



The Effect Risk of Credit, Efficiency, and GCG of Bank Profitability (Study in Conventional Commercial Banks Registered on the Indonesia Stock Exchange Period 2012 - 2019)

Anggrainy Putri Ayuningrum ✉

Faculty of Economics, Universitas Pekalongan, Indonesia

Article Information

Article History:

Received March 2021

Approved April 2021

Published June 2021

Keywords:

ROA, NPL, BOPO, Board Size, Board Meeting, Disclosure, Size

Abstract

The purpose of this study to test the effect of risk credit, efficiency and Good Corporate Governance to profit bank in the Indonesian conventional bank. GCG represented by board size, board meeting and disclosure. This study used quantitative research using purposive sampling method and obtained 22 banks by the annual bank report of BEI during 2012-2019 were selected as samples with a total of 174 observation. Data analysis in this study is a multiple linear regression analysis using SPSS Statistic 22. This study is NPL, and BOPO has a negative and significant effect on conventional commercial bank's profitability. The control variable has size get a positive and significant impact to profitability bank. Board Size, Board Meeting, and Disclosure have not significant effect to the profitability bank. The advice provide is bank should pay attention to risk mitigation of credit and do efficiency on their activity. Furthermore, researchers are also expected to add other independent variables that can affect profitability banks such as CAR, LDR, Risk Commitment Meeting, and other control variables like age.

INTRODUCTION

Based on the World Competitive Center, Indonesia has the highest ranking increase in the Asia Pacific. Indonesian economy increased 5,06% with GDP value per capita and \$ 4.193 in 2019, one of the world's most significant populations in the world, with a population of 267 million people. Banking sectors dominating the financial industry in Indonesia, Bank Indonesia's data show that most of the financial sector's total assets derived from the banking sector.

Indonesia's economy is inseparable from bank's role where the banking industry holds important control in allocating resources and economic turnover. Seeing the part of banks for society and the state, the bank must always be (sustainable). Banks must have profitability so that they can run the wheel of banking life. Profitability is also one indicator for seeing the "life" of a bank. Profitability is also one of the factors for a healthy

bank. According to (Brigham & Houston, 2009), a bank's profitability reflects a bank's financial performance.

Return on Assets (ROA) is a ratio used to measure asset's use and the indicator of profits from creditors (Simionescu & Dumitrescu, 2018). Several factors influence bank's profitability that falls into two groups, internal factors and industrial factors (external). Internal factors consist of bank size, financial structure, credit risk, liquidity risk, business mix, income-expenditure, structure and capital. And there are industrial aspects are economic growth, inflation (Petria et al., 2015).

Bank intermediation theory explains the role of banks as intermediaries. Bank accommodate funds and provide credits. The credits have an opportunity for being the default. Although we know about the risk, the primary of the bank's activity is credit, so the bank should know how to measure the default. Measurement of that by Non Performing Loan (NPL) (Petria et al.,

© 2021 Universitas Negeri Semarang

✉ Correspondence Address:

Faculty of Economics, Universitas Pekalongan

Jl. Sriwijaya No. 3, Bendan, Kota Pekalongan, Jawa Tengah, 51119

E-mail : anggrainy@unikal.ac.id

2015). NPL make bank will get the unsustainability condition because increasing of NPL will be decreasing profitability. Based on data obtained from the Statistik Perbankan Indonesia, Otoritas Jasa Keuangan (OJK) performance summary of NPL 2012-2019 shows that the number of 1.89% in 2014 decreased 2.76% in 2013 and decreasing from 3.09% in 2012. Then, 2015 the NPL value increased to 2.95% but in the next two years in a row NPL decrease to 2.67% on 2016 and 2.35% in 2017. But two years in a row NPL increase again by 2.37% in 2018 and 2.53% in 2019. Increase the NPL from 2014 to 2015 and 2018 to 2019 are in line with decrease ROA from 2.85% to 2.32% on the 2014 to 2015 and 2.55% to 2.47% on the 2018-2019. In this case, that relationship between NPL and ROA aligned with the theory according to (Petria et al., 2015) and (Albulescu, 2015) which NPL has the opposite effect with ROA. Then, research by Cai et al. (2014) shows that NPL has positive significant with ROA.

The income-expenditure structure is a management efficiency. The ratio used is the Operational Efficiency Ratio (BOPO). The bank's performance is indicated by the assets owned and off balance sheet income, generating operating income. The BOPO ratio illustrates that the greater operating cost will reduce income and automatically profitability.

Based on data proceed obtained from the Statistik Perbankan Indonesia, Otoritas Jasa Keuangan (OJK) performance summary during 2012-2019 show that BOPO has fluctuating value which presented in the table 1.

Table 1. BOPO and ROA during 2016-2019

Variable	2016	2017	2018	2019
ROA	2.36	2.45	2.55	2.47
BOPO	82.22	78.64	77.9	79.63

Table 1 shows, BOPO in 2016 gets decrease in 2017, from 82.22% to 78.64% and aligned with ROA which increase from 3.36% to 2.45% . The theory can support that data are Petria et al. (2015) and Almazari (2014). However, a theory has no significance about BOPO and ROA (Azam, 2012; Titko et al., 2016).

Exclude on financial factors, there are regulations in the banking world promoted by Basel where corporate governance is an essential factor in the banking world and the overall economic sector (El-chaarani, 2017). There are several

areas about corporate governance: the board of directors, ownership structure, risk management, audit, shareholder involvement, characteristics of CEO (top executive) disclosure practices and transparency (Orazalin et al., 2016). Countries in Europe and Asia are focused first on the internal conditions. Based on the Corporate Governance Watch research conducted by the ASEAN Corporate Governance Association (ACGA) in 2018, Indonesia ranks at the bottom in implementing corporate governance among 12 countries.

On the Corporate Governance, Board of Director is the one of factor which affects profitability. Resource dependence shows that the company will depend on the board of directors for maximum resource management. Optimization board size will be increase supervision's function and give input to bank (Battaglia & Gallo, 2015). Larger BOD will cause potential problems due to miscoordination, control and flexibility in decision making. There is aligned with theory, which says BOD has negative significance with ROA (Battaglia & Gallo, 2015; Orazalin et al., 2016). The theory from El-chaarani (2017) shows that BOD has a positive significance with ROA and the theory from Al-Amarneh (2014) shows BOD does not affect ROA.

SE No. 15/15/DPNP on 29th April 2013 about governance regulate implementation based on five principles: transparency. Corporate disclosure is seen as a tool to control managers' behaviour in the company, whether under its vision, mission, and goals (Mahadeo et al., 2011). The disclosure of all information will increase the trust of shareholders and directors. This is also supported by Nahar et al. (2015), Orazalin et al. (2016) shows that corporate disclosure has a positive effect on ROA. But there is theory shows disclosure have not significant with ROA (Hassan et al., 1998).

The greater the frequency of the number of meetings, the board's function has been carried out correctly. It is assumed that there is an exchange of information between the boards regarding specific company information (Battaglia & Gallo, 2015). The meeting will allow the board to discuss and exchange ideas to monitor the company and bank strategy for better bank performance, which will affect performance and profitability (Andres & Vallelado, 2008). That is aligned with theory from Ahmad et al. (2017) and Adams and Mehran (2012). While the theory from Battaglia and Gallo (2015) ROA shows that board meeting negatively affects profitability.

Based on previous research and the phenomena, this study is about analyzing the risk of credit, management efficiency and Corporate Governance partially and simultaneously on profitability on Conventional Bank in Indonesia Stock Exchange period 2012-2019.

Hypotheses Development

Non Performing Loan (NPL) is ratio used to shows non performing loan to total loan. Higher NPL so the cost will be higher for control and handling default credit, because it increase of allowance for impairment losses (CKPN) which can decrease profitability (Cai et al., 2014) we use the panel data to analyze the correlation among the ROA. Credit risk tells that risk of customer failure to pay their credit which aligned with credit agreement, default credit risk will reduce banks' performance and will affect profitability (Effendi, 2016). The result of research conducted by Petria et al. (2015) and Tan and Floros (2014) stated that the same result, NPL, has a negative and significant effect on ROA.

H1: Non Performing Loan has a negative and significant effect on Return On Assets.

Operational Efficiency Rattio (BOPO) is ratio to shows efficient bank. In Europe , operating income plays a role in off balance sheet income (Petria et al., 2015). Technology will help bank's operations become more efficient in their operations, so that the more efficient, it will reduce costs and increase profitability (Almazari, 2014). Research by Azam et al. (2011), Almazari, (2014), and Petria et al. (2015) have negative and significant effect to ROA.

H2: BOPO has negative and significant on Return On Assets.

Board Size is show number of board in the bank. The board of directors' structure, composition, size, and characteristics directly influences the board of directors' performance. Optimal Board Size will improve management supervision and improve management supervision (Battaglia & Gallo, 2015). Agency theory predicts that a smaller number of directors will be much more effective because it will have more capacity to reduce wasting time and conflicts among directors. Another problem that will arise is excessive control on the part of the company leadership has the potential to cause coordination errors, control and flexibility in decision making, resulting in lower costs and benefit. On the contrasting side, a large board of directors will not result in effective

management control (El-chaarani, 2017). Research supports the negative and significant correlation BOD and bank's performance are Battaglia and Gallo (2015), Orazalin et al. (2016), return on asset (ROA) El-chaarani (2017).

H3: Board of Director has negative and significant on Return On Assets.

Corporate Disclosure is a tool to control manager behaviour in the company and know if it aligned its vision, mission, and goals (Mahadeo et al., 2011). Agency theory says managers must disclose all relevant information through company disclosure to directors and stakeholders because they cannot directly and continuously on every company's decision and daily operations (Company et al., 1976). Disclosure is a tool to control the behavior of managers in the company, regarding the suitability of the company's vision, mission and goals. Disclosure will increase the trust of shareholders and directors. Companies that increase corporate disclosure will reduce the bid-ask spread, which measures information asymmetry costs. This cost reduction will also impact its profitability (Babio Arcay & Muiño Vázquez, 2005). Research by Nahar et al. (2015) and Orazalin et al. (2016) states that the results of the disclosure have positive and significant to ROA.

H4: Corporate Disclosure has positive and significant on Return On Assets.

Board Meeting assumed information exchanged between board directors about specific information (Andres & Vallelado, 2008). The more board meetings held, it show board function is going well because board have great changed of specific information (Battaglia & Gallo, 2015). The more things will be discussed make brainstorm on monitoring of the company and discuss strategies for better performance. One of the agenda for the board meeting to discuss coordination regarding strategic decision making for the company's benefit which will lead to performance improvement decisions. Andres and Vallelado (2008), Ahmad et al. (2017), and El-chaarani (2017) states that Board Meeting has positive and significant effect to ROA.

H5: Board Meeting has positive and significant on Return On Assets.

Bank Size is an internal factor that affects bank performance. The greater the organisation's size, the more it can survive on an economy of scale, resulting in increased performance (Petria et al., 2015). Bank size has a positive effect on bank

profits. This means that the size of the bank has a positive influence on ROA. Aligned with research by Orazalin et al. (2016) and Ebdane (n.d.).

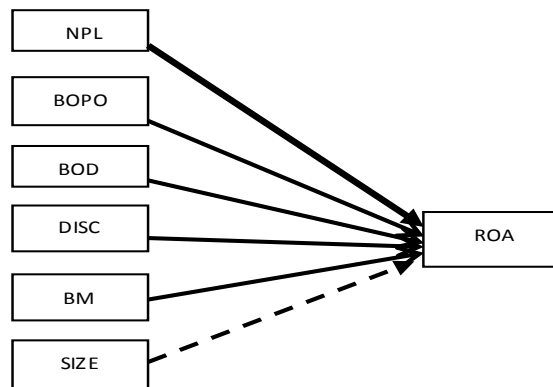


Figure 1. Research Model

METHOD

The analysis method used in this study is multiple linear regression analysis. The independent variables consist of Non Performing Loan (NPL), Operational Efficiency (BOPO), Board of Directors, Corporate Disclosure, and Board Meeting, while the dependent variable is Return on Assets (ROA). This study's population were all banks of Indonesia Stock Exchange (IDX) during the 2012-2019 period that have reported the whole period. The data in this study is 8 years. The type of data and source of data in this study is quantitative data with secondary data in Indonesia Stock Exchange (IDX) / BEI. Data collection techniques in this study was conducted by collecting data. The data analysis method uses path analysis with the SPSS version 22.

The sampling technique used in this study was performed with purposive sampling with the criteria (1). All of the banks in IDX, (2). All of the banks in IDX which have a complete report

period 2012-2019. (3). All of the banks are never get loss period 2012-2019. The number of conventional commercial banks listed on the IDX is 42 banks. Still, only 31 commercial banks have financial reports for the period 2012-2019, and in this study do not include banks that have losses during 2012-2019, so the sample of this study is 22 banks. The data used are 176 data (8 years x 22 commercial bank = 176 data).

RESULT AND DISCUSSION

Descriptive Statistic

Information about descriptive statistics shows the minimum, maximum, average and standard deviation of each variable to be studied, both the independent are NPL, BOPO, BOD, Corporate Disclosure, Board Meeting and dependent variables is ROA during 2012-2019 research period presented in table 2.

Table 2. Result of Coefficient Summary Test

	Min	Max	Mean	Std. Deviation
NPL	0.21	7.83	2.46	1.32
BOPO	42.41	119.43	80.25	10.35
BOD	2.00	12.00	7.03	2.61
Board Meeting	8.00	281.00	37.05	29.95
Disclosure	2.00	3.00	2.79	0.41
SIZE	15.06	21.08	18.29	1.50
ROA	0.05	5.15	2.13	1.08

Table 2 shows this research on 176 data from Indonesia Stock Exchange during 2012-2019.

Table 3. Result of t-Test

Model	B	Std. Error	Standart Coefficients (Beta)	t	Sig
(Constant)	20.78	1.87		11.10	0.00
NPL	-0.13	0.03	-0.16	-3.79	0.00
LnBOPO	-5.15	0.34	-0.68	-15.13	0.00
BOD	-0.04	0.03	-0.10	-1.34	0.18
DISC	0.19	0.10	0.07	1.78	0.08
LnBM	0.09	0.08	0.05	1.07	0.29
SIZE	0.29	0.06	0.41	5.10	0.00

Regression Equation

On the table shows that only variables independents (NPL, BOPO) and control variable (Size). Variable BOD, Disclosure and Board Meeting not significant on 0,05%. That regression equation

$$ROA = 20.78 - 0.13 \text{ NPL} - 5.15 \text{ LnBOPO} - 0.04 \text{ BOD} + 0.19 \text{ DISC} + 0.09 \text{ LnBM} + 0.29 \text{ SIZE}.$$

The regression output shows a constant value of 20.78 which means that if all the independent variables (NPL, BOPO, BOD, DISC and BM) and the control variable SIZE are stable, the ROA value will increase by 20.78. The five independent variables above show the variable with the largest value of standardized coefficients beta value is BOPO, which is equal to -5.15. So it means that the BOPO variable is considered the most influential on the ROA value compared to other variables.

NPL has a coefficient value of -0.13 with a significance of 0.00, which means that NPL has a significant and negative effect on ROA. BOPO has a coefficient value of -5.15 with a sense of 0.000, which means that BOPO has a significant and negative impact on ROA. The Board of Directors has a coefficient value of -0.04 with a significance of 0.18 which means that BOD has a negative effect but does not significantly affect ROA. DISC has a coefficient value of 0.19 with a significance of 0.08, so it means that the DISC variable has a positive but insignificant effect on the ROA variable. Board Meeting has a coefficient value of 0.01 with a significance of 0.09, so it means that the Board Meeting variable has a positive but insignificant effect on the ROA variable. While, the control variable SIZE has a coefficient value of 0.29 with a significance of 0.00, which means that NPL has a significant and positive effect on ROA.

The Effect of Non Performing Loan (NPL) on Return On Assets (ROA)

The t-test on NPL, the coefficient value is - 0.130 with a significance value of 0.00 so that the NPL hypothesis has a significant negative effect. The negative impact means that the higher the level of non-performing loans owned by the bank, the lower the bank's profitability is seen in the ROA value's decrease.

This aligned with the Intermediation theory (1983) states that a bank's main activity is to channel funds that have been collected from public funds to parties who need loan funds where the bank must also extract information, evaluate credit, monitor debtor performance. This theory

also states that choosing a lousy creditor will create a bad credit risk. However, there will be a risk of default or credit risk, where later the bank's main activity is in lending if not careful, it will cause losses to the bank. The result of this study is consistent with research by Petria et al. (2015), Albulescu (2015) and Tan et al. (2017).

The Effect of BOPO on Return On Assets (ROA)

The BOPO t-test results obtained a coefficient value of -5.15 which means that it has a negative effect with a significance value of 0.000 which means it significantly impacts ROA. The smaller the BOPO value, the higher the bank's profitability value (ROA). The theory of efficiency (Demsetz, 1973) states that a more efficient company than its competitors will increase profitability from the small operating costs generated, thereby increasing profits. Efficiency also means that the bank can operate costs properly. This result of the study are consistent with research by Almazari (2014) and Petria et al. (2015).

The Effect of Board Of Directors (BOD) on Return On Assets (ROA)

The t BOD test results obtained a coefficient value of -0.04, which means that it has a negative effect, but a significance value of 0.18 or greater than 0.05, which means it has no significant effect on ROA. Agency theory predicts that a smaller board of directors will be much more effective because it will waste time and reduce conflict among directors. (Lipton & Lorsch, 1992) That a large number of directors will make them form groups to argue, which will make things worse. Changed the frequency board of directors at commercial banks not changed significantly from year to year. That is why the board of directors is insignificant to ROA. These study results are consistent with research by Battaglia and Gallo (2015) return on asset (ROA) and Orazalin et al. (2016).

The Effect of Corporate Disclosure on Return On Assets (ROA)

The t-test results at DISC obtained a coefficient value of 0.19, which means that it has a positive effect, but the significance value is 0.08 or greater than 0.05, which means that it has no significant impact on ROA.

Agency theory leads to managers providing information to directors and shareholders to avoid information asymmetry through disclosures. Disclosure is also used to view performance within the company (Company et al., 1976). The

company's disclosure will help minimize asymmetry information that can lead to costs that impact reduced profits. So corporate disclosure can have an impact on increasing profits for the company.

Frequency of corporate disclosure at commercial banks not changed significantly from year to year. That is why corporate disclosure is insignificant to ROA. The study results have a positive and insignificant ROA similar to the research by Matuszak and Róžańska (2017).

The Effect of Board Meeting on Return On Assets (ROA)

The t-test results at Board Meeting obtained a coefficient value of 0.09, which means that it has a positive effect, but the significance value is 0.29 or greater than 0.05, which means that it has no significant effect on ROA. Board meetings reflect board management's function is well done where there is an exchange of information about the company at the meeting. This creates opportunities for discussion and exchange of ideas in discussing company performance and better performance that will benefit the company. The frequency of board meetings at commercial banks has not changed significantly from year to year. That is why the board meeting is insignificant to ROA. This study for board meeting has positive insignificant to ROA similar with research by (Battaglia & Gallo, 2015).

CONCLUSION AND RECOMMENDATION

The conclusion of this study is based on the result that only NPL and BOPO have a significant effect to ROA. This show that BOPO and NPL give dominant effect to ROA so that to improve the performance of the bank must reduce the NPL and BOPO. This is due partly to the fact that NPL and BOPO have much from year to year.

While Board Of Directors (BOD), Corporate Disclosure, and Board Meeting have insignificant to ROA because not have significantly changed ,amount of them not have changed even almost not changed from year to year.

This study's limitations are BOD, disclosure and board meeting have no variations on year to year so make have insignificant to ROA. Control's variable on this study only size. For further research, it hopes more dependent variable like LDR, CAR, Risk Committee Meeting, Risk Committee Size, etc. More control variable like Age.

REFERENCES

- Adams, R. B., & Mehran, H. (2012). Bank board structure and performance: Evidence for large bank holding companies. *Journal of Financial Intermediation*, 21(2), 243–267.
- Ahmad, N. B. J., Rashid, A., & Gow, J. (2017). Board independence and corporate social responsibility (CSR) reporting in Malaysia. *Australasian Accounting, Business and Finance Journal*, 11(2), 61–85.
- Albulescu, C. T. (2015). Banks' Profitability and Financial Soundness Indicators: A Macro-level Investigation in Emerging Countries. *Procedia Economics and Finance*, 23(October 2014), 203–209.
- Almazari, A. A. (2014). *Impact of Internal Factors on Bank Profitability : Comparative Study between Saudi Arabia and Jordan*. 4(1), 125–140.
- Andres, P. de, & Vallelado, E. (2008). Corporate governance in banking: The role of the board of directors. *Journal of Banking and Finance*, 32(12), 2570–2580.
- Azam, A., Fu, Q., Abdullah, I., & Abbas, S. A. (2011). Impact of 5-D of Religiosity on Diffusion Rate of Innovation. *International Journal of Business & Social Science*, 2(17), 177–185.
- Azam, M. (2012). *Domestic and Foreign Banks ' Profitability : 2(1)*, 33–40.
- Babío Arcay, M. R., & Muiño Vázquez, M. F. (2005). Corporate Characteristics, Governance Rules and the Extent of Voluntary Disclosure in Spain. *Advances in Accounting*, 21(05), 299–331.
- Battaglia, F., & Gallo, A. (2015). Risk governance and Asian bank performance: An empirical investigation over the financial crisis. *Emerging Markets Review*, 25, 53–68.
- Cai, M., Huang, Z. (2014). Analysis of Non Performing Loan and Capital Adequacy Ratio Among Chinese Banks in the Post- Reform Period in China. *Journal of Advance Studies in Finance*, V(2), 133–145.
- Company, P., Jensen, C., & Meckling, H. (1976). *Theory of the firm : managerial behavior , agency costs and ownership structure I. Introduction and summary In this paper WC draw on recent progress in the theory of (1) property rights , firm . In addition to tying together elements of the theory of e. 3, 305–360.*
- Ebdane, T. M. L. (n.d.). *The Impact Of Sustainability Reporting On Company Performance : The Philippine Perspective. XII(February 2016)*.
- Effendi, Arief. 2016. *The Power of Good Corporate Governance Teori dan Implementasi* . Jakarta : Salemba Empat.
- El-chaarani, H. (2017). *The Mutual Impacts of Corporate Governance Dimensions and Legal Protection Systems on the Performance of European Banks : A Post-Crisis Study. XX(2)*, 538–567.
- Hassan, M., Haat, C., & Rahman, R. A. (1998). *Corporate governance , transparency and performance of Malaysian companies*.
- Mahadeo, J. D., Oogarah-Hanuman, V., & Soobaroyen, T. (2011). A Longitudinal Study of Corpo-

- rate Social Disclosures in a Developing Economy. *Journal of Business Ethics*, 104(4), 545–558.
- Matuszak, Ł., & Różańska, E. (2017). An examination of the relationship between CSR disclosure and financial performance: The case of Polish banks. *Journal of Accounting and Management Information Systems*, 16(4), 522–533.
- Nahar, S., Jubb, C., & Azim, M. I. (2015). *Risk governance and performance : a developing country perspective*.
- Orazalin, N., Mahmood, M., & Lee, K. J. (2016). *Corporate governance , financial crises and bank performance : lessons from top Russian banks*. 16(5), 798–814.
- Petria, N., Capraru, B., & Ihnatov, I. (2015). Determinants of banks ' profitability : evidence from EU 27 banking systems. *Procedia Economics and Finance*, 20(15), 518–524.
- Simionescu, L. N., & Dumitrescu, D. (2018). Empirical study towards corporate social responsibility practices and company financial performance. Evidence for companies listed on the Bucharest stock exchange. *Sustainability (Switzerland)*, 10(9).
- Tan et al. (2017). The Profitability of Chinese Banks : Impact of Risk, Competition and Efficiency. *Review of Accounting and Finance*, 1–26.
- Tan, Y., & Floros, C. (2014). Risk, Profitability, and Competition: Evidence from the Chinese Banking Industry. *The Journal of Developing Areas*, 48(3), 303–319.
- Titko, J., Skvarciany, V., & Jurevi, D. (2016). Drivers of bank profitability : Case of Latvia and Lithuania. *Intellectual Economics*, 000, 1–10.