The role of board expertise in enhancing bank performance

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[1]*Fifyanty, [2]Hesniati, [3]Serly

[1,2] Department of Management, Faculty of Economics and Business, University International Batam - Indonesia
[3]Department of Accounting, Faculty of Economics and Business, University International Batam - Indonesia

e-mail:
[1]* 2241111.fifyanty@uib.edu *(corresponding author)*
[2]hesniati@uib.edu
[3]serly.serly@uib.edu

ABSTRACT

This study examines the relationship between board expertise and bank performance through the lens of agency theory, which emphasizes effective corporate governance in aligning managerial actions with shareholder interests. Board expertise is expected to enhance monitoring effectiveness and provide strategic guidance, thereby contributing to improved performance. Using a quantitative approach, this study analyzes secondary data from banks listed with the Financial Services Authority (OJK) over the 2018–2022 period. Bank performance is measured using Return on Assets (ROA) and Return on Equity (ROE), while board expertise is assessed based on directors' legal, financial, and industry-related backgrounds. The findings indicate that banks with higher levels of board expertise tend to exhibit better performance. This suggests that directors' relevant expertise may contribute to more effective monitoring, better-informed decision-making, and firm value creation. This study contributes to the corporate governance literature by highlighting the relevance of board expertise to bank performance. It also offers practical implications for regulators and banking institutions regarding the importance of appointing directors with appropriate professional competencies.

Keywords: *Board Expertise; Bank Performance; Agency Theory*

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INTRODUCTION

Global economic performance in general is still weak with the inflation rate tending to moderate (Firdaus et al., 2026) Indonesia went through economic crisis on 1998 leads to the financial performance of business entities has declined sharply, some even suffering losses. In 1998, the interest rates increased to 68.76% per year, and inflation also reached 77% per year (Indonesia Statistics, 1998). In September 2024, the y-on-y inflation rate is 1.84 percent, however the y-on-y inflation rate for September 2023 is 2.28 percent (Indonesia Statistics, 2024).

Yulfiswandi & Halim (2024) explains that inflation has a significant positive impact on bank performance, indicating that Islamic commercial banks maintain good liquidity and grow in tandem with inflation. The Bank Indonesia Board of Governors Meeting (RDG) on 23-24 April 2024 decided to increase the BI-Rate by 25 bps to 6.25%, the Deposit Facility interest rate by 25 bps to 5.50%, and the Lending Facility interest rate by 25 bps to 7.00%. Bank credit growth continues to increase (Indonesia Bank, 2024). An increase in interest rates can lead to a decline in the market value of bonds and other financial instruments held by a bank, as higher rates may make these investments less appealing to investors. This situation can lead to losses or write-downs of assets on the bank's balance sheet.

In addition, rise in interest rates can affect debtors' capability to repay loans, complicating debt management for individuals with current loans and increasing the credit risk for the bank. Moreover, the bank's investment portfolio performance can be impacted by increased interest rates, making stocks and fixed-rate instruments less competitive and leading to a decline in the bank's investment income (Rumianti et al., n.d.) . To respond to transforming market conditions brought about by increasing interest rates, banks might need to adjust their monetary policies. This might involve adjusting lending rates, investment strategies, and overall risk management with the expertise of boards (Boadi et al., 2023; Ferdy Putra, 2025) . An increase in interest rates can significantly influence a bank's financial outcomes, including direct impacts on interest income and expenses, while indirect effects on the market value of investments and the level of credit risk (Setiawati & Haryati, 2024).

The relationship between board expertise and bank performance is complicated, indicating both positive and negative impacts that vary with the leading economic conditions (Boadi et al., 2023; Jalagat et al., 2026) . On the other side, an expert board can greatly enhance the performance of a bank (Olufemi et al., 2023). (Madyan et al., 2021) explain that board members with experiences offer substantial knowledge, strategic insights, and the capacity for informed decision-making resources that are particularly valuable during periods of economic stability. The board of directors expertise enhances identifying growth prospects, improving operational efficiency, and strengthening financial performance. Therefore, we believe that board expertise can influence banking performance in Indonesia.

The purposes of this research is to examine the effect of board expertise on bank performance in Indonesia. It focuses on how board members' knowledge and experience influence bank performance, particularly amid changes in interest rates and inflation. Using Agency Theory, this study also seeks to explain how board expertise supports decision-making, risk management, and effective bank oversight.

This study will resulting several contributions. First, it links the Agency Theory, suggesting that the expertise of board can enhance a bank performance and bank risk-taking behavior to achieving a competitive advantage. Second, it offers insights to

stakeholders regarding the significance of the expertise of board in enhancing bank performance.

LITERATURE REVIEW, RESEARCH FRAMEWORK, AND HYPOTHESES

Agency Theory

Agency theory describes defines the relationship between owners (principals) and manager (agents), in which the owners entrust managers with the authority to run the company (Hendrastuti & Harahap, 2023). Differences in objectives and access to information between these parties may lead to disputes, as managers may not always act in ways that increase company value (Nasir et al., 2024) In the banking industry, this condition emphasizes the need for strong governance mechanisms so that managerial decisions remain consistent with the interests of shareholders (Boadi et al., 2023)

Rafie et al., (2025) explain that the one important mechanism emphasized in agency theory is the board of directors' role. A board with adequate expertise is able to carry out its oversight and direction functions more effectively (Boadi et al., 2023). Expertise in finance, law, and industry experience helps the board evaluate management policies, review financial reports, and ensure that implemented strategies are oriented towards improving bank performance. Thus, board expertise acts as an internal control that can minimize agency conflicts and support improved company performance (Liu & Sun, 2021; Boadi et al., 2023).

Board Expertise and Bank Performance

One of the main purposes behind establishing a board in any organization is to harness the collective expertise of its members to operate effectively leading to improved financial outcomes, including the ability to identify and manage risks (Boadi et al., 2023; Olufemi et al., 2023).The findings align with agency theory, which suggests that while shareholders typically prefer low-risk investments, management may seek to take on greater risks to achieve higher returns. However, effective risk governance structures combined with appropriate board expertise can help align the interests of managers and shareholders through improved risk management and enhanced financial performance. Thus, the expertise of a bank's board of directors is essential for effectively recognizing and managing risks to boost performance.

The results showed a negative relationship between board expertise and performance. However, when board of expertise interacted with risk governance, the relationship with performance became positive and significant
(Boadi et al., 2023) Research by Olufemi et al., (2023) confirmed that the relationship between board expertise and financial performance varied depending on the model used. In the ROE model, it showed a positive and statiscally significant, while in the ROA model, it was positive but not statistically significant.

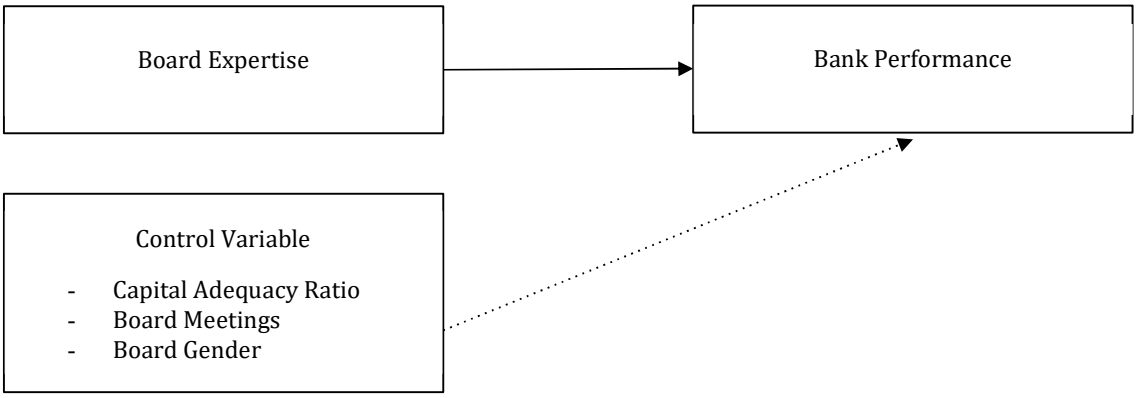
From the arguments, the following hypothesis are proposed:

H_1: Board Expertise has a significant positive impact on ROA in registered banks in Indonesia.

H_2: Board Expertise has a significant positive impact on ROE in registered banks in Indonesia.

Figure 1 shows the proposed framework for examining the effect of board expertise on bank performance. In this framework, board expertise is the independent variable, and bank performance is the dependent variable. The analysis also includes three control variables: capital adequacy ratio, board meetings, and board gender. The

study may focus on the relationship between board expertise and bank performance as these variables are taken into consideration to account for other factors that might affect bank performance.



Source : Constructed by researchers 2026

Figure 1
Research Model

METHOD

Sample for this research was taken with the number of 47 banks, listed on the Financial Services Authority (OJK), and operating in Indonesia. Bank Performance and Board Expertise are the two main variables that are taken into consideration in this research, with spans the years 2018-2022. These variables are interrelated and have implications for the performance of the banking industry. Bank performance is the key measure of a bank's profitability. When developing strategies that affect performance, the board of expertise plays a crucial role.

This research goals is to provide valuable outcomes into the factors that influence the performance in Indonesia's regulated banking system, with a focus on banks registered with Financial Service Authority (OJK). This study employs a purposive sampling method, which means data is taken by selecting specific banks that meet certain criteria applicable to the research's goals (Andrade, 2021). This method enables a targeted analysis of the institutions that are most likely to contribute significant new findings about the relationship between board expertise and bank performance. By selecting these banks to its criteria, this study aims to obtain data from cases that are most relevant and instructive for answering the main research objectives.

This study employs secondary data which obtained from annual report of each bank. Annual report provides extensive financial and performance data for the banks that were sampled. This information includes data for variable board expertise and important measurement for variable bank performance such as Return on Assets (ROA) and Return on Equity (ROE), which are the common measures for the bank performance variable in both academic and professional research.

In order to validate the authenticity and reliability of the data, these reports were accessed on the official websites of the banks or related authorities. All data used in this study were obtained from publicly accessible sources, namely official banks' annual reports. This study does not involve any confidential or proprietary data. All sources of information have been appropriately cited and acknowledged to ensure transparency and maintain academic accountability.

This study classifies its variables into two primary categories, namely the independent variable and the dependent variables, while also incorporating several control variables to enhance the robustness of the findings. The definition and measurement of each variable are carefully aligned with previous studies to ensure consistency. Through this structure, the study examines how board expertise affects bank performance.

The control variables applied in this research include the Capital Adequacy Ratio (CAR), board meetings, and board gender. CAR is employed to indicate a bank's capacity to withstand potential losses. The number of board meetings reflects the intensity of monitoring and the effectiveness of governance practices. Meanwhile, board gender reflects how gender diversity within the board may affect bank performance.

The empirical analysis utilizes the Ordinary Least Squares (OLS) regression technique, which is widely recognized as an appropriate statistical method for investigating the relationships among variables. Table 1 defines the requirements employed to determine the final research sample and the criteria used to identify the banks included in this study.

Table 1
Description and Measurement of Variables

Variables	Measurement	Definition	Source
Dependent Variables:			
Bank Performance (BP)	Return on Assets	Ratio obtained by dividing net income after tax by the total assets	(Gilani et al., 2021; Jallali & Zoghlami, 2022; Boadi et al., 2023; Olufemi et al., 2023; Mohammad et al., 2024)
	Return on Equity	Ratio obtained by dividing net income after tax by the total shareholders' equity	(Liu & Sun, 2021; Jallali & Zoghlami, 2022; Olufemi et al., 2023; Mohammad et al., 2024)
Independent Variables:			
Board Expertise (BODEXP)		Score obtained by the total of Legal, Finance, and Industry Expertise	
	Legal Expertise	This variable is given a "1" if the bank's board of directors had more number of members with legal expertise than the average of other banks in a given year, and a "0" otherwise	(Gilani et al., 2021; Boadi et al., 2023)
	Finance Expertise	This variable is given a "1" if the bank's board of directors had more number of members with financial expertise than the average of other banks in a given year, and "0" otherwise	(Gilani et al., 2021; Liu & Sun, 2021; Boadi et al., 2023)
	Industry Expertise	This variable is given a "1" the bank's board of	(Boadi et al., 2023; Olufemi et al., 2023)

	directors had more number of members with prior experience working in the banking industry than the average of other banks in a given year, and "0" otherwise	
Control Variables:		
Capital Adequacy Ratio (CAR)	The ratio of a bank's capital to its risk-weighted assets	(Magoma et al., 2024)
Board Meetings (BMEET)	The total number of Board Meetings during the current year	(Isa & Lee, 2020; Jallali & Zoghlami, 2022; Boadi et al., 2023)
Board Gender (BGENDER)	Proportion of female representation on board	(Isa & Lee, 2020; Liu & Sun, 2021; Berhe, 2023; Boadi et al., 2023; Alzayed et al., 2024; Alam et al., 2025)

The Ordinary Least Squares (OLS) method was used in this research to test the relationship between the variables studied (Abedin,2022), which are Board Expertise and Bank Performance. The OLS method was employed because it is widely used in quantitative research to estimate the linear relationship between independent and dependent variables. It provides unbiased and efficient estimates when the required assumptions are satisfied (Michael et al., 2023).

In this study, OLS was used to identify the direct and indirect effects of board expertise on bank performance, as well as to test the mediating role of bank risk-taking. This method is expected to provide valid and reliable results in answering the research questions. The regression model equation applied in this research is specified below:

Model 1: Board Expertise → Return on Assets (H_1)

$$ROA_{it} = \beta_0 + \beta_1 BODEXP_{it} + \beta_2 CAR_{it} + \beta_3 BMEET_{it} + \beta_4 BGENDER_{it} + \varepsilon_{it}$$

Model 2: Board Expertise → Return on Equity (H_2)

$$ROE_{it} = \beta_0 + \beta_1 BODEXP_{it} + \beta_2 CAR_{it} + \beta_3 BMEET_{it} + \beta_4 BGENDER_{it} + \varepsilon_{it}$$

Where ROA= Return on Assets, ROE= Return on Equity, BODEXP= Board Expertise, and controls as defined.

RESULTS AND DISCUSSION

Descriptive Statistics

Descriptive statistics summarize a general picture of the data used in this study (Kovács et al., 2021) Table 2 presents the mean, median, standard deviation, minimum and maximum values for Board Expertise, Bank Performance, and the control variables. These measures help explain the range of values and differences in the data before the regression analysis is carried out.

Table 2
Descriptive Statistics

	Mean	Median	Std. Dev.	Minimum	Maximum
ROA	0.004	0.006	0.028	-0.182	0.108
ROE	0.023	0.036	0.140	-1.239	0.260
BODEXP	1.519	1.000	1.006	0.000	3.000
CAR	36.669	24.180	45.651	9.000	390.500
BMEET	32.434	26.000	33.609	3.000	282.000
BGENDER	0.185	0.170	0.205	0.000	1.800

Source: Data processed by researchers, 2025

Table 2 summarizes the descriptive statistics of the variables examined in this study. Return on Assets (ROA) records a low mean of 0.004, with values ranging from −0.182 to 0.108, indicating that firms differ considerably in their ability to utilize assets efficiently, with some experiencing losses while others achieve positive returns. Return on Equity (ROE) has an average of 0.023 and spans from −1.239 to 0.260, reflecting wide disparities in shareholder returns and highlighting the presence of firms with negative equity performance. Board experience (BODEXP) shows a mean value of 1.519, with a minimum of 0 and a maximum of 3, suggesting a moderate level of experience among board members overall, although certain firms do not have experienced board members.

The Capital Adequacy Ratio (CAR) exhibits a relatively high average of 36.669 and a wide range from 9.000 to 390.500, indicating substantial variation in firms' capital positions. Board meeting frequency (BMEET) averages 32.434 meetings, with observations ranging from 3 to 282, demonstrating significant differences in the intensity of board activities across firms. Lastly, board gender diversity (BGENDER) has a mean of 0.185 and ranges between 0 and 1.800, suggesting that female representation on boards remains limited, despite higher levels of diversity in some firms.

Pearson Correlation

Pearson correlation is used to assess how strongly and in what direction the variables are related to each other (Majumder et al., 2023) Table 3 shows the correlation results for Board Expertise, Bank Performance, and the control variables. These results help explain the relationships between the variables and indicate whether any independent variables are strongly correlated before the regression analysis is performed.

Table 3
Pearson Correlation

	ROA	ROE	BODEXP	CAR	BMEET	BGENDER
ROA	1.000					
ROE	0.862***	1.000				
	(0.000)					
BODEXP	0.143**	0.205***	1.000			
	(0.028)	(0.002)				
CAR	-0.027	-0.050	-0.104	1.000		
	(0.677)	(0.441)	(0.113)			
BMEET	0.021	0.078	0.221***	-0.126*	1.000	
	(0.754)	(0.235)	(0.001)	(0.054)		
BGENDER	0.106	0.182***	0.051	0.087	0.013	1.000
	(0.105)	(0.005)	(0.434)	(0.183)	(0.841)	

p-values in parentheses, * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$, Source: Data processed by researchers, 2025

The Pearson correlation analysis studies the relationships between bank performance indicators (ROA and ROE) and board as well as capital characteristics. ROA and ROE are strongly positive correlated, showing that both profitability from different perspectives. Board expertise (BODEXP) is significantly positive associated with both ROA and ROE, with a stronger impact on ROE.

This showing that firms with higher levels of board expertise are likely to achieve better financial performance. The stronger association with ROE indicates that board expertise may play a more important role in improving shareholder returns, possibly through better-informed strategic decisions, stronger oversight, and more effective governance practices. Capital Adequacy Ratio (CAR) and board meeting frequency (BMEET) show weak or insignificant correlations with performance, indicating that higher capital levels or more frequent meetings do not necessarily translate into greater profitability. Board gender (BGENDER) is significantly correlated only with ROE, implying that the presence of female board members may improve returns to shareholders but has little impact on overall asset efficiency.

Regression

Table 4 presents the regression analysis results, showing the relationship between Board Expertise and Bank Performance while taking Capital Adequacy Ratio, Board Meetings, and Board Gender into account. The findings help determine whether Board Expertise has a statistically significant effect on Bank Performance and whether the research hypothesis is supported (Ragazou et al., 2022).

Table 4
Regression

	(1) ROA	(2) ROE
BODEXP	0.004**	0.026***
	(2.17)	(2.92)
CAR	-0.000	-0.000
	(-0.05)	(-0.64)
BMEET	-0.000	0.000
	(-0.10)	(0.39)
BGENDER	0.013*	0.117***
	(1.85)	(2.87)
_cons	-0.002	-0.026
	(-0.35)	(-1.11)
Year FE	Yes	Yes
r2	0.048	0.091
r2_a	0.015	0.059
N	235	235

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$
Source: Data processed by researchers, 2025

Table 4 shows the regression analysis results examining how board expertise, capital adequacy, board meeting frequency, and board gender impact firm performance measured by ROA and ROE, with year fixed effects controlled. Board expertise positively and significantly influences ROA with a coefficient of 0.004 and ROE with a coefficient of 0.026. Similarly, board gender has a positive effect on ROA with a coefficient of 0.013 and an even stronger significant effect on ROE with a coefficient of 0.117. Neither capital adequacy nor board meeting frequency has a significant effect on ROA or ROE.

The adjusted R-squared values reveal that the models account for 1.5 percent of the variation in ROA and 5.9 percent in ROE, which is typical in studies of firm performance due to multiple influencing factors. Overall, the findings highlight that board expertise and gender composition play important roles in enhancing firm profitability, especially from the perspective of shareholder returns.

Robustness with t-test

To strengthen the research findings, this study employs an independent sample t-test as a robustness check. This analysis is employed to assess the consistency of the core results by comparing mean outcomes across the classified groups (Usman et al., 2024). The results of the t-test compare the mean values of ROA and the control variables between banks with variations in Board Expertise (BODEXP) are presented in Table 5.

Table 5
t-test (ROA)

	BODEXP				
	MEAN0	MEAN1	Coef	t-value	p-value
ROA	0.001	0.008	-0.007*	-1.869	0.063
CAR	41.424	31.707	9.717	1.637	0.103
BMEET	25.092	40.096	-15.004***	-3.502	0.001
BGENDER	0.183	0.188	-0.005	-0.199	0.842

Source: Data processed by researchers, 2025

An independent samples t-test is used to assess differences in bank performance and corporate attributes between banks lacking board expertise (BODEXP = 0) and those possessing board expertise (BODEXP = 1). The Coef value captures the mean difference between the two groups (MEAN0 – MEAN1).

The results indicate that banks without board expertise report an average return on assets (ROA) of 0.001, whereas banks with board expertise achieve a higher average ROA of 0.008. The resulting mean difference of –0.007 is statistically significant at the 10% level (p = 0.063), indicating that banks with board expertise outperform their counterparts in terms of asset profitability.

Despite the relatively modest level of statistical significance, this result offers initial univariate evidence of a positive relationship between board expertise and firm performance. The presence of knowledgeable and experienced board members may strengthen strategic guidance, enhance managerial oversight, and improve the quality of corporate decision-making, thereby enabling firms to utilize their assets more effectively. Overall, these findings suggest that board expertise constitutes an important governance mechanism that can contribute to improved financial performance at the bank level.

Table 6 presents the t-test results, comparing the mean values of ROE and the control variables across banks with different levels of Board Expertise (BODEXP).

Table 6
t-test (ROE)

	BODEXP				
	MEAN0	MEAN1	Coef	t-value	p-value
ROE	-0.002	0.049	-0.051*	-2.861	0.005
CAR	41.424	31.707	9.717	1.637	0.103
BMEET	25.092	40.096	-15.004***	-3.502	0.001
BGENDER	0.183	0.188	-0.005	-0.199	0.842

Source: Data processed by researchers, 2025

As a robustness check, an independent samples t-test is performed to assess whether the established relationship between board expertise and bank performance persists when bank performance is measured using an alternative indicator, return on equity (ROE). The findings indicate that firms lacking board expertise record an average ROE of –0.002, whereas banks with board expertise achieve a markedly higher average ROE of 0.049. The resulting mean difference of –0.051 is statistically significant at the 1% level ($p = 0.005$), suggesting that the presence of board expertise is associated with substantially higher equity returns. Overall, this result offers strong univariate evidence that the positive linkage between board expertise and bank performance is robust across alternative performance measures, thereby strengthening the conclusion that board expertise constitutes an important driver of bank value and shareholder wealth.

Discussion

The finding of this research provide strong evidence that board expertise plays a critical role in improving bank performance. Consistent with agency theory, directors with legal, financial, and industry-related expertise enhance the board's monitoring and advisory capabilities, thereby mitigating information asymmetry and ensuring closer alignment between managerial decisions and shareholder interests. Overall, the findings indicate that banks with more knowledgeable boards exhibit better performance, underscoring the importance of board competence in strengthening governance effectiveness and strategic control within the banking sector.

The observed positive relationship between board expertise and return on assets suggests that experienced boards support more efficient asset utilization through stronger oversight and clearer strategic direction. This outcome supports H1, which proposes a positive effect of board expertise on ROA. While operational performance is primarily influenced by managerial actions, the results indicate that board expertise contributes meaningfully by guiding management toward improved efficiency in resource use.

In addition, the association between board expertise and return on equity is more substantial, reflecting the board's strategic role in enhancing shareholder-oriented outcomes. This finding is consistent with H2, which predicts a positive relationship between board expertise and ROE. The stronger effect on ROE implies that board expertise is particularly influential in strategic financial decisions, including capital structure management, investment allocation, and long-term value creation, all of which directly affect shareholder returns.

The robustness check using an independent sample t-test further supports the stability of the main findings across different analytical methods. The consistent performance differences between banks with and without board expertise strengthen the support for H1 and H2, indicating that the positive effect of board expertise on bank performance is not dependent on a single estimation approach. Collectively, these results highlight the importance of appointing competent and experienced board members to reinforce corporate governance and promote sustainable performance in the banking industry.

CONCLUSION AND SUGGESTION

This study aims to analyze the effect of Board Expertise on Bank Performance. The test results show that Board Expertise has a significant positive effect on Bank Performance. Through more effective oversight and strategic decision-making, experienced boards improve operational efficiency and enhance shareholder value, as reflected in both ROA

and ROE. Therefore, board expertise strengthens corporate governance, reduces risk, and supports sustainable bank performance.

This study has several limitations that need to be considered. First, the sample only covers banks registered with the OJK during the 2018–2022 period, so the results may not fully represent the entire banking conditions in Indonesia. Second, the measurement of Board Expertise is carried out quantitatively based on the number of members with legal, financial, and industrial backgrounds, without assessing the quality or depth of such expertise. Therefore, further research is recommended to expand the scope of the data, both in terms of the number of banks and the time period. In addition, qualitative approaches such as interviews or case studies can also be used to better understand the strategic role of board expertise in improving bank performance.

The differences in the t-test results for ROA and ROE suggest that board expertise affects firm performance in distinct ways. ROA primarily captures operational efficiency in asset usage, which is largely influenced by routine managerial activities, whereas ROE is more responsive to strategic and financial decisions that fall within the board's supervisory domain, including leverage, capital structure, and earnings distribution. As a result, the impact of board expertise is more immediate and pronounced in ROE than in ROA in the univariate analysis. This indicates that board expertise contributes more directly to shareholder value creation than to short-term operational performance, underscoring the critical role of experienced boards in shaping strategic governance.

From a practical standpoint, the findings suggest that banks should proactively broaden the range of expertise represented on their boards to enhance overall performance. A more diverse set of professional experiences, skills, and competencies among directors can improve strategic decision-making and support sustainable value creation. This diversity can be developed not only through targeted board appointments but also through ongoing training and development initiatives that strengthen directors' capabilities in areas such as risk management, digital banking, sustainability, and regulatory compliance. Investing in the continuous development of board expertise enables banks to better align governance effectiveness with performance goals.

This study contributes to strengthening agency theory, especially in the context of banking governance. According to this theory, effective monitoring systems can reduce the possibility of a conflict of interest between owners (principals) and management (agent). The study's findings indicate the board of directors' expertise plays an important role in enhancing bank performance. In terms of practical implications, the results of this study encourage banks and regulators to prioritize technical expertise and relevant experience in the selection of board members. Enhancing the boards' ability to manage performance also requires continuous training.

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