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THE IMPACT OF GOOD CORPORATE GOVERNANCE, PROFITABILITY, AND OPERATING EFFICIENCY ON FINANCIAL PERFORMANCE (CASE STUDY ON BANKS LISTED ON THE INDONESIA STOCK EXCHANGE FOR THE PERIOD 2022-2023)

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ABSTRACT

Background: This study investigates the interplay between Good Corporate Governance (GCG), profitability, and operational efficiency on the financial performance of banks listed on the Indonesian Stock Exchange (IDX) from 2022 to 2023. **Specific Background**: With increasing scrutiny on corporate governance and financial metrics in the banking sector, it is imperative to understand how these elements contribute to financial outcomes. **Knowledge Gap**: Despite existing literature on corporate governance and profitability, limited research addresses their collective impact on the financial performance of Indonesian banks, particularly concerning operational efficiency. **Aims:** This research aims to analyze the effects of GCG, represented by institutional ownership and board composition, alongside profitability (Return on Equity) and operational efficiency (BOPO ratio) on banks' financial performance (Return on Assets). **Results**: The findings reveal that institutional ownership and board composition do not significantly impact financial performance; however, profitability has a positive and significant effect, while operational efficiency negatively affects financial performance. **Novelty**: This study contributes uniquely by highlighting the critical role of profitability in enhancing financial performance, alongside the implications of operational efficiency management. **Implications**: The results provide essential insights for bank management to strategize for improved financial performance and suggest that regulators should emphasize implementing effective GCG frameworks. By shedding light on the factors influencing bank performance, this study aims to support policymakers in enhancing the stability and efficiency of Indonesia's banking sector.

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INTRODUCTION

Performance is an important thing that every company should have, as it determines how well the business is operating. In addition, performance must be measured to plan for the future. One of the most important indicators to assess a company's performance is through its financial performance [1]. Measuring company performance can provide information about the good and the bad, which will have an impact on the management decision-making process. All aspects of the business, including financial performance, will be affected by decisions made based on performance evaluation [2]. This shows that financial performance can show how successful a company is through the results achieved from various actions that have been taken [3].

The total assessment of an entity's performance relies primarily on financial performance. To show the entity's financial condition over time, financial performance is provided in a timely and relevant manner to the needy. Financial statement analysis is the best way to know how well a bank is performing. Financial statements provide an overall picture of the financial condition of an organization and serve as an important tool in decision making [4]. Financial performance for bank entities is the highest level of business operations achieved by the bank [5].

The banking sector is one of the economic elements that contribute significantly to the Indonesian economy. Banking plays a very important role in driving economic growth, almost all aspects of our lives are closely tied to the existence of banks and financial institutions [6]. Given the important role of the banking sector, assessing the financial performance of banks is a very relevant topic and requires special attention. Assessment of banking financial performance refers to the evaluation of a bank's ability to carry out normal banking operations and its ability to fulfill existing obligations [7].

As banks have touched the needs of all walks of life, they now play an important role in the Indonesian economy [8]. According to [9]As an intermediary institution, banks seek to collect as much funds as possible from the public to meet capital needs and then channel them back to generate profits. Researchers believe that the banking industry has bright prospects in the future. This is because the industry plays a significant role in increasing the country's revenue and affects people's daily lives, regardless of the services it offers [10].

Currently, the practice of Good Corporate Governance (GCG) is getting more attention in the banking world. The health of the company is considered very healthy with GCG being one of the factors [11]. Good GCG practices can increase investor and customer confidence, and reduce risks that may arise from bank operations. Therefore, this study intends to analyze the impact of GCG on bank financial performance. In order to increase financial value for all stakeholders, a structure known as corporate governance governs and oversees the running of the organization [12].

In this regard, some crucial aspects of Good Corporate Governance (GCG) are the institutional ownership structure and the board of directors. Institutional ownership refers to bank shares owned by large institutions such as insurance companies, pension funds, and foundations. Institutional ownership is also important for management oversight as it encourages better supervision [13].

Therefore, institutional ownership usually serves as a corporate watchdog [14]. Institutional ownership has an important role in monitoring management because its power will encourage an increase in more effective supervision. According to [15]The higher the institutional ownership, the tighter the supervision. Conversely, with less institutional ownership, the level of supervision becomes looser, so that the company becomes more vulnerable to fraudulent practices.

The Board of Directors, as the highest decision-making body within the company, plays a critical role in setting company strategy and policy. Boards of directors utilize their connections and networks to forge external relationships, which bring a variety of valuable resources to the company. This diversity in board characteristics also plays an important role in improving financial performance through innovation and better decisions [16].

In addition to GCG, profitability is also a significant indicator that is often used to measure financial performance. Profitability is one of the indicators used to assess the extent to which a company is successful in carrying out its business activities [17]. Banks with high levels of profitability are usually more stable and better able to cope with economic pressures. This study will explore the extent to which profitability affects the financial performance of banks. Profitability is a key factor that can influence a company's decision in terms of dividend distribution. The decline in company value will reduce investor confidence in the company to threaten the survival of the company [18].

Operating efficiency is another crucial element in establishing the financial performance of banks. With increased efficiency in the use of the company's assets, the costs incurred by the company will be reduced. Efficient banks tend to have lower operating costs, which in turn can improve profitability and overall financial performance.

In previous research, problems that can affect the company's financial performance. According to [19], [20], [21]"Institutional Ownership has a significant influence on Financial Performance". According to [22], [16], [23]"The board of directors has a significant influence on financial performance". Meanwhile, according to [24], [25], [26]"Profitability has a significant influence on financial performance". And according to [8], [27], [28]"Operating efficiency has a significant influence on financial performance".

In the context of science, this research is important to broaden the understanding of the factors that affect the financial performance of banks in Indonesia. This research can also provide insights for banking practitioners regarding effective strategies to improve financial performance through the implementation of GCG, increased profitability, and operating efficiency. Thus, this research is expected to make a real contribution both in terms of theoretical and practical.

On the other hand, this study bases its analysis on signaling theory. This theory can explore how high profitability and operating efficiency not only reflect good financial performance but also serve as a powerful communication tool to the market and investors, to increase trust and firm value. Financial statement disclosure is one of the media to convey a sign that an organization has good prospects in the future so that information users will act according to the signals sent. Managers need to share information that can be used as a signal to external parties [18].

Agency theory states that company management (agents) can make decisions that are most beneficial to the company without considering the preferences of the owners (principals). This may be problematic from an agency theory perspective. The agent-principal relationship can cause problems, such as asymmetric information where the principal provides information to the agent unevenly because management usually knows more about the financial situation and operations of the company than the owner [22]. This theory is relevant to understanding how the implementation of Good Corporate Governance (GCG). Good Corporate Governance (GCG) is important in minimizing this conflict through effective structures and mechanisms. Through institutional ownership and an effective board of directors, it can reduce potential conflicts of interest between principals and agents.

This research is expected to provide several new contributions. First, this study will fill the gap in the literature by offering a comprehensive analysis of the influence of GCG through institutional ownership and board of directors, profitability, and operating efficiency on bank financial performance. Second, the results of this study can serve as a reference for bank management in formulating strategies to improve financial performance. Third, this study can provide recommendations for regulators in formulating policies that support the implementation of GCG, profitability, and operating efficiency in the banking sector.

Through this research, it is expected to identify the most significant factors in influencing bank financial performance, as well as how the interaction between GCG, profitability, and operating efficiency can optimize bank financial performance. Thus, this study will make a useful contribution to the development of the banking sector in Indonesia. Overall, this study is expected to provide a clearer picture of the dynamics of bank financial performance in Indonesia. With a better understanding of the factors that influence financial performance, banks can take more appropriate steps in improving their operational effectiveness and efficiency, as well as strengthening their competitive position in the market.

The purpose of this study is to analyze the effect of GCG, profitability, and operating efficiency on the financial performance of banks listed on the Indonesia Stock Exchange (IDX) in the period 2022-2023. Specifically, this study aims to identify the relationship between GCG implementation and financial performance, measure the extent to which profitability affects financial performance, and evaluate the impact of operating efficiency on bank financial performance.

HYPOTHESIS DEVELOPMENT

The Effect of Institutional Ownership on Financial Performance

By using an effective monitoring system, institutional ownership can control management. Based on agency theory, which explains the relationship between managers and shareholders of the company, institutional ownership is considered to have the ability to improve the supervisory function because the institution is an external party of the company and is part of the stakeholders who always expect good company performance [29].

According to [30]If institutional investors such as insurance companies, banks, investment and other companies own shares, it will help promote better oversight of management performance. This is because shares represent a source of power that can support or oppose the existence of management. In addition, according to some researchers, ownership structure can also affect how a business runs, which in turn affects the financial performance of the business as companies achieve their goals, which means the financial performance of the business is getting better. Research results according to [20]stated that financial performance is significantly affected by institutional ownership.H1: Institutional Ownership has a positive effect on financial performance

The Effect of the Board of Directors on Financial Performance

According to [23]The board of directors is the investor's representative in managing the company, they have the right to represent the company in all related communications. The benefit of having a larger board of directors is the clarity of individual responsibilities, which will provide benefits to stakeholders [22].

H2: The Board of Directors has a positive effect on financial performance

Effect of Profitability on Financial Performance

Profitability is a ratio used to measure how effective management is overall. It is measured by calculating how much profit or return is generated from an investment [31]. The existence of a high profitability ratio indicates that the company has a better ability to generate profits or profits for the company [32]. Research results according to [33]stated that profitability has a significant effect on financial performance.

H3: Profitability affects financial performance

Effect of Operating Efficiency on Financial Performance

The level of expenditure for the bank's operating needs is indicated by operating efficiency. One of the tools to measure operating efficiency is the ratio of operating expenses over operating income (BOPO). BOPO was created to measure how capable a bank's operating income is to cover operating expenses [34]. BOPO is used to evaluate how effectively a bank has used its production components. The lower this ratio, the more efficient the bank is in its operational expenditures. As a result, the likelihood of a bank getting into trouble is lower [6]. Research results according to [34] stated that BOPO has a negative and significant effect on financial performance.

H4: Operating efficiency affects financial performance

CONCEPTUAL FRAMEWORK

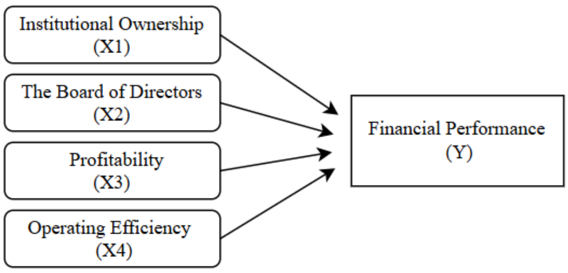

Figure 1. Conceptual Framework

METHODS

Type and Object of Research

Quantitative methods are used in this research to study how the financial performance of banks listed on the Indonesia Stock Exchange (IDX) during the period 2022-2023. Sample data is taken from the official website of the Indonesia Stock Exchange www.idx.co.id.

Population and Sample

This study analyzes all banks listed on the Indonesia Stock Exchange (IDX) from 2022-2023, with a total of 46 companies. Sampling in this study used purposive sampling, namely sample selection based on certain criteria. The sample of this study amounted to 25 companies.

Table 1. Sample selection criteria

No.	Criteria	Number of Companies
1.	Banking companies listed on the IDX during 2022-2023	46
2.	Banking companies listed on the IDX that publish complete annual reports during 2022-2023	(15)
3.	Companies that use rupiah currency in presenting annual reports	(6)

Number of banking companies sampled each year	25
Total number of samples used in the study (25 x 2)	50

Source: Summarized by Researcher

Definition, Variable Identification, Variable Indicators

The dependent variable of this study is financial performance. While the independent variables in this study are good corporate governance, profitability, operating efficiency.

Table 2. List of variables, definitions and indicators

No.	Variables	Definition	Indicator	Scale
1	Institutional Ownership	Institutional Ownership is measured using an indicator of the percentage of share ownership owned by management of the total outstanding share capital [35].	$\text{Institutional Ownership} = \frac{\text{Number of Institutional Shares}}{\text{Number of Outstanding Shares}} \text{ X } 100\ \%$	Ratio
2	Board of Directors	The board of directors is the recognized and responsible part of the company's activities in the banking sector. The success of the governing body is assessed by the total of board members in the corporate structure [23].	$\text{The Board of Directors} = \sum \text{Member of the Board of Directors}$	Ordinal
3	Profitability	This ratio measures the company's ability to generate profits (profitability). Profitability is	$\text{ROE} = \frac{\text{Net Income After Tax}}{\text{Total Equity}} \text{ X } 100\ \%$	Ratio

		evaluated using *Return on Equity* (ROE) [36].		
4	Operation efficiency	A bank's operating efficiency, as measured by the BOPO ratio, affects its performance. Raiso BOPO is used to assess the ability of bank management to control operating costs against income earned. [8].	$BOPO = \frac{\text{Operational Expenses}}{\text{Operating Income}} X\ 100\ \%$	Ratio
5	Financial Performance	This financial performance is measured by the *Return on Asset* (ROA) ratio, which shows the extent to which assets contribute to generating net income. [35].	$ROA = \frac{\text{Net Income After Tax}}{\text{Total Assets}} X\ 100\ \%$	Ratio

Source: Summarized by Researcher

Data Analysis Technique

This research focuses on the relationship between the independent variable and the dependent variable. Furthermore, the study will evaluate the strength of the influence of each independent variable on the dependent variable. Therefore, the following analysis methods were used in this study:

1. Classical Assumption Test
    a. Normality Test

    The One Sample Kolmogorov Smirnov test can be used to test the normality of the data. This means that the data has a normal distribution if the significance value is above 5% or 0.05, and if the significance value is below 5% or 0.05, then the data does not have a normal distribution.

    b. Multicollinearity Test

    In this study, the collinearity statistics and correlation coefficient between independent variables were measured. The multicollinearity test aims to determine whether the regression model shows a correlation between the independent variables. Multicollinearity is indicated if (1) the tolerance value is less than 0.10 and (2) the inflation factor variable is more than 10.

    c. Heteroscedasticity Test

The heteroscedasticity test aims to determine whether in the regression model there are differences in the variation of residuals between one observation and another. If the residual variation remains constant across observations, this condition is called homoscedasticity. Conversely, if the residual variation changes from one observation to another, this condition is known as heteroscedasticity.

d. Autocorrelation Test

Autocorrelation testing aims to assess whether the residual errors in the regression model are correlated between one period and the previous period. This is important because an inaccurate correlation coefficient can affect the validity of the regression model. An ideal regression model should be free from autocorrelation. In this study, the Durbin-Watson (D-W) test is used to detect the presence of autocorrelation symptoms in the regression model [6].

2. Data Analysis Method

Some of the data analysis methods that will be used in this research based on the objectives of this research are as follows:

a. Descriptive Analysis

Descriptive analysis is a statistical analysis method used to provide a comprehensive picture or description of the research subject based on variable data collected from a particular group of subjects. This technique helps in understanding the distribution and characteristics of the data used in the study.

b. Multiple Regression Analysis

The analysis of the relationship between one dependent variable and two or more independent variables is known as a simultaneous test used to evaluate the significance of multiple correlations. In this study, multiple regression analysis was used between Institutional Ownership (X1), Board of Directors (X2), Profitability (X3), Operational Efficiency (X4), and Financial Performance (Y).

The purpose of multiple regression analysis is to estimate how multiple independent variables affect a dependent variable. The model used to test the effect between the independent variables on financial performance in this study is expressed in the regression equation below:

$$Y = \alpha + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e$$

Where:

Y	= Financial Performance
A	= Constant
b_1, b_2, b_3, b_4	= Regression Coefficient
X1	= Institutional Ownership
X2	= Board of Directors
X3	= Profitability
X4	= Operation Efficiency
e	= *error*

3. Hypothesis Test
   a. Determinant Coefficient Analysis (R^2)
      Used to assess the extent to which Institutional Ownership, Profitability, and Operational Efficiency affect the financial performance of banks. It helps in showing how strong the relationship is between those variables and the financial performance of the bank.
   b. Test t (Partial Effect)
      The t test is used to compare the effect of each independent variable (X1, X2, X3, X4) on the dependent variable (Y). Partial test is done by comparing the t value with the t table value. If the calculated t value > than the t table value, then the independent variable (X1, X2, X3, X4) partially affects the dependent variable (Y) at a 95% confidence level and a significance level of 5% (0.05). The degree of freedom, or df, is calculated using the formula (n-k-1), where n is the total number of observations and k is the number of independent variables.
      The t test is also used to determine how much contribution each independent variable makes by looking at the partial R^2 of each variable. The independent variable that makes the most significant and large contribution to the dependent variable can be identified from the value obtained.

RESULTS AND DISCUSSION

1. Classical Assumption Test

a. Normality Test

Table 3. Normality Test Results

		Unstandardized Residual
N		50
Normal Parameters [a,b]	Mean	.0000000
	Std. Deviation	.28455936
Most Extreme Differences	Absolute	.108
	Positive	.108
	Negative	-.0.78
Test Statistic		.108
Asymp. Sig. (2-tailed)		.200[c,d]

Source: SPSS Output

The significance value (Asymp. Sig. (2-tailed)) of 0.200, which is higher than 0.05, indicates that the residual data of the regression model has a normal

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distribution. Therefore, the regression model meets the assumption of normality, so the regression results can be considered valid for further analysis.

b. Multicollinearity Test

Table 4. Multicollinearity Test Results

Model		Collinearity Statistic	
		Tolerance	VIF
1	(Constant)		
	Institutional Ownership	.896	1.116
	Board of Directors	.622	1.607
	Profitability	.299	3.346
	Operation Efficiency	.387	2.587

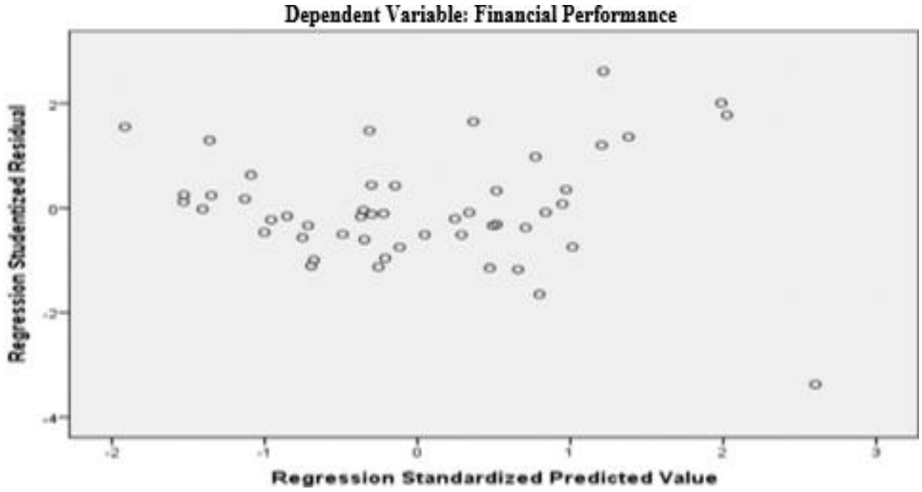
Source: SPSS Output

All independent variables show tolerance values > 0.10 and VIF < 10; Institutional Ownership with Tolerance 0.0896 and VIF 1.116, Number of Directors with Tolerance 0.622 and VIF 1.607, Profitability with Tolerance 0.299 and VIF 3.346, and Operating Efficiency with Tolerance 0.387 and VIF 2.587. This indicates that there is no significant multicollinearity in the regression model, so the regression results are reliable for further analysis.

c. Heteroscedasticity Test

Figure 2. Scatterplot pattern

Model		Collinearity Statistic	
		Tolerance	VIF
1	(Constant)		
	Institutional Ownership	.896	1.116
	Board of Directors	.622	1.607
	Profitability	.299	3.346
	Operation Efficiency	.387	2.587



Source: SPSS Output

Based on the scatterplot analysis of the residuals against the standardized predicted values, we see that the data points are randomly scattered around the zero horizontal line without forming a clear pattern. This indicates that the variation of the residuals is relatively constant across the range of predicted values, suggesting that there is no significant tendency of heteroscedasticity. Thus, the assumption of homoscedasticity is met.

d. Autocorrelation Test

Table 5. Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.959[a]	.919	.912	.29694	1.787

Source: SPSS Output

The Durbin-Watson test results, the value obtained is 1,787, indicating that there is no autocorrelation in the regression model residuals. In the absence of autocorrelation, the assumption of residual independence in the regression model is fulfilled.

2. Data Analysis Method

a. Descriptive Test

Table 6. Descriptive Analysis Results

	N	Minimum	Maximum	Mean	Std. Deviation
Institutional Ownership	50	.53	.98	.7957	.13448
Board of Directors	50	4.00	14.00	7.2400	2.45415
Profitability	50	.41	23.15	8.9396	6.24860
Operation Efficiency	50	46.50	103.36	79.9410	12.42874
Financial Performance	50	.14	4.00	1.5716	.99873
Valid N (listwise)	50				

Source: SPSS Output

Descriptive analysis shows that the average institutional ownership is 0.7957, with a standard deviation of (0.13448). The number of directors has an average of 7.2400, with a standard deviation of (2.45415). Profitability has an average of 8.9396, with a standard deviation of (6.24860). Operating efficiency has an average of 79.9410, with a standard deviation of (12.42874). While financial performance has an average of 1.5716, with a standard deviation of (0.99873).

b. Multiple Regression Test

Table 7. Multiple Regression Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.514	.650		10.027	.000
	Institutional Ownership	.215	.333	.029	.646	.521
	Board of Directors	-.009	.022	-.022	-.403	.689
	Profitability	0.29	0.12	.180	2.313	.025
	Operation Efficiency	-.066	.005	-.826	-12.092	.000

Source: SPSS Output

The outcomes of multiple regression analysis show that the variables of institutional ownership and the number of directors, although included in the model, do not show a significant effect on financial performance (B = 0.215 and significance 0.521 for institutional ownership; B=-0.009 and significance 0.689 for the number of directors). Meanwhile, the profitability variable (B=0.029 and significance 0.025) has a significant positive effect on financial performance, while the operating efficiency variable (B=-0.066 and significance 0.000) has a significant negative effect.

3. Hypothesis Test

a. Determinant Coefficient Test (R^2)

Table 8. Determinant Coefficient Test (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.959[a]	.919	.912	.29694	1.787

Source: SPSS Output

The results of the analysis of the coefficient of determination (R^2), obtained an R^2 value of 0.919, meaning that 91.9% of the variation in financial performance can be explained by the independent variables studied. Adjusted R^2 of 0.912, indicating the adjustment of the model to the number of independent variables used.

b. Test t (Partial Effect)

Table 9. t Test (Partial Effect)

Model		t	Sig.
1	(Constant)	10.027	.000
	Institutional Ownership	.646	.521
	Board of Directors	-.403	.689
	Profitability	2.313	.025
	Operation Efficiency	-12.092	.000

Source: SPSS Output

The t-test results show that of the four independent variables tested on financial performance, only Profitability and Operating Efficiency have a significant influence. Institutional Ownership (X1) and Number of Directors (X2) do not show a significant influence on financial performance, with t values of 0.646 and -0.403 respectively, and significance levels greater than 0.05. Meanwhile, Profitability (X3) has a significant positive effect with a t value of 2.313 and a significance of 0.025, while Operating Efficiency (X4) has a significant negative effect with a t value of -12.092 and a significance of 0.000.

The Impact of Institutional Ownership on Financial Performance

Based on the results of multiple regression analysis, the institutional ownership variable (X1) does not show a significant effect on the company's financial performance (B = 0.215, p = 0.521). This result illustrates that variations in the level of institutional ownership are not statistically related to the financial performance measured in this study. Nonetheless, the high tolerance value (0.0896) and low VIF value (1.116) of this variable indicate that there is no significant indication of multicollinearity that could interfere with the regression results. In addition, important assumptions such as normality, homoscedasticity, and residual independence are also met for the institutional ownership variable in the regression model. The findings of this research do not align with previous studies [19], [20], [21] which states that "Institutional Ownership has a significant influence on Financial Performance".

The Impact of the Number of Directors on Financial Performance

Based on the results of multiple regression analysis, the variable number of directors (X2) shows no significant effect on the company's financial performance (B = -0.009, p = 0.689). This result indicates that variations in the number of directors are not statistically associated with significant changes in financial performance measured in this study. The results of this study are also not in line with research [22], [16], [23] which states that the number of directors has a significant effect on financial performance.

This research shows that while the number of directors is a factor that is often considered important in strategic decision-making in companies, in this specific context, its impact on financial performance cannot be statistically ascertained. This could be due to factors such as the competence and effectiveness of individual board members, the dynamics of the working relationship between the board of directors and executive management, or even external factors that were not considered.

Effect of Profitability on Financial Performance

Based on the results of multiple regression analysis, the profitability variable (X3) is proven to have a significant positive effect on the company's financial performance. The t test results show that profitability has a regression coefficient (B) of 0.029 with a significance level of 0.025. This means that an increase in the level of profitability of the company contributes positively to the financial performance measured in this study. This is in accordance with the theory [32] which states that the existence of a high profitability ratio indicates that the company has a better ability to generate profits or profits for the company. The results of this study are also in line with the results of research by [24], [25], [26], [33] which states that profitability has a significant effect on financial performance.

The positive effect of profitability on financial performance is also confirmed through the coefficient of determination (R^2) value of 0.919, which indicates that approximately 91.9% of the variation in financial performance can be explained by the independent variables included in the regression model, among which is profitability. These results indicate that profitability plays an important role in measuring a company's financial performance, with companies that are able to improve their profitability tending to have better overall financial performance. Therefore, company management needs to focus on strategies that can increase profitability to support the achievement of optimal financial performance.

Effect of Operating Efficiency on Financial Performance

Based on the results of multiple regression analysis, the operating efficiency variable (X4) shows a significant negative impact on the firm's financial performance. The regression coefficient (B) value for operating efficiency is -0.066 with a significance level of 0.000. This result indicates that an increase in the company's operational efficiency can negatively affect the financial performance measured in this study. Conceptually, this can be explained that although operational efficiency can help reduce costs and increase productivity, too much focus on efficiency without paying attention to other factors such as product or service quality, can reduce the added value perceived by the market and investors. The results of this study are also in line with the results of research by [34] which states that BOPO has a negative and significant effect on financial performance.

The negative effect of operating efficiency on financial performance is also confirmed in the coefficient of determination (R^2) obtained of 0.919. Although operational efficiency is important to maximize the use of company resources, the results of this study indicate that companies should consider the balance between efficiency and efforts to maintain or improve the quality of products and services. Therefore, company management needs to adopt strategies that not only optimize operational efficiency, but also pay attention to other aspects that can increase company value in the long run, such as product innovation, market development, and customer satisfaction.

CONCLUSION

This study concludes that **fundamental findings** reveal that while Good Corporate Governance (GCG), specifically institutional ownership and board composition, does not significantly impact the financial performance of banks listed on the Indonesian Stock Exchange, profitability—measured by Return on Equity (ROE)—is positively correlated with financial performance, and operational efficiency—assessed via the BOPO ratio—has a significant negative impact. The **implication** of these findings underscores the necessity for bank management to prioritize profitability-enhancing strategies while exercising caution in managing operational efficiency to prevent adverse effects on service quality. Moreover, the **limitations** of this study include a focus on a specific geographical context and a limited time frame, which may restrict the generalizability of the findings. **Future research** should explore the interactions of additional variables affecting financial performance and expand to include banks from diverse regions and different regulatory environments to achieve a more comprehensive understanding of these dynamics in the banking sector.

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