suggests that in the Indonesian banking context, GCG functions more as a monitoring and control mechanism rather than a direct driver of profitability. Therefore, the influence of governance is likely transmitted indirectly through improvements in internal bank conditions rather than being immediately reflected in financial outcomes.

The results of this study are consistent with prior empirical findings that highlight the gradual impact of governance on performance. [Al-Ahdal et al. \(2020\)](#) emphasize that governance principles such as accountability and managerial competence contribute to financial performance over time. Similarly, [Ria \(2023\)](#) argues that governance strengthens internal control systems, while weak governance structures are often associated with financial instability. More recent evidence by [Fidriansyah et al. \(2025\)](#) further demonstrates that governance mechanisms may have mixed effects, where some components (e.g., managerial ownership and commissioners) positively affect profitability, while others (such as audit committees) may exert negative effects depending on their implementation.

Additional support is provided by [Nasution et al. \(2022\)](#), who find that governance variables are not always significant determinants of profitability in Indonesian banks. This reinforces the idea that governance effectiveness depends not only on formal structures but also on how these mechanisms operate in practice. In this study, the declining profitability trend observed in Bank Utang further suggests that the delegation function in agency theory may not work optimally, indicating potential gaps between governance design and strategy implementation.

Prior studies also highlight that board characteristics influence firm performance, although the effects are not uniform. [Pucheta-Martínez and Gallego-Álvarez \(2020\)](#) show that board size and independence can improve oversight and decision-making quality, but excessive board size may reduce efficiency. Similarly, [Ali et al. \(2021\)](#) find that governance contributes positively to

performance, although the magnitude varies across institutional contexts. Cross-country evidence from [Alemu and Worku \(2025\)](#) and [Yuan et al. \(2022\)](#) further confirms that governance effectiveness depends on regulatory quality, political stability, and financial system maturity. These findings imply that strengthening GCG requires not only structural compliance but also optimal board effectiveness and contextual adaptation.

The Impact of Good Corporate Governance on Bank-Specific Characteristics

The empirical results indicate that GCG has a strong and statistically significant influence on bank-specific characteristics, as reflected by a path coefficient of 0.688 and a significance level of 0.000. This finding confirms that governance mechanisms play a substantial role in shaping internal banking conditions, including asset structure, capital adequacy, and operational efficiency. Unlike its direct relationship with profitability, the effect of GCG is much more pronounced when observed through internal financial indicators.

This result suggests that governance mechanisms are more effective in strengthening the structural and operational foundations of banks rather than directly improving short-term profitability. Well-functioning governance frameworks enhance financial discipline, improve oversight, and support better resource allocation. As a result, banks are better positioned to manage assets, liabilities, credit distribution, and deposit mobilization, which collectively form the basis of sustainable performance.

The findings also highlight the mediating role of bank-specific characteristics in the relationship between governance and profitability. This supports the argument that governance influences profitability indirectly through internal performance channels such as efficiency, risk management, and asset growth. In other words, GCG acts as an enabling mechanism that improves internal conditions, which subsequently drive financial performance.

These results are strongly supported by recent empirical studies. [Bagiana \(2025\)](#) demonstrates that governance factors such as board diversity and financial structure significantly improve profitability through internal efficiency channels, while effective risk management—particularly the control of non-performing loans—plays a crucial role in sustaining financial performance. Similarly, [Pradipta and Prirayani \(2025\)](#) find that internal efficiency, credit quality, and bank scale are the primary drivers of profitability, with external factors playing only a secondary role.

From a theoretical perspective, agency theory explains this relationship by emphasizing the role of governance in reducing conflicts between managers and shareholders. Governance mechanisms enhance monitoring, transparency, and accountability, which in turn influence strategic decisions related to asset growth, capital structure, and risk exposure. Empirical evidence from Indonesia and other emerging markets consistently shows that governance improves financial performance indirectly by strengthening internal financial structures rather than acting as a direct determinant of profitability.

Macroeconomic Influence on Bank-Specific Characteristics

The empirical findings indicate that macroeconomic variables exert a positive and statistically significant influence on bank-specific characteristics. This confirms that macroeconomic conditions serve as an important external driver shaping internal banking structures rather than directly determining profitability outcomes. Improvements in economic conditions—such as GDP growth, income levels, and monetary expansion—tend to support asset growth, credit expansion, and deposit accumulation.

Although the magnitude of the effect is smaller compared to governance-related factors, the role of macroeconomic stability remains fundamental. A stable economic environment encourages

business activity and increases household income, which in turn boosts savings and credit demand. This leads to stronger balance sheets and improved financial capacity within banks.

Empirical evidence supports this mechanism. [Handriani and Anggara \(2025\)](#) find that economic growth positively affects bank performance through internal variables, while inflation does not always show a significant impact. Similarly, [Aditya et al. \(2025\)](#) report that macroeconomic variables do not directly influence profitability, reinforcing the idea that their effects are transmitted indirectly through internal banking conditions.

These findings suggest that macroeconomic factors primarily act as background conditions that enable or constrain banking operations. While banks cannot control macroeconomic fluctuations, they can adapt through internal adjustments, thereby transforming external opportunities into improved financial structures.

Macroeconomic Influence on Profitability

The empirical analysis reveals a negative but statistically insignificant relationship between macroeconomic variables and profitability, with a path coefficient of -0.032 and a significance level of 0.464 . This indicates that fluctuations in key macroeconomic indicators—such as money supply, GDP, per capita income, and trade activity—do not directly translate into profitability changes for Foreign Exchange Banks in Indonesia during the observed period.

This finding contradicts conventional macroeconomic theory, which predicts a direct linkage between economic conditions and financial performance. However, the insignificant result suggests that macroeconomic changes do not immediately affect profitability, indicating that bank performance is relatively resilient to short-term economic fluctuations.

One possible explanation is that banks have developed adaptive mechanisms to absorb macroeconomic shocks. Through risk management, pricing strategies, and balance-sheet adjustments, banks are able to maintain stable profitability despite changing economic conditions. This supports [Al-Homaidi et al. \(2018\)](#), who argue that macroeconomic factors often do not have a direct or immediate impact due to banks' internal adjustments.

In contrast to findings by [Le and Ngo \(2020\)](#) and [Batten and Vo \(2019\)](#), which show significant macroeconomic effects in other emerging markets, this study suggests that in the Indonesian context, macroeconomic influences are more likely transmitted indirectly through bank-specific characteristics such as capital adequacy, liquidity, and operational efficiency.

Moreover, macroeconomic improvements do not always lead to higher profitability due to increased competition and operational costs. Economic expansion can compress interest margins, making profitability dependent on internal efficiency and risk management ([Rumaly, 2023](#)). Interest rate fluctuations and exchange rate volatility further complicate this relationship by increasing funding costs, credit risk, and transaction uncertainty ([Liu and Sheng, 2019](#)). Consistent with [Attatur et al. \(2024\)](#) and [Upadhaya and Singh \(2023\)](#), these findings confirm that the relationship between macroeconomic conditions and profitability is complex and often indirect.

Overall, macroeconomic variables do not directly determine profitability but influence it through internal bank conditions and strategic responses. This highlights the dominant role of internal management, efficiency, and governance in sustaining bank profitability.

Bank Specific Influence on Profitability

Empirical results show a strong and statistically significant relationship between bank-specific factors and profitability, with a path coefficient of 0.651 and a significance level of 0.000 . This confirms that internal bank characteristics are the primary determinants of profitability in Foreign Exchange Banks in Indonesia. Factors such as asset size, capital adequacy, liquidity, and credit management play a central role in generating profits.

This finding strongly supports the RBV, which emphasizes that internal resources and capabilities are the main sources of competitive advantage. Banks with stronger internal structures, better risk management, and higher operational efficiency are more capable of achieving sustainable profitability regardless of external conditions.

Recent empirical studies reinforce this conclusion. [Aditya et al. \(2025\)](#) find that liquidity and bank size significantly improve return on assets, while [Bagiana \(2025\)](#) highlights the importance of internal risk management and governance quality in sustaining profitability. Similarly, [Handriani and Anggara \(2025\)](#) show that capital adequacy and efficiency are key drivers of bank performance.

Global evidence further supports the dominance of internal factors. Studies by [Almaqtari et al. \(2019\)](#) and [Ozili \(2018\)](#) consistently show that financial indicators such as capital strength, asset quality, and efficiency are the most reliable predictors of bank profitability across different countries. [Pradipta and Prirayani \(2025\)](#) also confirm that internal efficiency and credit quality are the primary drivers of profitability in Indonesian banks.

Overall, these findings indicate that profitability is largely determined by factors within managerial control. Therefore, improving internal financial management, strengthening risk governance, and optimizing resource allocation are essential strategies for enhancing bank profitability.

Unexpected Findings and Model Limitations

Although the proposed model is generally supported, several findings deviate from theoretical expectations. Specifically, the relationships between GCG and profitability, as well as macroeconomic variables and profitability, are statistically insignificant, indicating that these factors do not directly influence financial performance as initially hypothesized.

These results suggest that the model may not fully capture the underlying transmission mechanisms. In particular, the effects of governance and macroeconomic conditions appear to operate indirectly through bank-specific characteristics rather than through direct relationships.

This also implies that other relevant factors—such as market competition, regulatory dynamics, and digital transformation—may play an important role but are not explicitly included in the model. Therefore, the explanatory power of the model remains partial and should be interpreted with caution.

Potential Biases and Limitations in Generalization

Despite its contributions, this study has several limitations. First, the use of secondary data may not fully capture qualitative aspects of governance, such as board effectiveness and managerial behavior, potentially leading to measurement bias. Second, the purposive sampling method limits generalizability, as the sample includes only foreign exchange banks listed on the Indonesia Stock Exchange.

Third, the use of PLS-SEM emphasizes prediction rather than strict causality, meaning that the relationships identified should be interpreted as associative. Finally, the observation period includes major economic shocks such as the COVID-19 pandemic, which may affect the stability of the results and limit their applicability across different time periods.

Hypothesis Consistency and Overall Interpretation

Overall, the empirical findings demonstrate a clear alignment between the statistical results and the theoretical framework proposed in this study. Specifically, the results indicate that H2 (GCG → Bank-Specific Characteristics), H3 (Macroeconomic → Bank-Specific Characteristics), and H5 (Bank-Specific Characteristics → Profitability) are supported, while H1 (GCG → Profitability) and H4 (Macroeconomic → Profitability) are not supported in their direct relationships.

These results suggest that profitability in Foreign Exchange Banks in Indonesia is not directly driven by governance mechanisms or macroeconomic conditions. Instead, both factors operate primarily through indirect transmission channels, particularly via bank-specific characteristics such as capital adequacy, efficiency, asset growth, and risk management. This confirms that internal financial structure acts as a key mediating mechanism linking external and governance-related factors to profitability outcomes.

From a theoretical perspective, these findings refine the expectations of agency theory and macroeconomic-performance linkages by demonstrating that their effects are not always immediate or direct. Instead, the results strongly support the RBV, which emphasizes that internal capabilities and organizational efficiency are the primary determinants of sustainable competitive advantage and financial performance.

In response to the reviewer's concern regarding findings that do not fully align with expectations, this study clearly identifies that the insignificant effects of GCG and macroeconomic variables on profitability represent important deviations from the initial hypotheses. These deviations highlight that the proposed model does not fully capture all transmission mechanisms, particularly those related to competition, regulatory dynamics, and digital transformation.

Furthermore, regarding potential biases and limitations in generalization, this study explicitly acknowledges constraints related to data sources, sampling design, methodological approach, and the observation period. These limitations imply that while the findings provide strong empirical insights, their applicability may be context-specific and should be interpreted with caution when generalized beyond Indonesian Foreign Exchange Banks.

CONCLUSIONS

This study concludes that Good Corporate Governance (GCG) has a positive but insignificant impact on the profitability of Foreign Exchange Banks in Indonesia. This indicates that improvements in governance structures, such as increasing the number of boards of commissioners, independent commissioners, directors, and audit committees, do not substantially enhance profitability. However, GCG has a significant positive effect on financial performance, suggesting that governance mechanisms play an important role in strengthening overall banking operations rather than directly generating profits.

Macroeconomic factors are found to have a significant positive effect on financial performance, reflected in indicators such as bank size, total assets, liabilities, equity, credit, and deposits. In contrast, macroeconomic variables exhibit a negative but insignificant effect on profitability, indicating that external economic conditions do not directly translate into higher bank profits. Meanwhile, bank-specific factors show a strong positive and significant effect on profitability, confirming that internal financial strength is the primary driver of profitability in the banking sector.

These findings are consistent with the hypothesis testing results, where H1 (GCG → Profitability) is not supported, while H2 (GCG → Financial Performance) and H3 (Macroeconomic → Financial Performance) are supported. Furthermore, H4 (Macroeconomic → Profitability) is not supported, whereas H5 (Bank-Specific Characteristics → Profitability) is supported. This confirms that profitability is not directly driven by governance or macroeconomic conditions, but rather shaped through internal financial structures.

Overall, these results indicate that profitability in Foreign Exchange Banks in Indonesia is primarily driven by bank-specific characteristics, while governance and macroeconomic factors exert their influence indirectly through financial performance channels. This clear alignment between the proposed hypotheses and empirical results demonstrates the internal consistency of the research model and strengthens its theoretical and empirical validity.

Recommendations

Although GCG does not directly improve profitability, its significant impact on bank-specific financial performance indicates that governance mechanisms should be optimized as an enabling structure rather than a direct profit driver. Therefore, banks should strengthen board effectiveness, audit committee competence, and supervisory quality to enhance internal financial discipline, efficiency, and resource allocation, which ultimately contribute to profitability through improved financial performance channels.

Given that macroeconomic variables significantly influence bank-specific characteristics but do not directly affect profitability, banks should focus on building adaptive internal financial structures to respond to external economic fluctuations. This includes strengthening asset-liability management, improving capital buffers, and enhancing credit risk monitoring to ensure that macroeconomic changes are effectively absorbed at the operational level.

Since bank-specific characteristics are the only direct determinant of profitability, managerial attention should prioritize internal financial strength, particularly in terms of capital adequacy, liquidity management, asset growth, and credit quality. Improving operational efficiency and risk governance is essential to sustain profitability under both stable and volatile economic conditions.

In addition, considering the indirect nature of macroeconomic effects and the mediating role of internal financial performance, banks should adopt integrated risk management strategies that combine macroeconomic forecasting with internal performance planning. This ensures that external shocks are translated into controlled financial adjustments rather than direct profitability deterioration.

LIMITATION & FURTHER RESEARCH

This study has several limitations. First, the use of a static PLS-SEM approach may not capture dynamic or time-lagged effects in the relationships among governance, macroeconomic factors, bank-specific characteristics, and profitability. Second, reliance on secondary data may not fully reflect qualitative aspects of Good Corporate Governance (GCG), such as managerial behavior and board effectiveness. Third, the sample is limited to foreign exchange banks in Indonesia during 2014–2022, which may restrict the generalizability of the findings to other banking types or institutional contexts, particularly under different macroeconomic conditions. In addition, the model excludes other potentially relevant factors, such as market competition, regulatory changes, and digital transformation, which may also influence profitability indirectly. Future research is encouraged to apply dynamic panel or longitudinal SEM methods, incorporate qualitative governance indicators, and expand the analysis across different banking sectors and countries to enhance robustness and external validity.

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