


“Does corporate governance matter in elucidating factors that drive profitability in the insurance industry?”

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DOES CORPORATE GOVERNANCE MATTER IN ELUCIDATING FACTORS THAT DRIVE PROFITABILITY IN THE INSURANCE INDUSTRY?

Abstract

Indonesia's insurance sector faces governance challenges, including low market penetration, financial instability, and declining public trust. This study examines the impact of Good Corporate Governance (GCG) mechanisms, including the Independent Board of Commissioners, Board of Directors, Audit Committee, and Institutional Ownership, along with Firm Size, on profitability, measured by Return on Equity (ROE). Using multiple linear regression, the study analyzes 240 financial reports from 15 publicly listed Indonesian insurance firms (2020–2023). The findings indicate that most governance mechanisms, including the Independent Board of Commissioners, Audit Committee, and Institutional Ownership, do not significantly affect profitability. However, the Board of Directors negatively influences business performance, suggesting potential inefficiencies or governance constraints. Conversely, Firm Size positively affects profitability, highlighting the advantage of economies of scale. This suggests that structural governance alone is insufficient for profitability without accompanying firm-level strategic advantages. These outcomes imply that Indonesian insurance firms may be over-relying on compliance-based governance without leveraging it for performance gains. Strengthening the strategic capabilities of governance actors could turn oversight mechanisms into profitability drivers.

Keywords

firm size, ROE, corporate governance, insurance industry, Indonesia

JEL Classification

G22, G32, M41

INTRODUCTION

The COVID-19 pandemic significantly disrupted global industries, including insurance, as businesses faced operational uncertainties. The Indonesian government responded with emergency measures, increasing the national budget to manage the crisis (Sparrow et al., 2020). Insurance became a crucial financial tool for mitigating unforeseen risks (Collier & Skees, 2012), yet the industry in Indonesia remains underdeveloped compared to other ASEAN countries. In 2020, the country's insurance penetration rate was 2.81%, increasing slightly to 3.02% in 2021 before declining to 2.82% in 2022, lagging behind Singapore (12.5%), Malaysia (3.8%), and Thailand (4.6%). This highlights the need for market expansion and improved financial literacy (Indonesia Financial Services Authority, 2023).

A key challenge in Indonesia's insurance sector is weak corporate governance, leading to financial instability and declining public trust. Regulatory authorities have revoked licenses of several insurance firms, such as Kresna Life and Wanaartha Life, due to non-compli-

ance, causing significant losses for policyholders (Dewi & Agarta, 2023; Puspadini & Brande, 2025). These issues raise concerns about the effectiveness of governance frameworks in ensuring financial stability and consumer protection.

1. LITERATURE REVIEW AND HYPOTHESES

The insurance industry is essential for economic stability by alleviating financial risks (Kiptoo et al., 2021). However, weak corporate governance remains a significant challenge, particularly in Indonesia (Al-Faryan & Alokla, 2023; Tanjung, 2020). Good Corporate Governance (GCG) is essential for enhancing transparency, accountability, and profitability (Tjahjadi et al., 2021). Effective governance minimizes agency conflicts and ensures strategic decision-making (Napitupulu et al., 2023; Sarhan & Al-Najjar, 2023).

GCG includes methods and values that foster openness, accountability, equity, and responsibility within the company. By following GCG principles, firms seek to bolster trust and confidence among stakeholders, attract investments, and promote long-term sustainability (Suhartini et al., 2024). The objective of a company's performance is to generate benefits, typically known as profits. These earnings act as an indicator of the company's performance and enhance its overall growth and sustainability (Napitupulu et al., 2023; Nugraha et al., 2021). The adoption of effective corporate governance (GCG) may enhance a company's performance and ultimately result in greater profitability (Tjahjadi et al., 2021). PT Austindo Nusantara Jaya Tbk (ANJ), an Indonesian insurance firm, has exemplified the successful adoption of GCG by enhancing its financial performance through good governance processes. Following a substantial loss of USD 4,558,192 in 2019, the firm adopted GCG principles, leading to a profit of USD 39,681,460 by 2021 (NH & Gewati, 2022). This instance illustrates how effective governance procedures may propel financial success and improve overall firm performance.

Agency theory underpins corporate governance, emphasizing the need for oversight mechanisms like independent boards and audit committees to mitigate conflicts between shareholders and managers (Dey, 2008; Schillemans & Bjurström, 2020).

However, while some studies suggest that independent boards such as the Board of Commissioners and Board of Directors improve financial performance (Nugraha et al., 2021; Hormati et al., 2022), others argue they may reduce profitability due to limited strategic involvement (Anggraeni et al., 2022; Safitri & Purwaningsih, 2023).

The existence of both a board of directors and a board of commissioners is an essential component of the Good Corporate Governance (GCG). To supervise the implementation of GCG within an organization, the Independent Board of Commissioners is critically important. As the representative of the firm's stakeholders, the Board of Commissioners is responsible for monitoring the conduct of the company. The Independent Board of Commissioners oversees management to ensure actions align with the best interests of shareholders (Napitupulu et al., 2023). Studies by Nugraha et al. (2021) and Hormati et al. (2022) indicate that an increased board size improves monitoring efficacy and favorably impacts corporate performance. Nevertheless, several studies indicate that an independent board may adversely affect profitability due to its restricted participation in strategic decision-making (Anggraeni et al., 2022). The findings of this study align with the research conducted by Safitri and Purwaningsih (2023) and Azmy et al. (2019), which suggests that an independent board of commissioners adversely affects a company's profitability. The board of commissioners solely engages in oversight and refrains from involvement in corporate strategic decision-making. This may arise from inadequate oversight by the independent Board of Commissioners, which ultimately fails to facilitate profit growth.

The board of directors, alongside the board of commissioners, holds a significant position within the organization. The board of directors perceives their responsibilities as strategic collaborators with the executives of their organizations, working alongside trusted CEOs to serve the firms' best interests and providing distinct insights to improve overall board effectiveness and organiza-

tional performance (Boivie et al., 2021). The Board of Directors plays a critical role in overseeing company operations and guaranteeing the attainment of strategic goals (Thompson & Alleyne, 2023). Pratama et al. (2020) suggest that an increase in board size can strengthen oversight, which may result in enhanced performance. Expanding the board of directors could potentially lead to greater income opportunities by facilitating enhanced oversight and governance. A larger board facilitates enhanced oversight capabilities. A smaller board size may impede a company's capacity to enhance revenue (Saona et al., 2020).

Nonetheless, another study suggests that expanding board size may lead to inefficiencies and reduced profitability (Intia & Azizah, 2021). This conclusion aligns with the study by Merendino and Melville (2019), which states that the board of directors has no substantial impact on business performance, either due to poor governance methods or external variables such as macroeconomic conditions, industry trends, or the regulatory environment. Furthermore, the study by Prayanthi and Laurens (2020) indicates that the board of directors adversely affects financial performance, as assessed by return on equity (ROE). An increase in the number of directors inside a firm results in a deterioration of the company's financial performance.

The Audit Committee is a vital governance entity responsible for assuring adherence to internal and external requirements. Effective audit committees supervise financial reporting, risk management, and internal controls (Cahyati et al., 2021). Nonetheless, although audit committees fulfill a crucial oversight function, their direct influence on profitability remains constrained (Ghafran & O'Sullivan, 2013). A study by Salehi et al. (2018) also indicates that the Audit Committee negatively influences profitability. The audit committee does not influence performance due to its emphasis on compliance over strategy, absence of independence or competence, operation under poor governance frameworks, detachment from decision-making processes, and restricted authority over management. This conclusion is supported by the findings of the study by Katutari et al. (2019), which indicate that the size of the audit committee has a negative impact on the profitability of the business. The Audit Committee generally concen-

trates on oversight and facilitates the acceleration of decision-making processes; nevertheless, enhanced earnings are not directly linked to the degree of oversight performed.

It is anticipated that institutional ownership will enhance governance and mitigate agency conflicts (Hasibuan et al., 2022). Nonetheless, research yields conflicting findings, with some stating passive institutional ownership has a beneficial effect on profitability (Puspita et al., 2023) and others arguing they have no discernible effect on financial performance (Aminah & Wuryani, 2021).

The size of a company is a significant factor in determining its profitability. This is because larger companies have the advantages of economies of scale, improved access to finance, and market stability (Andriyani & Sari, 2020; Isayas, 2022). Large corporations frequently draw more investors owing to their perceived stability and lower risk profile, resulting in increased profitability (William & Ekadjaja, 2020). According to Isayas (2022), the size of a company has a beneficial impact on its profitability. When the size of the firm grows, it sends a positive signal to investors, which encourages them to put their money into the business. Company size is a significant factor in determining its profitability. This is because larger companies have the advantages of economies of scale, improved access to financing, and market stability (Yadav et al., 2022; Alawiah et al., 2022). A larger corporation benefits from market advantages and may utilize economies of scale, leading to cost savings and eventually enhancing earnings. (Andriyani & Sari, 2020; Isayas, 2022).

Profitability is an essential criterion for evaluating a company's managerial effectiveness and its capacity to create earnings. Enhanced performance is typically correlated with increased earnings, whereas diminished performance frequently results in reduced profits. Profitability is a crucial sign of a company's financial health and the efficacy of its management methods (Rahmawati & Nani, 2021). The profitability ratio, exemplified as Return on Equity (ROE), is frequently employed to assess a company's profitability (Lumbanraja, 2021; Azmy et al., 2019; Xu & Li, 2022). It assesses the company's efficiency in utilizing its resources to create profits. Examining the profitability ratio

enables researchers to distinguish between firms with high and poor profitability, offering information about their financial performance (Lim & Rokhim, 2020).

Previous studies have thoroughly examined the correlation between corporate governance and profitability across multiple sectors, including manufacturing (Suhartini et al., 2024), hospitality and tourism (Hormati et al., 2022), real estate, property, infrastructure, utilities, and transportation sectors (Azmy et al., 2019) in Indonesia. Hormati et al. (2022) believe that GCG will increase organizational performance in terms of productivity and efficiency. As a result, it will encourage investors and other stakeholders to make more investments and enhance collaboration. Enhancing productivity and efficiency is a crucial strategy for boosting competitiveness. GCG is anticipated to strengthen its competitiveness sustainably at both regional and global levels now and in the future. Previous studies have explored how different GCG factors, including the presence of an independent board of commissioners, a board of directors, institutional ownership, and an audit committee, affect profitability (Nuswantara et al., 2020; Saputra et al., 2018) in Indonesia; however, there is still no study that specifically analyses how GCG elements influence profitability in listed insurance companies.

This study examines the impact of Good Corporate Governance (GCG) mechanisms – Independent Board of Commissioners, Board of Directors, Audit Committee, and Institutional Ownership – along with Firm Size, on the profitability of publicly listed Indonesian insurance firms. By analyzing their influence on Return on Equity (ROE), this study provides insights into optimizing governance structures and business strategies for sustainable growth in the insurance sector.

This study presents the following hypotheses derived from the literature review:

- H1: The independent board of commissioners has a negative effect on profitability of Indonesian insurance companies.*
- H2: The board of directors has a negative effect on profitability of Indonesian insurance companies.*

H3: The audit committee has a negative effect on profitability of Indonesian insurance companies.

H4: Institutional ownership has a negative effect on profitability of Indonesian insurance companies.

H5: Firm size has a positive influence on profitability of Indonesian insurance companies.

2. METHODOLOGY

The independent variables are measured by Good Corporate Governance, which is represented by the Independent Board of Commissioners, Board of Directors, Audit Committee, Institutional Ownership, and Firm Size. Meanwhile, the dependent variable, profitability, is proxied by Return on Equity (ROE) (Sekaran & Bougie, 2016).

The study used secondary data from the IDX website. According to the definition provided by Casteel and Bridier (2021), the phrase “population” denotes a group or aggregation of individuals, events, or other objects of interest that the researcher intends to examine. The study’s population comprised enterprises in the insurance sector listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023. The non-probability purposive sampling approach was selected based on certain criteria (Sekaran & Bougie, 2016): companies in the insurance industry that have gone public and are listed on the Indonesia Stock Exchange between the years 2020 until 2023 consecutively; issue annual reports and financial statements ended in December 31st and has been audited for the period 2020–2023 consecutively; publishing quarterly financial statements during 2020–2023 in a row; using denomination of Rupiah in their annual reports; have an Independent Board of Commissioners, a Board of Directors, and an Audit. 15 insurance companies met the criteria. Thus, 240 data points are used as the sample.

The Board of Independent Commissioners is defined as a group of commissioners who operate independently and separately from the company (Ngatno et al., 2021) and are not directly related to the board of directors or shareholders. The members of this board act neutrally and are free from

external influences when making decisions that are aimed at serving the interests of the company (Nugraha et al., 2021). A larger board size enables more effective monitoring and supervision, which ultimately adds value to the company's operations and performance (Pratama et al., 2020). According to Nugraha et al. (2021), the Independent Board of Commissioners is measured using the total number of Commissioners (Σ) in the organization, with the equation as follows:

$$\begin{aligned} & \text{Board of Commissioners} \\ & = \sum \left(\begin{array}{l} \text{Members of the Board} \\ \text{of Commissioners} \end{array} \right) \end{aligned} \quad (1)$$

The Board of Directors comprises individuals elected and appointed by shareholders, primarily responsible for overseeing and managing a company's business operations (Pongelli et al., 2023). According to Pratama et al. (2020), the indicators to measure the Board of Directors is using the total number of Directors (Σ) in the organization, with the equation are as follows:

$$\begin{aligned} & \text{Board of Directors} \\ & = \sum \text{Total Board of Directors.} \end{aligned} \quad (2)$$

The Audit Committee is an internal entity within a corporation. The objective is to aid the Board of Commissioners in guaranteeing the proper execution of Good Corporate Governance (GCG) and adherence to internal and external requirements (Tjahjadi et al., 2021). The audit committee is essential for supervising financial reporting, risk management, internal controls, and adherence to legal and regulatory standards (Al-Shaer et al., 2022). According to Al-Faryan (2024), the indicator to measure the Audit Committee is using the total number of individuals (Σ) who are assigned as the Audit Committee in the organization, with the equation as follows:

$$\begin{aligned} & \text{Audit Committee} \\ & = \sum \text{Total Audit Committee.} \end{aligned} \quad (3)$$

Institutional ownership denotes the possession of shares in a firm by institutions, including government bodies, private enterprises, foreign organizations, or individuals (Nurhayati & Wijayanti, 2022). According to Saleh et al. (2022), Institutional

Ownership is measured using the total number of shares (Σ) owned by institutional divided by the total number of shares (Σ) outstanding, with the equation as follows:

$$\begin{aligned} & \text{Institutional Ownership} \\ & = \frac{\sum \text{Shares owned by institutional}}{\sum \text{Number of shares outstanding}} \end{aligned} \quad (4)$$

According to Jihadi et al. (2021), the size of a firm is defined as the value that signifies the extent of the firm's assets held by the company. Comparatively, smaller businesses tend to have situations that are less unstable than larger ones. Since it signals a reduced degree of risk and a better possibility of consistent performance throughout time, the stability of a firm is a characteristic that investors find attractive (Andriyani & Sari, 2020). A company's size can also impact its performance. According to Xu and Li (2022), Firm Size is measured using Log (Ln) of Total Assets, which equation as follows:

$$\text{Firm Size} = \text{Ln}(\text{Total Assets}). \quad (5)$$

A high Return on Equity (ROE) signifies that a firm has efficiently employed its capital to produce profits. It illustrates a company's capacity to optimize returns on shareholders' equity investment. Furthermore, a high ROE indicates that the firm has effectively enhanced its value and performance. This implies that the company's management has implemented strategies and initiatives that have resulted in favorable financial outcomes, benefiting both the company and its shareholders (Almira & Wiagustini, 2020). According to Xu and Li (2022), Return on Equity is calculate using net profit after tax divided by total equity, which equation as follows:

$$\text{Return on Equity} = \frac{\text{Net Profit After Tax}}{\text{Total Equity}} \quad (6)$$

Thus, the model to be tested in this study is presented as follows:

$$\begin{aligned} Y & = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 \\ & + \beta_4 X_4 + \beta_5 X_5 + e, \end{aligned} \quad (7)$$

where Y = Return on Equity (ROE); X_1 = Independent Board of Commissioners; X_2 = Board of Directors; X_3 = Audit Committee; X_4 = Institutional Ownership, and X_5 = Firm Size.

3. RESULTS

The descriptive data are elucidated in Table 1. This study showed that ROE fluctuates between -23% and 17%, with an average of 2.29%, signifying little profitability and considerable variance across companies (Fariha et al., 2022). The Independent Board of Commissioners consists of 1 to 3 members, with an average of 2.15, indicating an adequate level of board independence (Johl et al., 2015). The Board of Directors consists of 3 to 7 members, averaging 4.34, indicating variations in governance frameworks (Al-Matari et al., 2012).

Correlation analysis is a statistical method to evaluate the connection between two variables. This is the first phase in statistical modeling to assess the correlation between dependent and independent variables. Before doing multiple regression analysis, a correlation matrix is created to evaluate the relationships among independent variables, facilitating model construction. A correlation value of 0 denotes the absence of a relationship, whereas ± 1 represents a perfect positive or negative correlation (Al-Matari et al., 2012). The results of the correlation test in Table 2 show that the Independent Board of Commissioners ($r = -0.011$, $p > 0.05$), the Audit Committee ($r = -0.074$, $p > 0.05$), and Institutional Ownership ($r = -0.046$, $p > 0.05$) do not have a significant relationship with Return on Equity (ROE). Meanwhile, the Board of Directors has a significant negative correlation with ROE

($r = -0.151$, $p < 0.05$), which indicates that the larger the number of directors, the lower the company's profitability. On the other hand, Company Size shows a positive and significant correlation with ROE ($r = 0.251$, $p < 0.01$).

The multicollinearity test is used to assess the presence of correlation among independent variables within the regression model. An effective regression model must avoid correlations among independent variables (Kalnins, 2018). Multicollinearity is deemed absent when the tolerance value exceeds 0.1 and the VIF value remains below 10. Table 3 demonstrates that multicollinearity is not present in the regression models employed in the study. The SPSS output indicates that each independent variable, including the independent board of commissioners (X1), board of directors (X2), audit committee (X3), institutional ownership (X4), and firm size (X5), exhibits tolerance and VIF values that are greater than 0.1 and less than 10. The lack of multicollinearity indicates that the regression model applied in this study is satisfactory.

The Analysis of Variance (ANOVA) test evaluates the significance of the regression model by contrasting the variation explained by the model with the unexplained variance (residual error). Table 4 presents an F-statistic of 4.483 and a p-value of 0.001. If this value is less than 0.05, the regression model effectively elucidates the relationship

Table 1. Descriptive statistics

	Variables	N	Minimum	Maximum	Mean	Std. Deviation
Y	Return on Equity	240	-0.23	0.17	0.02	0.05
X1	Independent Board of Commissioners	240	1.00	3.00	2.15	0.69
X2	Board of Directors	240	3.00	7.00	4.35	1.20
X3	Audit Committee	240	3.00	4.00	3.10	0.31
X4	Institutional Ownership	240	0.23	0.97	0.74	0.18
X5	Firm Size	240	20.53	33.50	27.87	2.923

Table 2. Correlation test

	Variables	Y	X1	X2	X3	X4	X5
Y	Return on Equity	1.00	-	-	-	-	-
X1	Independent Board of Commissioners	-0.01	1.00	-	-	-	-
X2	Board of Directors	-0.15*	0.53*	1.00	-	-	-
X3	Audit Committee	-0.07	0.12	-0.07	1.00	-	-
X4	Institutional Ownership	-0.05	0.42**	0.33**	-0.05	1.00	-
X5	Firm Size	0.25**	-0.19**	-0.03	0.13*	-0.11	1.00

Note: * $p < 0.05$, showing a significant correlation at the level of 5%; and ** $p < 0.01$, showing a significant correlation at 1%.

Table 3. Multicollinearity test

Model		T Value	Sig.	Collinearity Statistics	
				Tolerance	VIF
(Constant)		-0.80	0.43	-	-
X1	Independent Board of Commissioners	-0.12	0.90	0.52	1.91
X2	Board of Directors	-1.94	0.05	0.72	1.39
X3	Audit Committee	1.20	0.31	0.84	1.19
X4	Institutional Ownership	0.57	0.57	0.67	1.50
X5	Firm Size	3.70	0.00	0.95	1.06

between the independent variables (Independent Board of Commissioners, Board of Directors, Audit Committee, Institutional Ownership, and Company Size) and the dependent variable (ROE) for Indonesian insurance companies listed on the Stock Exchange from 2020 to 2023. A multiple linear regression analysis was conducted to assess the study's hypotheses. This approach was utilized to evaluate the impact of each independent variable on company profitability (ROE).

Table 5 explains the result of the determinant coefficient test. The adjusted R^2 value = 0.076 and signifies that 7.6% of the ROE (Y) can be explained by the independent variables, namely the Independent Board of Commissioners (X1), Board of Directors (X2), Audit Committee (X3), Institutional Ownership (X4), and Firm Size (X5). The remaining 92.4% is attributed to other variables not included in the study. This study also employed the Durbin Two-Step Method to evaluate autocorrelation. The findings presented in Table 5 revealed that the Durbin-Watson value of 1.184 is within the acceptable range, suggesting no autocorrelation in the regression model. Dave and Sohani (2019) indicate that a Durbin-Watson statistic falling between roughly 1.5 and 2.5 implies the absence of significant autocorrelation in the residuals, thereby confirming the model's validity.

Table 4. Multiple regression analysis results

Variable	Unstandardized β	Std. Error	Standardized Coefficients β	T-Value	Sig.
Constant	-0.12	0.15	-	-0.80	0.43
X1 Independent Board of Commissioners	-0.00	0.01	-0.01	-0.12	0.90
X2 Board of Directors	-0.01	0.06	-0.15	-1.94	0.05
X3 Audit Committee	0.08	0.07	-0.07	1.20	0.31
X4 Institutional Ownership	0.03	0.06	-0.05	0.57	0.58
X5 Firm Size	0.01	0.00	0.25	3.70	0.00
F Value		-			4.48
F Sig		-			0.00

Table 5. Model summary

R	R ²	Adjusted R ²	Std. Error of the Estimate	Durbin-Watson
0.31	0.10	0.08	0.08	1.18

The findings from the hypothesis tests presented in Table 4 reveal that the Independent Board of Commissioners has a t-value of -0.121 and a significance value of 0.427, which surpasses the 0.05 threshold. This indicates that the Independent Board of Commissioners does not significantly influence profitability, leading to the rejection of $H1$. The impact of the Board of Directors is indicated by a t-value of -1.943, with a significance value of 0.053, which exceeds the acceptable threshold of 0.05. This suggests that $H2$ has been rejected. Furthermore, the Audit Committee demonstrates a t-value of 1.204 alongside a significance value of 0.307, surpassing the 0.05 threshold. The rejection of $H3$ suggests that the presence of an audit committee does not significantly influence profitability. Institutional Ownership shows a t-value of 0.565 and a significance value of 0.573, which surpasses the 0.05 threshold. As a result, $H4$ is rejected, suggesting that Institutional Ownership does not significantly influence firm profitability. On the other hand, Firm Size shows a t-value of 3.699 and a significance value of 0.000, which is considerably below the 0.05 threshold. This finding substantiates the acceptance of $H5$, indicating

that Firm Size positively and significantly impacts ROE. The β coefficient of 0.006 suggests that a 1% increase in firm size results in a 0.6% increase in ROE.

The concluding regression equation, derived from the t-test outcomes, is presented as follows:

$$Y = 0.148 + 0.006X_5 + \varepsilon, \quad (8)$$

where Y = Return on Equity (ROE); X_5 = Firm Size; ε = Error term.

The intercept value of 0.148 indicates that the expected ROE would be 0.148 when all independent variables are set to zero. This equation indicates that Firm Size has a positive effect on profitability.

The hypotheses testing showed the rejection of H1, H2, H3, and H4. It means that the number of Independent Board of Commissioners, the number Independent Board of Directors, the number of Audit Committee and Institutional Ownership do not significantly influence the company profitability. Meanwhile, only the Firm Size is positively and significantly impacts the company profitability.

4. DISCUSSION

The findings of hypothesis testing yield significant insights into the correlation among board qualities, institutional ownership, business size, and profitability, as quantified by ROE. The study demonstrates differing effect levels among these factors, with certain findings corroborating current research and others opposing theoretical assumptions. The Independent Board of Commissioners does not affect profitability. The result is the same as what other studies have found: independent commissioners do not have a direct effect on ROE (Anggraeni et al., 2022; Safitri & Purwaningsih, 2023; Azmy et al., 2019). The restricted influence of independent board members is due to their consultative and supervisory functions rather than direct involvement in managerial decision-making. As their primary role is to oversee governance, their impact on a company's financial performance is negligible. Independent commissioners, although crucial for promoting openness and accountability, do not significantly enhance corporate profitability (Fitriyani, 2021).

As expected, the study found that the Board of Directors does not affect profits. This supports earlier research that said having a bigger board can make it harder to make decisions, cause problems with coordination, and raise operational costs. Having more directors can also cause managers to have different ideas and plans for the company, which lowers the effectiveness of governance and hurts performance (Intia & Azizah, 2021; Prayanthi & Laurens, 2020). Moreover, Githaiga et al. (2022) substantiate this assertion by illustrating that an increased board size correlates with elevated administrative and salary expenditures, resulting in diminished overall profitability.

The study indicated that the Audit Committee does not have a substantial impact on profitability. This outcome aligns with earlier research by Katutari et al. (2019), indicating that the audit committee's principal role is to guarantee regulatory compliance rather than to directly improve financial performance. Kurniawan and Asyik (2020) contend that audit committees are frequently formed to comply with statutory mandates rather than serving as a strategic governance tool. The government regulation required each insurance firm to have at least three audit committee members. This condition led to additional administrative expenses without guaranteeing enhanced profitability.

This study indicates that institutional ownership does not substantially affect profitability. The results are in line with what other research has found: institutional investors usually take a passive role and do not get involved in business strategy (Adnyani et al., 2020; Nurhayati & Wijayanti, 2022). Despite the theoretical expectation that institutional ownership functions as a robust governance tool, its practical impact on business performance seems to be constrained. Purnomo et al. (2021) contend that the level of institutional ownership does not inherently correspond with financial success, since institutional investors may value stability rather than short-term profit maximization. This discovery undermines the conventional agency hypothesis, which asserts that institutional investors ought to improve governance quality and corporate value.

The study ultimately establishes that Firm Size exerts a favorable and considerable impact on prof-

itability and supports the study by Nainggolan et al. (2022), who indicated that larger enterprises get advantages from augmented financial resources, enhanced market presence, and superior economies of scale. Business scale confers competitive advantages that enhance profitability through the optimization of operational effi-

ciency and cost reduction (Alawiah et al., 2022). The favorable correlation between business size and profitability substantiates the assertion that larger organizations are more adept at attracting investors, securing external financing, and utilizing economies of scale to improve financial performance.

CONCLUSION

This study aimed to examine the impact of Good Corporate Governance (GCG) mechanisms – Independent Board of Commissioners, Board of Directors, Audit Committee, and Institutional Ownership – along with Firm Size, on the profitability of publicly listed Indonesian insurance firms. Using financial data from 15 insurance companies between 2020 and 2023, the study assessed their influence on Return on Equity (ROE).

The results reveal that most governance mechanisms, including the Independent Board of Commissioners, Audit Committee, and Institutional Ownership, do not significantly influence profitability. However, the Board of Directors negatively affects financial performance, suggesting inefficiencies or challenges in governance structures. In contrast, Firm Size has a significant positive effect on profitability, emphasizing the advantages of economies of scale and resource availability.

These findings suggest that while governance frameworks play a role in oversight, they do not directly drive profitability in the insurance sector. Instead, firms should focus on optimizing board composition, ensuring that governance structures contribute to strategic decision-making rather than merely fulfilling regulatory requirements. Additionally, expanding firm size through market growth, digital transformation, and financial literacy initiatives could enhance profitability. Future research should explore governance mechanisms in other financial sectors and consider qualitative approaches to assess their long-term impact on firm performance.

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