

Determinants of Bank Financial Performance in Indonesia: The Role of Governance, Capital Structure, Firm Size, and Intellectual Capital

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Abstract

This study analyzes the determinants affecting the financial performance of commercial banks in Indonesia, employing secondary data from banks listed on the IDX from 2019 to 2023. The analysis examines corporate governance, capital structure, firm size, and intellectual capital as independent variables, uses ROA and ROE as indicators of bank performance. We apply panel data regression using STATA 17. The findings show that corporate governance and capital structure do not exert a measurable impact on either ROA or ROE. Firm size improves ROE but does not materially affect ROA. By contrast, intellectual capital consistently and strongly enhances both ROA and ROE, highlighting its central role in bank profitability in Indonesia. This research offers critical insights for bank management to improve performance and for regulators to formulate effective regulations that promote the stability and sustainability of the banking sector in Indonesia.

Keywords: *Corporate Governance, Capital Structure, Financial Performance, Firm Size, Intellectual Capital.*

INTRODUCTION

The banking sector plays a fundamental role in maintaining macroeconomic stability by channeling funds from surplus units to deficit units. Strong financial performance is therefore critical for banks to remain competitive and resilient (Buallay, 2019). In recent years the expectation for banks has expanded beyond short-term profitability toward long-term sustainability. Banks are increasingly required to manage risks related to climate exposure, social inequality, and environmental degradation, which, in turn, affects their economic resilience (Kumar & Prakash, 2019). Financial performance in commercial banking is commonly assessed using profitability ratios such as Return on Assets (ROA) and Return on Equity (ROE). ROA captures how efficiently banks convert assets into earnings (Gusmawanti et al.,

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2020), while ROE reflects how effectively banks generate returns for shareholders by leveraging their equity base (Menicucci & Paolucci, 2016). These indicators are widely used to evaluate bank stability and managerial effectiveness.

Prior research suggests that several internal factors may shape bank profitability: corporate governance, capital structure, firm size, and intellectual capital. Strong governance enhances transparency and managerial accountability, which should support more effective asset allocation and ultimately strengthen shareholder returns (Bhagat & Bolton, 2019). Capital structure, defined as the mix between debt and equity financing, influences banks' risk profile and capacity to absorb shocks (Musah, 2018). Firm size matters because larger banks typically have broader market access, stronger bargaining power, and lower average funding costs (Gupta & Mahakud, 2020). Intellectual capital including human capability, organizational systems, and relational assets is increasingly viewed as a strategic driver of competitive advantage and profitability in the banking sector. Intellectual capital, which encompasses human resources, organizational structure, and stakeholder relationships, is becoming an increasingly crucial aspect in enhancing the competitiveness and operational efficiency of banks (Soewarno & Tjahjadi, 2020).

Given the importance of these factors, this study aims to analyze how corporate governance, capital structure, firm size, and intellectual capital affect ROA and ROE in commercial banks in Indonesia.

LITERATURE REVIEW

Stakeholder Theory

Stakeholder theory argues that banks are accountable not only to shareholders but also to depositors, regulators, employees, and the wider public. Financial performance, commonly expressed through ROA and ROE, is therefore not merely an outcome of internal asset efficiency or equity utilization (Scholtens & van't Klooster, 2019). It also reflects how well banks manage expectations related to transparency, risk control, service quality, and long-term stability. In this view, governance quality, prudent capital management, organizational scale, and credibility in the eyes of stakeholders become strategic levers that shape sustainable profitability (Haris et al., 2019).

Profitability

Profitability is one of the primary indicators that reflect a bank's performance and success. Generally, profitability indicates a bank's ability to generate profits from its operational activities. For a bank, stable and sustainable profitability is essential to maintain the trust of customers, investors, and other stakeholders (Saif-Alyousfi, 2022). Profits earned are also a key source for raising capital, business expansion, and investment in initiatives that support long-term growth. Profitability plays a crucial role in determining the extent to which banks can effectively support sustainability initiatives. Profitable banks have a

greater capacity to allocate funds to projects that support sustainable development, such as renewable energy financing, microcredit for financial inclusion, or investments in green technology. Research by Raharjo (2007) revealed that strong profitability enables banks to support the financing of green projects and investments in the renewable energy sector.

Corporate Governance

Good corporate governance (GCG) is a principle and system of corporate management designed to ensure that companies are managed in a transparent, accountable, fair, and responsible manner (Ani Asmara et al., 2022). Bank governance can utilize the self-assessment method, which is a self-evaluation process conducted by banks to assess the quality of corporate governance implementation (Mukhtaruddin et al., 2019). This approach produces a composite score, representing a comprehensive evaluation of the quality of GCG implementation within a bank. In Indonesia, the self-assessment of bank governance is governed by the Financial Services Authority Regulation (POJK), especially POJK No. 55/POJK.03/2016, which pertains to the governance implementation for commercial banks. The self-assessment method, with its resulting composite score, provides an overall picture of the quality of bank governance, encourages continuous improvement, and ensures compliance with regulatory standards to maintain the the stability and sustainability of bank performance (Under POJK No. 55/POJK.03/2016 issued by the Financial Services Authority).

Good Corporate Governance (GCG) is essential for creating a framework for ethical management, which positively influences the financial performance of firms, especially banks (Saputra & Firdausy, 2023). GCG that is consistently applied will create an accountable decision-making environment, encourage operational efficiency, and minimize financial and reputational risks (Hamsyi, 2019). In banking, the use of values such as openness, accountability, responsibility, independence, and justice will establish a more disciplined and regulated management structure. This will directly or indirectly increase ROA, as the company's assets are managed more optimally and efficiently in generating profits (Albetairi et al., 2018).

In addition, GCG is also positively correlated with ROE because good governance can maintain the trust of investors and shareholders, as well as minimize potential losses resulting from the abuse of authority or detrimental managerial practices (Vicente-Ramos et al., 2020). Banks that implement GCG effectively are typically able to maintain a healthy capital structure, avoid conflicts of interest, and manage credit and operational risks carefully, thereby enhancing the effectiveness of equity use in generating profits (Capriglione & Casalino, 2014). Thus, the implementation of GCG is not only important for compliance with regulations as stipulated in POJK No. 55/POJK, but also for ensuring the proper functioning of the system. Furthermore, it serves as a long-term

strategy in building market trust and maintaining sustainable financial performance.

H_{1a}: Corporate governance affects bank financial performance (ROA).

H_{1b}: Corporate governance affects bank financial performance (ROE)

Capital Structure

Capital structure denotes the amalgamation of financing sources employed by a corporation, comprising both debt and equity. A commonly utilized metric for assessing capital structure is the Debt-to-Equity Ratio (DER). DER is a financial metric that evaluates the extent to which a corporation utilizes debt to fund its assets in relation to equity (Farah & Firdayetti, 2022). This ratio provides an overview of the company's financial leverage, specifically the level of risk associated with using debt (Mehzabin et al., 2023). DER is an important indicator in capital structure analysis because it provides an overview of the proportion of debt and equity. The use of debt must be balanced to maximize profits while minimizing financial risk, which is a key factor in the financial management of companies and banks (Yinusa et al., 2019).

Besides being a measure of the proportion between debt and equity, the Debt-to-Equity Ratio (DER) also reflects a company's long-term financing policy. The higher the DER value, the more the company uses debt in its capital structure, which implies an increase in interest burden and default risk (Sukamto et al., 2019). On the other hand, a DER level that is too low could indicate that the company is not optimally utilizing leverage to enhance growth. Therefore, DER not only reflects the funding structure but also serves as an indicator of managerial strategies in managing risk and return (Sari & Hutagaol, 2009). In the context of the banking industry, where financial stability is crucial, DER can serve as a tool to assess the extent to which a bank maintains a balance between business expansion and the ability to meet obligations.

H_{2a}: Capital structure significantly affects bank financial performance (ROA).

H_{2b}: Capital structure significantly affects bank financial performance (ROE).

Firm Size

Firm size is a concept used to measure the size of a company based on certain aspects. Company size is often used in economic, financial, and management research because it can affect various aspects of Company performance, strategy, and sustainability (Mubeen et al., 2021). Company size can be measured using various indicators, including the logarithm of total assets, which encompasses current assets and fixed assets (Purba & Bimantara, 2020).

The size of a company (firm size) not only reflects the scale of operations and asset capacity but also serves as an important indicator in determining the competitiveness and market position of a business entity (Neves et al., 2020). Companies of a large size generally have easier access to external financing, stronger bargaining power in business

negotiations, and higher economies of scale. In the financial context, the size of a company is often associated with levels of risk and profitability (Guermazi, 2020). Large companies tend to have more complex managerial structures, but they are also more stable against economic fluctuations due to their diversified business lines and extensive market share. This makes firm size one of the main control variables in various models of financial performance analysis, risk management, and investment decisions (Sik Cho, 2013).

H_{3a}: Firm size significantly affects bank financial performance (ROA)

H_{3b}: Firm size significantly affects bank financial performance (ROE)

Intellectual Capital

Intellectual capital denotes a conceptual framework elucidating its role in enhancing an organization's competitive advantage and performance (Haris et al., 2019). Intellectual capital is often associated with intangible assets, including knowledge, innovation, skills, and relationships, that the company owns. If banks manage their intellectual capital effectively, there will be an increase in non-financial performance, which ultimately has a positive impact on profitability (ROE) (García Castro et al., 2021).

Intellectual capital (IC) is a strategic element in the era of a knowledge-based economy, where successful competitiveness no longer relies solely on tangible assets, but on the organization's ability to manage the knowledge, expertise, and information it possesses (Quintero-Quintero et al., 2021). Intellectual capital comprises three primary components: human capital (competence, creativity, and employee experience), structural capital (systems, processes, databases, and internal technology), and relational capital (external interactions with consumers, business partners, and other stakeholders) (Hsu & Sabherwal, 2012). The three are interconnected and form the foundation of the company's intangible value, which is crucial for business sustainability. In the context of banking, effective IC management can enhance operational efficiency, service quality, financial product innovation, and strengthen customer trust (Bui et al., 2023).

The measurement and reporting of intellectual capital becomes important so that its contribution to organizational performance can be systematically recognized. Despite being intangible, intellectual capital significantly influences long-term financial success, exemplified by enhancements in ROA and ROE (Xu & Liu, 2020). Banks that can build a knowledge-based organizational culture, develop their human resources sustainably, and establish strong relationships with customers and the community will be better prepared to face market pressures and regulatory changes (Hesniati et al., 2019). Therefore, investing in intellectual capital is not merely an expense, but a long-term strategy to maintain competitiveness and create sustainable added value amidst the financial industry's dynamics.

Taken together, these perspectives suggest a complementary theoretical logic. From a stakeholder theory perspective, banks must

maintain credibility, regulatory compliance, and stability to satisfy multiple claimholders, including regulators, depositors, and investors. This logic underpins the expected role of corporate governance, capital structure discipline, and firm scale in shaping financial performance, as reflected in ROA and ROE. At the same time, the knowledge-based view (KBV) positions intellectual capital as a strategic intangible resource that enables banks to convert regulatory pressure and market expectations into superior execution capacity. Human capability, organizational systems, and customer relationships not only enhance service quality and risk management but also translate into more efficient asset use (ROA) and stronger returns to equity holders (ROE). In this integrated view, governance and structural factors create the formal environment for control and compliance, whereas intellectual capital provides the knowledge-driven mechanism through which those structures are transformed into sustained profitability.

H_{4a}: Intellectual capital significantly affects bank financial performance (ROA)

H_{4b}: Intellectual capital significantly affects bank financial performance (ROE)

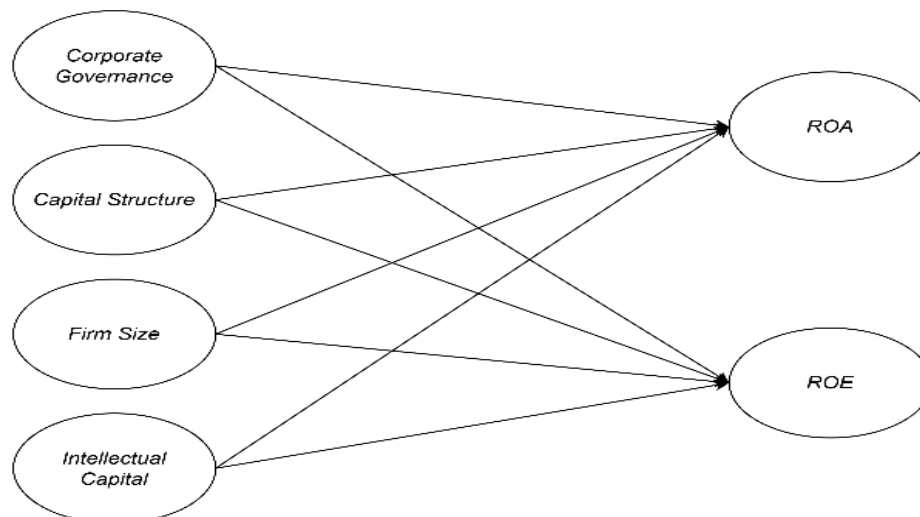


Figure 1. Conceptual Framework

METHODS

This study employs a quantitative explanatory design to test the causal relationships between four independent variables corporate governance, capital structure, firm size, and intellectual capital and bank profitability. Bank performance is measured using two indicators: Return on Assets (ROA) and Return on Equity (ROE). Data were extracted from the annual and governance reports of 15 commercial banks, Core Capital Group (KMBI) 3 and 4, listed on the Indonesia Stock Exchange (IDX) for the period 2019-2023. Samples were chosen via the purposive sampling method based on the subsequent criteria:

1. Banks that have published annual reports consistently during 2019-2023.
2. Banks that have reported governance reports during 2019-2023.

Figure 1 shows two regression analyses of four independent factors on the bank's financial performance. Both approaches assess corporate governance, capital structure, firm size, and intellectual capital independently. Dependent variable is the main difference between the models. ROA assesses the effectiveness of a bank's asset use in generating profits in the initial model. The second model uses ROE to measure shareholder profits. Through these two profitability indicators, this study examines whether each independent variable affects ROA and ROE similarly or differently. This strategy helps understand the bank's financial stability and sustainability's internal factors.

Table 1. Variable Measurement

Construct	Indicator/Proxy	Measurement	Source
Financial Performance	ROA, ROE	ROA = Net Income/Total Assets; ROE = Net Income/Equity	Annual Reports (2019–2023)
Corporate Governance	Governance Composite Score	Self-assessment composite governance score reported under POJK No. 55/POJK.03/2016	Governance Reports
Capital Structure	Debt-to-Equity Ratio (DER)	Total Liabilities/Total Equity	Annual Reports
Firm Size	Size	Natural log of total assets	Annual Reports
Intellectual Capital	VAIC (CEE, HCE, SCE)	Value Added Intellectual Coefficient based on Pulic model	Annual Reports/Financials

RESULTS AND DISCUSSION

This study assesses the quantitative measurement model using the Chow Test, the Hausman Test, the Lagrange Multiplier Test, and the Multicollinearity Test. The empirical results indicate that corporate governance does not materially influence ROA or ROE. Capital structure likewise shows no measurable impact on either profitability metric. Firm size is positively associated with ROE but shows no meaningful relationship with ROA. By contrast, intellectual capital demonstrates a consistent and statistically significant contribution to both ROA and ROE, making it the most reliable internal driver of bank profitability in this sample.

Table 2. Model Comparison

Model	Chow Test	Hausman Test	Lagrange Multiplier	Decision
Model 1	Prob F = 0.000 < 0.05	Prob. Chi: 0.3664 > 0.05	Prob. Chibar2: 0.000 < 0.05	Random effect model
Model 2	Prob F = 0.000 < 0.05	Prob. Chi: 0.1281 > 0.05	Prob. Chibar2: 0.000 < 0.05	Random effect model

Model 1: Corporate governance, capital structure, firm size, and intellectual capital on ROA

Model 2: Corporate governance, capital structure, firm size, and intellectual capital on ROE

Table 2 of the panel regression model selection test results for both research models shows that Model 1 (ROA) and Model 2 (ROE) recommend the random effects model. This requires three evaluation phases.

The fixed effect model outperformed the common effect model in the Chow Test, with a F probability value of 0.000 (< 0.05). Testing continues to see if the effect is constant or varied. The Hausman Test shows a Chi-square probability value of 0.3664 for ROA and 0.1281 for ROE, both over 0.05, indicating no significant difference between fixed and random impact estimates. Due to its efficiency and impartiality, the random effect is better.

The Lagrange Multiplier test (Breusch-Pagan) produces a Chibar2 probability value of 0.000 (< 0.05), signifying that the random effect is superior to the common effect. Considering the consistent results of the three tests, the random effects model is best for Model 1 (which examines how corporate governance, capital structure, firm size, and intellectual capital affect ROA) and Model 2 (which examines how they affect ROE). The best model for capturing panel data variance across firms and temporal dimensions is this one.

Table 3. Multicollinearity Test

Variable	VIF	Tolerance
Corporate Governance (X1)	2.73	0.365
Capital Structure (X2)	2.62	0.382
Firm Size (X3)	1.19	0.842
Intellectual Capital (X4)	1.13	0.887

Source: data processed (2025)

All VIF scores remain well below the conventional threshold of 10, indicating no serious multicollinearity concerns. All variables' tolerance values are more than 0.1, confirming that multicollinearity is not present. We can utilize the regression model in this investigation without worry about distortion due to high independent variable correlation (Ghozali, 2017).

Table 4. Panel Regression and Hypothesis Test (Model 1)

Variable	β (Coefficient)	p-value	Significance
Corporate Governance	0.0025	0.370	n.s.
Capital Structure	-0.0008	0.189	n.s.
Firm Size	0.0030	0.118	n.s.
Intellectual Capital	1.4200	0.043	*
Constant	0.0158	0.001	*
R ²	0.2959		

“*” = significant at $p < 0.05$

Source: data processed (2025)

According to Table 4, the outcomes of the Random-effects GLS regression with ROA as the dependent variable yielded the following regression equation model: $ROA = 0.0158 + 0.0025 \cdot X_1 - 0.0008 \cdot X_2 + 0.0030 \cdot X_3 + 1.4200 \cdot X_4$

For ROA, only intellectual capital shows a statistically significant and positive association ($\beta = 1.4200$; $p = 0.043$), suggesting that banks with stronger intellectual capital tend to utilize their assets more

efficiently. Corporate governance, capital structure, and firm size do not exhibit statistically meaningful effects on ROA. The model explains approximately 29.6% of the variation in ROA.

Table 5. Panel Regression and Hypothesis Test (Model 1)

Variable	β (Coefficient)	p-value	Significance
Corporate Governance	0.0129	0.366	n.s.
Capital Structure	0.0009	0.790	n.s.
Firm Size	0.0227	0.035	*
Intellectual Capital	0.0129	0.001	*
Constant	0.0502	0.033	*
R ²	0.3881		

* = significant at $p < 0.05$

Source: data processed (2025)

According to Table 5, the outcomes of the Random-effects GLS regression with ROE as the dependent variable yield the following regression equation model:

$$ROE = 0.0502 + 0.0129 \cdot X_1 + 0.0009 \cdot X_2 + 0.0227 \cdot X_3 + 0.0129 \cdot X_4$$

For ROE, both intellectual capital ($\beta = 0.0129$; $p = 0.001$) and firm size ($\beta = 0.0227$; $p = 0.035$) are positively and significantly associated with shareholder returns. In contrast, corporate governance and capital structure do not show measurable effects on ROE. The model accounts for about 38.8% of the variation in ROE.

Corporate Governance on Financial Performance

The absence of a statistically significant relationship between corporate governance and bank profitability (ROA and ROE) can be interpreted in light of how governance is regulated and practiced in Indonesian banking. Good Corporate Governance (GCG) is mandated through regulatory frameworks such as POJK No. 55/POJK.03/2016, and is assessed through a standardized self-evaluation that banks are required to disclose. In practice, this governance regime often functions as a compliance exercise: banks report the existence of structures, committees, and control mechanisms to satisfy regulatory expectations, but these disclosures do not necessarily capture the depth, independence, or effectiveness of internal oversight (Malini, 2021; Subarnas & Gunawan, 2019).

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Another explanation is temporal. The profitability of banks in the observation window (2019–2023) is more immediately driven by macroeconomic conditions, credit quality, operational efficiency, and

digital execution than by gradual governance reforms (Hamsyi, 2019; Vicente-Ramos et al., 2020). Governance influences reputation, investor trust, and risk culture, but those effects tend to materialize over a longer horizon. This suggests that, in the short to medium term, governance operates as a systemic safeguard demanded by regulators and stakeholders rather than as a direct driver of quarterly profitability. This view is consistent with stakeholder theory, in which governance exists to reassure multiple claimholders regulators, depositors, and shareholders about institutional stability, even if such reassurance is not immediately monetized in ROA or ROE (Donker & Zahir, 2008; Jonsdottir et al., 2022).

Capital Structure and Financial Performance

The finding that capital structure does not significantly explain ROA or ROE in Indonesian commercial banks reflects structural characteristics of the banking industry. Unlike non-financial firms, banks are inherently leveraged institutions: they transform deposits into loans and other earning assets. As a result, leverage is not simply a discretionary financing choice but an intrinsic element of the banking model (Ahmed et al., 2024). Conventional measures such as the Debt-to-Equity Ratio (DER) therefore do not fully distinguish between prudent risk-taking and excessive balance-sheet stress in the banking context. A high DER in a bank does not necessarily indicate financial fragility in the same way it might in a manufacturing firm; it may instead reflect normal intermediation activity (Bui et al., 2023; Siddik et al., 2017).

Indonesian banks operate under strict prudential supervision from the Financial Services Authority (OJK) and Bank Indonesia. Key regulatory thresholds for example, capital adequacy, liquidity coverage, and credit risk exposure effectively constrain capital structures within relatively narrow and homogeneous bands across large banks (Pandoyo, 2020; Raz, 2018). When regulatory pressure compresses variation in capital policies, statistical models are less able to detect meaningful differences in profitability that are attributable purely to leverage.

Profitability in the 2019–2023 period was instead shaped more directly by loan quality, cost efficiency, and the speed of digital adoption, including the ability to generate fee-based income and manage credit risk in a volatile post-pandemic environment (Akter & Roy, 2017; Tariq et al., 2014). This suggests that capital structure, at least as proxied by DER, is not the dominant channel through which banks create shareholder value in the short run. Instead, capital structure functions primarily as a regulatory safeguard to ensure solvency and systemic stability, rather than as an immediate driver of ROA and ROE.

Lastly it could also be caused by the mismatch of the indicators used. If the measurement of capital structure focuses solely on DER without considering the specific banking context, the resulting empirical relationship becomes weak. This underscores the necessity for a more exact methodology in assessing the financial structure within the banking sector, for instance, by integrating variables such as the capital adequacy ratio (CAR) or deposit-based funding structure, hence allowing

for a more accurate evaluation of their effects on ROA and ROE (Molla, 2020; Olbrich, 1980; Syukriyah et al., 2020).

Firm Size on Financial Performance

The difference in the influence of firm size on two financial performance indicators, namely being insignificant on Return on Assets (ROA) but significant on Return on Equity (ROE), in commercial banks in Indonesia can be explained by the differing characteristics of each ratio as well as the operational conditions of the banks themselves. ROA assesses the bank's efficiency of producing profit from its total assets, while ROE measures the amount of profit generated from equity or its capital. In large-scale banks, the total assets managed are substantial, but not all of them are productive assets (Sunaryo, 2020). Some assets may consist of mandatory reserves, unused liquidity, or assets that do not directly generate profit, causing the efficiency of asset utilization to decline. This is what causes firm size to have no significant effect on ROA, because asset growth does not always align with the increase in net profit obtained from those assets (Dang et al., 2017; Sunaryo, 2020).

Conversely, firm size has a significant impact on ROE because larger banks tend to have substantial equity, a good reputation, and broader access to funding and expansion opportunities. This allows larger banks to utilize equity more productively to generate profits. Additionally, larger banks are also better able to diversify financial products and services and reduce capital costs, which directly positively affects ROE. Thus, the size of the bank has a stronger correlation with its ability to manage and maximize its capital compared to the efficiency of asset utilization (Neves et al., 2020b; Onour et al., 2019; Tarawneh et al., 2024). This difference indicates that the influence of firm size on financial performance is relative, depending on the dimension of profitability being analyzed and the operational strategies implemented by each bank.

Intellectual Capital on Financial Performance

Intellectual capital (IC) substantially impacts the financial performance of banking institutions in Indonesia, as demonstrated by ROA and ROE, due to IC being an intangible asset that possesses strategic importance in enhancing productivity, innovation, and competitive advantage for banks. In the digital age and knowledge-driven economy, a bank's success is increasingly contingent upon its ability to manage and leverage intellectual resources, which include human capital, structural capital, and relational capital, rather than merely physical assets.

Human capital, encompassing the skills, expertise, and experience of people, is essential for improving operational efficiency, service quality, and financial product innovation. Competent employees can manage risks better, implement more selective credit strategies, and build stronger relationships with clients, which ultimately has a direct impact on profit increases and asset usage efficiency, thereby contributing to an

increase in ROA (Hwang et al., 2009; Syukriyah et al., 2020). In addition, structural capital, such as information technology systems, operational procedures, and knowledge management, enables banks to accelerate service processes, reduce operational errors, and enhance the security and reliability of their financial systems. This has a positive impact on long-term effectiveness and profitability (Alam et al., 2025; Putra et al., 2019).

Furthermore, relational capital, denoting the bank's external connections with customers, business partners, and other parties, enhances market loyalty and trust in financial organizations. A strong reputation and a vast customer network enable banks to maintain the stability of third-party funds, expand a healthy credit base, and increase their market share. All these components of IC directly contribute to the increase in ROE, as they strengthen the equity position in generating sustainable profits. Additionally, banks with high intellectual capital tend to be more adaptive to regulatory changes and technological disruptions, thereby maintaining stable financial performance in the long term (Jurevičienė & Rauličkis, 2020; Siam & Khanji, 2015).

In Indonesia, the significant influence of IC on ROA and ROE also reflects the shift in the banking business model that increasingly relies on digitalization, service innovation, and the quality of human resources. Banks that invest in employee training, information technology, and the development of knowledge management systems tend to show better financial performance compared to those that do not. Thus, intellectual capital is not merely a complement but a key determinant of operational efficiency and profitability for commercial banks in Indonesia (Hesniati et al., 2019; Sofian et al., 2020; Utami et al., 2020).

CONCLUSION

This study examines the influence of corporate governance, capital structure, firm size, and intellectual capital on bank financial performance in Indonesia, measured through ROA and ROE during the 2019–2023 period. The empirical results show that intellectual capital is the most consistent internal driver of profitability. It is positively and significantly associated with both ROA and ROE, indicating that banks with stronger knowledge assets, human capability, systems, and relational capital are better able to translate resources into returns. Firm size is also positively associated with ROE, suggesting that larger banks can use their equity base more efficiently to generate shareholder returns. By contrast, corporate governance and capital structure do not exhibit a statistically significant direct effect on either ROA or ROE within the observed period.

These findings have several theoretical implications. First, they reinforce the knowledge-based view by confirming that intellectual capital is not merely an auxiliary intangible asset but a core strategic resource that supports financial outcomes in banking. Intellectual capital appears to be the mechanism through which operational capability, service quality, and risk management are converted into measurable

profitability. Second, the limited explanatory power of governance and capital structure in the short run suggests that compliance-oriented governance scores and traditional leverage ratios (such as debt-to-equity) may not fully capture how value is created in a regulated banking system. This nuance refines stakeholder-oriented views of bank performance: while governance and prudential capital structures are crucial to reassure regulators, depositors, and investors, they do not automatically materialize as higher ROA or ROE in the short to medium term.

The results also offer practical implications for bank management and regulators. For managers, strengthening intellectual capital should be treated as an investment priority, not a discretionary cost. This includes systematic enhancement of human capital (training, analytical skills, digital literacy), structural capital (process discipline, data infrastructure, risk analytics), and relational capital (customer trust, service reliability, digital service adoption). Large banks appear to benefit from scale economies in capital productivity; however, scale alone does not guarantee efficient asset utilization, which implies that growth strategies should be paired with disciplined asset quality management. For regulators, the findings indicate that sustained improvements in bank profitability may depend less on formal compliance with governance templates and more on the depth of organizational capability, digital readiness, and knowledge absorption capacity within each institution.

This study is subject to several limitations. The period of analysis (2019–2023) captures a post-pandemic transition phase in which digital acceleration, credit restructuring, and regulatory stabilization were unusually intense. As a result, the short-run effects of governance and capital structure may not yet be observable in profitability metrics. The study also relies on self-reported governance assessments and a debt-to-equity proxy for capital structure, both of which may underrepresent the qualitative aspects of internal control and risk culture in banks. Future research should extend the observation window and incorporate moderating or mediating factors that reflect strategic capacity, such as digital readiness, environmental, social, and governance (ESG) disclosure, cost efficiency, funding structure, or credit risk quality. Incorporating such factors would clarify whether governance and capital policies influence profitability indirectly for example, by enabling technology adoption, sustaining trust, or supporting long-term resilience even when they do not appear as direct determinants of ROA or ROE.

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