Analysis of Corporate Governance, Market Concentration, And Diversification on Financial Stability In The Indonesian Banking Sector

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Abstract. This research explores the relationships between corporate governance, market concentration, and diversification strategies in shaping financial stability within Indonesia's banking sector, with a particular focus on the impact of the COVID-19 pandemic. Utilizing COVID-19 as a dummy variable, the study analyzes data from 2015 to 2022 across 62 Indonesian listed and non-listed commercial banks. A panel data regression model, with the Z score as the measure of financial stability, was employed to assess the effects of corporate governance metrics (such as independent commissioner participation, gender diversity, ownership concentration, and managerial ownership), market concentration, and diversification. Findings suggest that while independent commissioner participation, gender diversity, and ownership concentration demonstrate negative and insignificant effects on financial stability, managerial ownership and market concentration exhibit significant negative impacts. Conversely, diversification into non-traditional activities shows a positive and significant correlation with stability. Recommendations include enhancing the role of independent commissioners, promoting gender diversity, diversifying ownership, and encouraging market competition. Regulators should enforce governance policies, monitor ownership concentration, and promote income diversification.

Keywords: *Corporate Governance, Market Concentration, Diversification, Financial Stability, COVID-19.*

1 INTRODUCTION

The banking sector has faced major crises, such as the Asian currency crisis of 1997–2000 and the global financial crisis of 2007–2008, necessitating robust regulatory measures [1, 2]. Regulatory bodies have since imposed higher standards to improve risk management within the sector [3]. The COVID-19 pandemic has further intensified challenges, prompting swift regulatory actions like debt restructuring, resulting in disruptions across economies, notably impacting banks [4, 5]. This crisis has significantly affected the banking sector, reducing credit growth and increasing third-party funds in Indonesia. Accommodating policies and elevated perceptions of banking risks have led to a liquidity surplus but also a decline in banks' intermediation function, and a rise in Non-Performing Loans. The Indonesian banking system's financial stability, indicated by a Z-score of 5.27 in 2021, needs improvement compared to neighboring countries and the global average [6]. These disruptions have unveiled vulnerabilities within the banking sector in Indonesia, particularly in corporate

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governance, market concentration, and diversification strategies. Given the banking sector's pivotal role in Indonesia's economic framework, addressing these challenges amidst the ongoing impact of the pandemic requires adaptive strategies and regulatory interventions, especially in areas like corporate governance and market concentration [7, 8].

Effective corporate governance, particularly through the inclusion of independent commissioners, plays a crucial role in enhancing financial stability within organizations. The oversight provided by independent commissioners ensures transparency, reduces information asymmetry, and mitigates financial risks, aligning with agency theory principles. Haribowo et al. [9] discovered a positive correlation between the quantity of independent commissioners in Islamic banks across Asia and financial stability, indicating that their involvement significantly influences company dynamics, benefiting institutions by fostering stability and ensuring long-term sustainability. However some empirical studies also show that independent commissioners do not have a significant effect on financial stability [10, 11].

Gender diversity is gaining recognition for its potential benefits in corporate governance, but in Indonesia women's representation on boards remains comparatively low despite recent progress [12]. Marie et al. [13] highlights a positive correlation between female directors and banks' overall financial stability. Dang et al. [14] also found a positive correlation between board gender diversity and financial stability. Al-Absy et al. [15] discover a significant negative association between women on boards and firms' financial stability.

Ownership concentration serves as a tool to address agency problems, particularly in the banking sector of Indonesia, where prevalent high ownership concentration is regulated to mitigate risks associated with exploitation by dominant shareholders [16, 17]. However, research yields conflicting perspectives on the impact of ownership concentration on financial stability, with some highlighting that higher concentrated ownership tends to reduce the risk of insolvency and is associated with improved financial stability [18, 19, 20]. On the other hand, some studies found a positive link between ownership concentration and bank risk, potentially decreasing overall financial stability [21, 22].

Managerial ownership, serving as a mechanism to align managerial interests with shareholder interests, mitigates internal conflicts [23]. Regarding the connection between managerial ownership and financial stability, certain empirical studies have also produced conflicting results. Bouwens and Verriest [24] found that managerial ownership negatively impacts bank risk, potentially enhancing financial stability as risk-averse managers with significant stakes prioritize stability over excessive risk-taking. Conversely, Laeven and Levine [21] found that high management ownership increases bank risk.

The Indonesian banking sector, vital for economic growth, has undergone consolidation efforts to enhance stability, consistently reducing the number of banks from 239 in 1996 to 106 in 2022. Recent years witnessed substantial transformations in the Indonesian banking sector, intensifying its competitiveness. However, this sector, despite advancements, requires structural strengthening. One significant concern is the

prevailing market concentration [25]. Berger et al. [26] emphasize the impact of competition and concentration on banks' risk-taking behavior, while Mulyaningsih and Daly [27] reveal reduced concentration and the monopolistic nature of Indonesia's banking market, influencing risk-taking behaviors. Research on market concentration's link to financial stability offers conflicting views. Some studies suggest increased concentration reduces financial stability, supporting the "concentration-fragility" view [28, 29, 30]. Conversely, some studies found increased concentration increases financial stability, supporting the "concentration-stability" view [31, 32].

During the pandemic, banks countered profitability decline by investing excess cash in safer securities, primarily government bonds, reflecting industry strategies amidst higher credit risks. In 2020, Bank Indonesia mentioned that a majority of bank income 66% came from interest, while the remainder of 34% was from non-interest sources, highlighting the industry's strategy to manage risk and maintain income stability during uncertain times. The relationship between revenue diversification and financial stability in banks has yielded conflicting findings across studies. While some, like Lepetit et al. [33] and Maudos [34], suggest that increased reliance on non-interest income activities might elevate risk and negatively impact profitability, others, such as Odesanmi and Wolfe [35], Saunders et al. [36], and Markoulis et al. [37], propose that diversification, particularly through non-interest income, could positively influence risk-adjusted performance and reduce the probability of bank instability or failure.

This study sets itself apart by focusing exclusively on Indonesia's banking sector, unlike prior research that covers various sectors. This exclusive focus addresses a significant research gap in understanding the specific dynamics within Indonesia's banking industry. Additionally, the study emphasizes the pivotal role of the banking sector in emerging markets like Indonesia [38]. This emphasis on an emerging market context, combined with a major focus on banking, provides a distinctive perspective. Furthermore, acknowledging the limitations of relying solely on financial metrics for predicting insolvency, this research incorporates corporate governance-related variables. This approach aligns with the emerging consensus, by Gillani et al. [39], that such variables are essential for enhancing predictive models, thereby contributing to the novelty and relevance of the study.

2 LITERATURE REVIEW

2.1 Independent Commissioners

Independent commissioners, individuals who are not associated with controlling stakeholders or board members, serve a critical function in corporate governance. They ensure fairness, transparency, and accountability, influencing management oversight, shareholder interests, and bankruptcy risk [40]. Their presence mitigates agency problems, reduces information asymmetry, and fosters better decision-making by diversifying perspectives [41]. According to Financial Services Authority Regulation No. 17 of 2023, in Indonesia, regulations mandate at least 50% independent commissioners. They possess financial expertise, advocate for minority stakeholders, and also act as skilled mediators, particularly in community-financed businesses. The role of independent commissioners extends to fostering financial stability within companies. Recent studies have highlighted their positive impact on financial stability.

For instance, Khairunnisa et al. [42] found a significant positive correlation between the quantity of independent commissioners and financial stability in Islamic banks across Asia. Similarly, Pratiwi et al. [43] highlighted the positive impact of independent commissioners on the financial performance of Indonesian banks. Zulfikar et al. [44] observed that the presence of independent commissioners demonstrated a negative association with financial performance in Indonesian banking listed companies. Despite discrepancies, the role of independent commissioners remains essential for effective governance and mitigating financial risks [11].

H1: Independent commissioners have a positive effect on financial stability.

2.2 Board Gender Diversity

Proponents of board gender diversity highlight the access to diverse resources and perspectives that women directors bring. They argue that this diversity enhances decision-making, improves corporate governance, and mitigates risk [45]. This aligns with Resource Dependence Theory, which emphasizes the importance of diverse boards in establishing connections and addressing the company's diverse needs [46]. While stakeholders often champion women's involvement, alternative perspectives question its impact on overall company performance [47]. Abebe and Dadanlar [48] contribute insights using social identity theory, highlighting the value of diverse experiences and perspectives women directors bring. Studies suggest that gender-diverse boards positively influence companies through improved monitoring, reduced agency costs, and better accounting quality [49]. Additionally, women directors, often demonstrating risk aversion, might mitigate biases in crucial decisions, contributing to lower financial risk [50]. However, the research on the impact of board gender diversity on financial stability remains inconsistent, with some studies reporting positive correlations [51, 52, 13, 14] and others finding negative associations [53, 54, 15].

H2: Board gender diversity has a positive effect on financial stability.

2.3 Ownership Concentration

Ownership concentration, a prevalent characteristic in businesses where well-known owners hold a substantial portion of shares, significantly influences corporate governance and financial stability. While high ownership concentration is common globally, outside the US and UK, particularly in emerging markets, its implications vary. In emerging economies like Indonesia, where bank ownership is highly concentrated, governance mechanisms are challenged due to increased opacity and government regulation [55, 56]. While agency theory suggests ownership concentration mitigates agency problems arising from the separation of ownership and control, through mechanisms like shareholder monitoring and discouraging managerial self-interest, it also carries potential risks [57, 58]. This concern is particularly relevant in countries with weak investor protection, like Indonesia, where conflicts between large and small shareholders can intensify [59]. Therefore, ownership concentration presents a complex scenario, demanding further exploration in the context of emerging economies like Indonesia. Studies find a positive correlation between ownership concentration and bank risk, suggesting potential for decreased financial stability [21, 22]. However, Kim [19] highlights a negative association between ownership

concentration and bankruptcy risk, particularly in countries with weaker governance, emphasizing its role as a mitigating factor. Additionally, Iannotta et al. [18] find benefits like improved loan quality and lower insolvency risk in European banks with concentrated ownership. Furthermore, studies by Boussaada and Karmani [60] and Huang [20] demonstrate positive impacts of ownership concentration on bank performance, risk management, and stability in MENA and Chinese banks, respectively.

H3: Ownership concentration has a positive effect on financial stability.

2.4 Managerial Ownership

Managerial ownership, which includes corporate managers, board of directors, and commissioners, plays a significant role in corporate governance [38]. It incentivizes managers to align their decisions with shareholder interests, mitigating agency conflicts arising from information asymmetry [61]. While increased ownership encourages cautious decision-making, excessive control can lead to managerial entrenchment, potentially harming shareholders [38, 62]. Regarding the connection between managerial ownership and financial stability, certain empirical studies have also produced conflicting results. Bouwens and Verriest [24] suggested that managerial ownership has a negative consequence on bank risk. When managers have a significant ownership stake in their banks, they tend to take less risk. This aligns with the idea that managers with substantial ownership in their banks are more inclined to be risk-averse because they have more to lose if the bank takes excessive risks, as they have a higher personal stake tied to the bank's performance. On the other hand, Laevene and Levine [21] found that managerial ownership is positively related with bank risk. Margaretha and Wijaya [63] found that managerial ownership has a positive but insignificant effect on financial instability in the conventional commercial banking sector in Indonesia.

H4: Managerial ownership has a positive effect on financial stability.

2.5 Market Concentration

The consolidation of the banking sector in ASEAN countries, including Indonesia, aimed to enhance stability, but concerns regarding market concentration have emerged [25]. This level of concentration where a few banks control a large market share has sparked debates about its impact on financial stability, leading to two opposing viewpoints: the "concentration-stability" and "concentration-fragility" hypotheses [29]. The "concentration-stability" hypothesis suggests that less concentrated markets, with more competition, might lead to riskier behavior by banks struggling to maintain profitability [64]. Conversely, the "concentration-fragility" perspective argues that highly concentrated markets, with a few dominant banks, may be more susceptible to crises due to moral hazard and potential government bailouts, increasing systemic risk [65, 66]. Studies like Chiaramonte and Casu [32] and Beck et al. [31] support the "concentration-stability" view, suggesting that higher concentration leads to greater stability. Conversely, research by Cipollini and Fiordelisi [67], De Nicoló and Loukoianova [28], Uhde and Heimeshoff [29], and Fu et al. [30] align with the "concentration-fragility" perspective, indicating that increased concentration is associated with higher financial instability.

H5: Market concentration has a negative effect on financial stability.

2.6 Diversification

Banks diversify their income streams through both traditional (lending, deposit services) and non-traditional (fee-based services, investment products) activities. This diversification, particularly the shift towards non-interest income, aimed to reduce volatility and stabilize earnings has complex effects [68, 69, 70]. Stiroh [71, 72] warns that venturing beyond core competencies can be risky.

Studies investigating the relationship between revenue diversification and financial stability present contradictory findings, highlighting the complexity of this issue. Research by Lepetit et al. [33] and Maudos [34] suggest a negative correlation. They argue that increased reliance on non-interest income activities, such as trading or using nondeposit funding, can heighten risk and decrease bank stability. This is because these activities might be inherently riskier or expose banks to greater volatility in funding sources. On the other hand, Odesanmi and Wolfe [35] found that diversification tends to increase risk-adjusted performance, while Saunders et al. [36] linked a greater proportion of non-interest income to increased profitability and reduced bank failure likelihood. Similarly, Markoulis et al. [37] observed a negative relationship between diversification and bank distress, suggesting that banks with higher non-interest income experienced a lower probability of failure.

H6: Diversification has a positive effect on financial stability.

3 RESEARCH METHODS

3.1 Data Source

The research used purposive sampling with specific criteria: classification as banking companies, consistent publication of annual financial reports from 2015 to 2022, alignment with research requirements, and financial statements presented in Indonesian Rupiah (IDR). Secondary data from annual financial reports of 62 Indonesian listed and non-listed commercial banks during 2015–2022 were collected for analysis. The data underwent processing and analysis for a panel data model. The regression model utilized either fixed effects (FE) or random effects (RE), chosen based on statistical tests assessing the appropriateness of each model. The decision to employ FE or RE was determined through diagnostic tests, such as the Hausman test, evaluating the presence of unobserved heterogeneity and the suitability of the chosen model for the dataset.

3.2 Research Model

This study employs the panel data regression model, with Z score or measurement of financial stability as a dependent variable.

$$ZSCORE_{it} = \alpha + \beta_1 INDCOM_{it} + \beta_2 BOARDGEN_{it} + \beta_3 OWNCONC_{it} + \beta_4 MANAGOWN_{it} + \varepsilon_{it} \quad \text{Equation (1)}$$

$$ZSCORE_{it} = \alpha + \beta_1 INDCOM_{it} + \beta_2 BOARDGEN_{it} + \beta_3 OWNCONC_{it} + \beta_4 MANAGOWN_{it} + \beta_5 MARKCONC_{it} + \beta_6 HHIREV_{it} + \beta_7 BSIZE_{it} + \beta_8 ROA_{it} + \beta_9 LIQUIDITY_{it} + \beta_{10} BGROWTH_{it} + \beta_{11} GDP_{it} + \beta_{12} INFLATION_{it} + \beta_{13} COVID19_{it} + \varepsilon_{it} \quad \text{Equation (2)}$$

$$ZSCORE_{it} = \alpha + \beta_1 INDCOM_{it} + \beta_2 BOARDGEN_{it} + \beta_3 OWNCONC_{it} + \beta_4 MANAGOWN_{it} + \beta_5 MARKCONC_{it} + \beta_6 HHINON_{it} + \beta_7 BSIZE_{it} + \beta_8 ROA_{it} + \beta_9 LIQUIDITY_{it} + \beta_{10} BGROWTH_{it} + \beta_{11} GDP_{it} + \beta_{12} INFLATION_{it} + \beta_{13} COVID19_{it} + \varepsilon_{it} \quad \text{Equation (3)}$$

The subscript i indicates the bank and t indicates the time. The table below provides an explanation of the variable descriptions used.

3.3 Variables

Variables	Connotation	Measurement	References
Dependent Variable			
Financial Stability	ZSCORE	The sum of return on assets and the ratio of equity to total assets divided by the standard deviation of return on assets	Lepetit et al. (2008); Stiroh and Rumble (2006)
Independent Variables			
Independent Commissioners	INDCOM	Proportion of independent commissioners = Total of independent commissioners / Total of commissioners	Susanto & Walyoto (2023); Arjang and Rahman (2023)
Board Gender Diversity	BOARDGEN	Proportion of Woman Director = Number of Woman in Director / Number of Board of Directors	Marie et al. (2022); Dang et al. (2023)
Ownership Concentration	OWNCONC	The percentage of shares held by the largest shareholder	Kim (2019); Iannotta et al. (2007)
Managerial Ownership	MANAGOWN	The percentage of shares held by management	Bouwens & Verries (2014); Margaretha and Wijaya (2023)
Market Concentration	MARKCONC	The sum of the market share (total assets) of the five largest banks.	Cipollini & Fiordelisi (2009)
Diversification	HHIREV HHINON	Modifications of the Herfindahl Hirschman Index (HHI) to measure revenue diversification in terms of interest income and non-interest income (HHIREV), as well as diversification within non-traditional activities generating non-interest income (HHINON).	Stiroh (2004); Bustaman et al. (2017); Markoulis et al. (2023)
Control Variables			
Bank Size	BSIZE	Natural Logarithm of total assets	Baklouti et al. (2016)
Profitability	ROA	Ratio of EBIT over total assets	Suhartanto et al. (2022)
Liquidity	LIQUIDITY	Ratio of liquid assets over total assets	Bustaman et al. (2017)
Bank Growth	BGROWTH	The changes in total asset between the current and past year divided by total assets of past year	Zaki et al. (2011)
GDP	GDP	GDP rate in the country	World Bank
Inflation	INFLATION	Inflation rate in the country	Bank Indonesia
COVID19	COVID19	0 = periods before COVID19 1 = periods during COVID19	

4 RESULTS AND DISCUSSIONS

Table 1. Descriptive Statistics

	Mean	Median	Max	Min	Std. Dev	Observations
ZSCORE	33.791	26.148	207.820	-0.691	29.410	496
INDCOM	0.533	0.500	1.000	0.000	0.189	496
BOARDGEN	0.198	0.200	0.750	0.000	0.185	496
OWNCONC	0.597	0.599	0.990	0.000	0.299	496
MANAGOWN	0.011	0.000	0.539	0.000	0.057	496
MARKCONC	0.612	0.604	0.689	0.548	0.044	496
HHIREV	0.702	0.694	0.991	0.500	0.134	496
HHINON	0.601	0.550	1.000	0.334	0.192	496
BSIZE	17.225	16.963	21.413	13.111	1.663	496
ROA	0.007	0.001	0.047	-0.196	0.023	496
LIQUIDITY	0.162	0.147	0.886	0.034	0.082	496
BGROWTH	0.158	0.088	4.648	-0.398	0.349	496
GDP	-0.471	-0.009	0.434	-2.793	1.014	496
INFLATION	0.067	-0.140	1.699	-0.445	0.636	496

Table 2. Fixed Effect Regression Result

ZSCORE	Equation (1)	Equation (2)	Equation (3)
INDCOM	-6.0238 (0.3624)	-2.0441 (0.7498)	-2.9880 (0.6438)
BOARDGEN	-1.5475 (0.7696)	-3.6610 (0.4747)	-3.0118 (0.5595)
OWNCONC	-1.7243 (0.6838)	-1.1623 (0.7826)	-1.4662 (0.73)
MANAGOWN	-98.9360*** (0.0000)	-109.957*** (0.0000)	-111.8862*** (0.0000)
MARKCONC		-53.0769** (0.0111)	-44.0107** (0.0343)
HHIREV		18.1916*** (0.0047)	
HHINON			3.1947 (0.4070)
BSIZE		-8.5988*** (0.0000)	-8.2592*** (0.0000)
ROA		33.1631 (0.1939)	34.6141 (0.1789)

LIQUIDITY		6.5005 (0.3725)	5.0626 (0.4904)
BGROWTH		3.5233** (0.0220)	3.1966** (0.0389)
GDP		-0.1236 (0.8536)	-0.1931 (0.7750)
INFLATION		1.7926 (0.1138)	2.2573** (0.0460)
COVID19		0.3266 (0.8364)	-0.0620 (0.9689)

The p-values are shown in the parentheses; ***, ** and * denote significance at 1%, 5%, and 10% levels respectively.

In accordance with prior studies by Susanto and Walyoto [10] and Arjang and Rahman [11], this research observed no significant impact of the number of independent commissioners on a firm's financial stability. This could be attributed to regulations like the Financial Services Authority Regulation No. 17 of 2023, which mandates a minimum of 50% independent commissioners but may not guarantee their influence. From the perspective of agency theory, the presence of independent commissioners is expected to mitigate agency conflicts by providing unbiased oversight. However, imbalances in decision-making dynamics among commissioners could explain the limited impact of independent oversight on financial stability. Moreover, Khalil and Ben Slimene [73] suggest that robust management strategies might overshadow the influence of commissioners, while Lassoued [74] and Buallay [75] point out that restricted access to information for independent commissioners could hinder their effectiveness.

Similarly, this study found no significant influence of board gender diversity on financial stability, aligning with prior research by Ghosh [76] and Nguyen [77]. The relatively low representation of women on boards (mean 0.198, median 0.200) may restrict the potential impact of diverse perspectives on financial stability. From a resource-dependence theory standpoint, gender diversity on boards is anticipated to bring diverse perspectives and resources, enhancing decision-making and stability. However, a negative correlation suggests a possible adverse influence of increased female representation on boards, as indicated by Al-Absy et al. [15] and Berger et al. [54]. Berger et al. [54] also associate lower experience levels among female executives with riskier company finances, while Adams and Funk [53] note women directors' inclination towards risk-taking compared to men.

Furthermore, this study revealed a negative insignificant correlation between ownership concentration and financial stability, consistent with findings by Iannotta et al. [18]. In numerous instances in Indonesia, the entity holding the largest share of a company’s stocks often overlaps with those who own and operate the company. Concentrated ownership may lead to negative consequences, as major shareholders might prioritize personal gain over the company's well-being, resulting in riskier

behavior [78]. Laeven and Levine [21] and Sijabat et al. [22] further support this concern, highlighting the link between concentrated ownership, influential stakeholders, and heightened risk-taking.

Similarly, this research identified a negative significant correlation between managerial ownership and financial stability, consistent with [79] findings regarding increased default risk in US banks with high managerial ownership. High managerial ownership could negatively impact financial stability due to potential conflicts of interest. Managers, holding substantial stakes, may prioritize personal benefits over shareholders, weakening governance and harming long-term growth.

Moreover, this study unveiled a negative significant impact of market concentration on financial stability, corresponding with prior research [28, 30, 67]. Highly concentrated markets, characterized by a few dominant firms holding significant shares, may diminish financial stability by reducing competitiveness, particularly evident in the banking sector where major banks create a 'too big to fail' scenario, posing challenges for regulators and escalating systemic risk levels. Dependency on these major banks amplifies systemic risks, fostering moral hazard and encouraging riskier behavior among dominant institutions.

Additionally, the analysis demonstrated a positive significant association between diversification into non-traditional activities among Indonesian commercial banks and financial stability, echoing findings by Sanya and Wolfe [80], Doumpos et al. [81], Nisar et al. [82]. The shift towards non-traditional activities presents an opportunity for banks to mitigate the risk of failure. Engaging in a range of activities helps spread risk and enhances stability. As highlighted by DeYoung and Torna [69], banks with less diversified portfolios and riskier loans may encounter funding instability and increased defaults, impacting their assets and overall performance. They note that although fee-based activities might not directly impact assets, they can pose a risk to equity if they fail to cover operational costs.

Lastly, this study examined the relationship between bank-specific factors and financial stability. The analysis revealed a negative association between bank size and financial stability, suggesting that larger banks may exhibit lower stability. Conversely, bank growth demonstrated a positive and significant influence on financial stability, implying that growing banks might be more stable. Neither return on assets (ROA) nor liquidity displayed a significant impact on financial stability in this study. The study also identified a negative insignificant correlation between GDP and financial stability, suggesting that as GDP increases, banks might engage in more risk-taking, potentially leading to problems during economic downturns. In contrast, inflation showed a positive insignificant correlation with financial stability, possibly due to institutions taking measures to hedge against inflation and benefiting from higher interest rates.

5 CONCLUSION

This research examined the impact of various factors on the financial stability of Indonesia's commercial banks from 2015 to 2022. Independent commissioners and board gender diversity showed insignificant impacts on financial stability, suggesting challenges in decision-making dynamics and low female representation. Ownership

concentration demonstrated a negative yet insignificant effect, raising concerns about potential shareholder influence. Managerial ownership had a significant negative effect, potentially leading to conflicts of interest. Market concentration negatively impacted stability due to the dominance of major banks. Diversification into non-traditional activities exhibited a positive association with financial stability. In considering the implications of these findings for the Indonesian banking sector, it becomes apparent that addressing issues of decision-making dynamics, gender representation, and governance structures is crucial. Moreover, attention should be given to mitigating conflicts of interest arising from managerial ownership. Regulatory measures may be needed to address market concentration and promote diversification strategies. By heeding these insights, the Indonesian banking sector can strive towards greater resilience and stability in the face of evolving challenges.

5.1 Recommendation

To strengthen financial stability, banks should optimize the involvement of independent commissioners and promote gender diversity on boards. Effective bank governance is critical for financial stability. It requires strong, well-trained independent commissioners with expertise in finance, law, and corporate governance. Their roles should encompass active decision-making, management oversight, and adherence to clear governance standards. Regular training programs should be instituted to keep independent commissioners informed of the latest regulatory changes and industry best practices. Additionally, diversifying ownership structures and implementing transparent governance mechanisms are crucial to mitigating risks and avoiding conflicts of interest. Regulators should enforce policies that promote diversified ownership and closely monitor managerial ownership and market concentration to prevent monopolistic behavior. Enhanced transparency measures, such as mandatory disclosure of conflicts of interest and regular performance evaluations of board members, should be adopted to foster accountability. Future research is expected to expand the scope beyond Indonesian commercial banks, extending the study period, and exploring alternative corporate governance proxies can provide valuable insights into enhancing financial stability and governance practices within the banking sector.

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