UDC 336

DETERMINING FINANCIAL PERFORMANCE AND GOOD CORPORATE GOVERNANCE TO RETURN FOR LISTED BANKS IN INDONESIA

Abidin Zaenal*, **Pratiwi Niken Pambudi**
Perbanas Institute, Indonesia

Prabantarikso R. Mahelan
Sekolah Tinggi Ilmu Ekonomi Indonesia Banking School, Indonesia

Fahmy Edian
Universitas Pamulang, Tangerang Selatan, Banten, Indonesia

Nabila Amabel
Universitas Brawijaya, Indonesia

*E-mail: zaenal@perbanas.id

ABSTRACT
This study aims to determine and analyse whether Good Corporate Governance (GCG), Capital Adequacy Ratio (CAR), Net Interest Margin (NIM), and Non-Performing Loans (NPL) have an influence on profitability with Return on Assets (ROA). The research method uses the quantitative method, with a total sample of 15 listed commercial banks. This study uses a regression model with panel data. The result of the research is that there is an influence between the independent variables, namely GCG, NIM, and NPL on the dependent variable, namely the profitability (ROA) of listed commercial banks, while the Capital Adequacy Ratio (CAR) has no effect on profitability (ROA).

KEY WORDS
GCG, CAR, NIM, NPL, ROA, Bank.

According to Law Number 10 of 1998, a bank is a business concern that gathers funds from the public in the form of savings and distributes them to the general public in the form of credit and or other forms to improve the general public's standard of living. A bank is deemed to be healthy if it can appropriately balance its functions. As a result, in the face of ever-increasing market rivalry, banks must be able to sustain public trust by delivering positive results and maintaining corporate stability. If unfavourable economic conditions strike, the bank's performance will suffer, and the bank will become unhealthy. The profitability of a bank is one of the ways to determine whether a bank's financial performance is healthy.

Based on Financial Services Authority (OJK) regulation number 4 / POJK.03/2016 regarding the assessment of the soundness of commercial banks using a risk approach that includes an assessment of four factors, namely Risk Profile, Good Corporate Governance (GCG), Earnings, and Capital, referred to as the RGEC method.

The capital contained in the Risk Based Bank Rating is shown by the Capital Adequacy Ratio (CAR). The capital adequacy ratio (CAR) is used to assess a bank's ability to fund risky assets. According to Dendawijaya (2015) the greater the CAR, the better the bank's risk tolerance. So that the bank can manage its activities, and so that the favourable conditions can considerably contribute to the bank's profitability.

According to Ghozali (2015), Non-Performing Loan (NPL) is one of the credit risk ratios where this risk is a consideration in risk profile evaluation. Credit risk is related to the likelihood of the customers failing to pay their commitments, resulting in the debtor's inability to repay their loan. The lower the NPL, the better the credit quality, and the monies placed are assured to be safe. The smaller the bank's loss, the higher the level of profitability.

However, Based on Bintoro and Rahmadhani (2021), Capital adequacy does not have a positive and significant effect on profitability (ROA). The credit risk variable (NPL) has no significant effect on the profitability (ROA) of banks.

According to Hasibuan (2015), Net Interest Margin (NIM) represents Earnings or Profitability in the series of Risk-Based Bank Ratings. NIM represents market risk because of changing market conditions, which can be detrimental to the bank. Following this, based on Puspitasari (2009), NIM is also used to assess bank management's ability to create interest revenue by examining the bank's performance in credit disbursement, given that the bank's operating income is mainly dependent on the difference in interest from loans disbursed. The higher a bank's NIM, the larger the interest revenue on productive assets handled by the bank, and thus the better the ROA.

Based on the past study, there are distinctions and parallels between the research undertaken and earlier research. The equation used in this study and earlier research is to investigate the determinants of profitability as proxied by Return on Assets (ROA). The distinction between this study and others is that the sample companies are banks listed on the Indonesian stock exchange, and the research was conducted over two years, from 2018 to 2019. Furthermore, the purpose of this research is to gain insight into the relationship between banking performance and the RGEC approach in terms of its impact on profitability. This research is intended to reinforce and refine the findings of prior studies.

The objective of this research is to determine and analyse whether Good Corporate Governance (GCG), Capital Adequacy Ratio (CAR), Net Interest Margin (NIM), and Non-Performing Loans (NPL) have an influence on profitability with Return on Assets (ROA).

LITERATURE REVIEW

According to Nicola, Manalu, and Hutapea (2017), LFR (Loan to Funding Ratio), CAR, GCG, and NPL all have an impact on a bank's health. This is consistent with the findings of previous research, such as Gunawan and Maynora (2019), who discovered that LDR (Loan to Deposit Ratio), CAR, GCG, and NPL had an impact on bank soundness. Following this Korompis, Rotinsulu, and Sumarauw (2015) discovered that the ratio of CAR, NPL, and LDR has an impact on the soundness of banks, as do the findings of, who observed that NPL, LDR, CAR, GCG, and NIM have a positive effect on ROA. Similarly, according to the findings of Nabila (2022) and Abidin et al. (2020), GCG has an impact on financial performance.

In contrast, Bintoro and Rahmadhani (2021) and Abdul Hadi et al (2018) concluded that NPL and CAR have no statistically significant relationship with ROA. This is consistent with the findings of Sherlita and Utami's (2019) study, which found that the ROA is unaffected by CAR.However, the Non-Performing Loan variable has a negative impact on ROA, but the NIM has a positive impact on ROA.

Fitriano and Sofyan (2019), Nadirsyah et al. (2018), Octaviani and Saraswati (2018), Daryanto, Utami, and Rakhmawati (2019), Hanifah (2017), Ridho, Masyithoh, and Diyanti (2018), and Ferry (2016) discovered the same result using the RGEC method, namely that RGEC affected bank soundness. This is consistent with the findings of Kawengian, Pelleng, and Manoppo (2019), whose research findings are the Assessment of Good Corporate Governance, Earnings, operational costs to operational income, and Capital showing in a healthy condition, which influences the bank's health.

METHODS OF RESEARCH

In this study, the population was defined as all commercial listed commercial banks in 2018 and 2019. As a result, the population data in this study were 32 banks. Purposive sampling was used in this study, which means that samples were chosen based on certain criteria or the researcher's objectives. The criteria considered in this research are large category banks that were listed on the Indonesia Stock Exchange from 2018 to 2019, banks that still exist or are at least operating in the 2018 – 2019 time period (not frozen or liquidated by the government), and the availability of complete data such as annual reports and Good Corporate Governance data.

Based on the above criteria, the number of registered listed commercial banks samples for the 2018 - 2019 period is 15 banks with the following information:

Table 1 – Samples of Listed Commercial Banks 2018-2019

No	Bank Name	Code
1	PT. Bank Bukopin Tbk	BBKP
2	PT. Bank Central Asia Tbk.	BBCA
3	PT. Bank CIMB Niaga Tbk	BNGA
4	PT. Bank Danamon Tbk.	BDMN
5	PT. Bank Maybank I Tbk.	BNII
6	PT. Bank QNB Kesawan Tbk.	BKSW
7	PT. Bank Mandiri Tbk	BMRI
8	PT. Bank Mayapada Tbk.	MAYA
9	PT. Bank Negara Indonesia Tbk	BBNI
10	PT. Bank OCBC NISP Tbk.	NISP
11	PT. Bank Pan Indonesia	PBRX
12	PT. Bank Permata Tbk.	BNLI
13	PT. Bank Rakyat Indonesia Tbk	BBRI
14	PT. Bank BTPN Tbk	BTPN
15	PT. Bank Mega Tbk	MEGA

Source: BEI in 2018-2019.

This study employed a quantitative methodology. Statistical testing, specifically the regression model with panel data, can be used to validate the quantitative analytic approach. This study was carried out on a specific representative population or sample. According to the study object, the unit of analysis is Commercial Banks listed on the Indonesia Stock Exchange in 2018 and 2019. The variables employed in this study are as follows:

1. Independent Variable
   Independent variables are variables that explain or impact other variables. The independent variables employed in this study are as follows:
   a. GCG (Good Corporate Governance).
   The examination of GCG in banking has been introduced under OJK 4 /POJK.03/2016 concerning the Assessment of the Soundness of Commercial Banks. The assessment generates a score or value that is derived based on numerous factors using a self-assessment. GCG data can be obtained and measured using annual banking reports.

Table 2 – Composite Value of Self-Assessment

Composite Value (CV)	Composite Predicate	Rank
CV< 1,50	Excellent	1
1,5 ≤ CV < 2,5	Good	2
2,5 ≤ CV < 3,5	Good Enough	3
3,5 ≤ CV < 4,5	Less good	4
4,5 ≤ CV < 5,0	Not good	5

Source: OJK 4 /POJK.03/2016 Regarding Commercial Bank Soundness Level Assessment.

   b. CAR (Capital Adequacy Ratio).
   One of the most crucial factors that banks should examine is capital. CAR is a ratio that reveals how many bank assets contain risk (credit, investment, securities) and demonstrates the ability of capital and reserves utilized to support the company's operations.

$$\mathrm{CAR} = \frac{\text{Bank capital}}{\text{RWA (Risk Weighted Asset)}} \times 100\%$$

c. NIM (Net Interest Margin).
NIM, also known as economic profitability, is the ratio of net interest income to the average earning assets employed to produce a profit. The NIM ratio formula is as follows:

$$\mathrm{NIM} = \frac{\text{Net interest income}}{\text{Total Earning Assets}} \times 100\%$$

d. NPL (Non-Performing Loan).
NPL is a ratio used to assess bank management's capacity to manage non-performing loans provided by banks. Credit risk accepted by the bank is one of the bank's business hazards stemming from the debtor's failure to repay the bank's credit. The ratio of non-performing loans to total loans is used to calculate credit risk (NPL). The lower the NPL ratio, the higher the credit quality of the bank.

$$\mathrm{NPL} = \frac{\text{Non Performing Loans}}{\text{Loans given}}$$

2. Dependent Variable.
The sort of variable that is explained or influenced by the independent variable is referred to as the dependent variable. The profitability of the company is the dependent variable in this study. Profitability refers to a bank's ability to achieve or generate profits over a specific period. Return on Assets is the profitability ratio discussed in this study (ROA). Because this ratio demonstrates how much profit can be obtained from the average of each of a bank's assets, it gives information on how efficient a bank is in carrying out its commercial activities.

$$\mathrm{ROA} = \frac{\text{Net Income}}{\text{Total Assets}} \times 100\%$$

RESULTS AND DISCUSSION

Panel data regression is used to determine how well a model describes the variation of the dependent variable and how big the independent variable influences the dependent variable. The optimal panel data regression model was chosen before examining the effect of independent factors on the dependent variable. Based on the results of the Chow, Hausman, and Lagrange Multiplier tests. For the data, the Fixed Effects (FE) model was identified as the primary panel data regression model.

This test is designed to determine panel data from the Fixed Effects model utilizing a dummy variable approach to capture changes in intercepts between variables. Intercept variations might develop because of variances in data emanating from panel data. The findings of the panel data regression analysis using the FE model are shown in Table 3.

According to table 3, using the fixed-effect model, the findings for adjusted R^2 are 51.6 percent, suggesting that the independent variable has a 51.6 percent effect on the dependent variable, while the other factors influence the remaining 48.4 percent. As a result, the computation on prob. (F-statistic) is less than 0.05. This signifies that the independent factors have a considerable effect on the dependent variable at the same time. Only the CAR variable does not influence ROA; all other independent factors have a positive impact on ROA.

In 2018, PT. Mandiri Tbk had the greatest ROA value with a value of 16.23 percent, while PT. Bank Bukopin Tbk had the lowest ROA value with a value of 0.22 percent. PT. Bank Central Asia Tbk had the highest ROA value in 2019 with a value of 4.00 percent, while PT. Bank QNB Kesawan Tbk had the lowest ROA value with a value of 0.02 percent.

Moreover, in 2018, the greatest GCG value was 3.00 for PT. Bank BTPN Tbk, and the lowest GCG value was 1.00 for PT. Bank Central Asia Tbk, PT. Bank Mandiri Tbk, and PT.

Bank OCBC NISP Tbk. Meanwhile, PT. Bank BTPN Tbk had the highest GCG value of 3.00 in 2019, while PT. Bank Central Asia Tbk, PT. Bank Mandiri Tbk, and PT. Bank OCBC NISP Tbk had the lowest GCG values of 1.00.

Table 3 – Fixed Effect Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.645908	0.846329	7.473289	0.0000
GCG?	0.348237	0.691774	6.903426	0.0013
CAR?	-0.531689	-0.471274	-2.264615	0.0774
NIM?	0.511869	0.591418	5.046829	0.0028
NPL?	0.340324	0.579317	4.648261	0.0074
Fixed Effects (Cross)				
_ BBKP --C	0.389642			
_ BBCA --C	0.648196			
_ BNGA --C	0.546128			
_ BDMN --C	0.546182			
_ BNII --C	0.374692			
_ BKSW --C	0.468495			
_ BMRI --C	0.468164			
_ MAYA --C	0.591742			
_ BBNI --C	0.483296			
_ NISP --C	0.564291			
_ PBRX --C	0.492369			
_ BNLI --C	0.547358			
_ BBRI --C	0.247810			
_ BABP --C	0.368946			
_ BTPN --C	0.367477			
_ MEGA --C	0.637516			
Effect Specification				
Cross-section fixed (dummy variables)				
R-squared	0.641669			
Adjusted R-squared	0.516482			
F-statistic	21.359426			
Prob(F-statistic)	0.000000			

Source: Data processed using Eviews.

According to the findings, GCG has a positive effect on ROA. This research supports previous research by Nabila (2022), Abidin et al. (2020), Nicola, Manalu, and Hutapea (2017), Gunawan and Maynora (2019), Fitriano and Sofyan (2019), Kawengian, Pelleng, and Manoppo (2019), Dewi (2018), Nadirsyah et al. (2018), Daryanto, Utami, and Rakhmawati (2019), Ridho, Masyithoh, and Diyanti (2018), Octaviani and Saraswati (2018), Hanifah (2017), and Korompis, Rotinsulu, and Sumarauw (2015) claim that the Good Corporate Governance (GCG) component has a major impact on earnings management.

In 2018, PT. Bank BTPN Tbk had the greatest CAR value with a value of 23.51 percent, while PT. Bank Bukopin Tbk had the lowest CAR value with a value of 13.41 percent. In 2019, PT. Bank Danamon Tbk had the greatest CAR value with a value of 24.20 percent, and PT. Bank Bukopin Tbk had the lowest CAR value with a value of 12.59 percent.

The CAR variable, on the other hand, does not affect ROA. This contradicts previous research by Nicola, Manalu, and Hutapea (2017), Gunawan and Maynora (2019), Fitriano and Sofyan (2019), Nadirsyah et al. (2018), Daryanto, Utami, and Rakhmawati (2019), , Dewi (2018), Octaviani and Saraswati (2018), Hanifah (2017), and Ridho, Masyithoh, and Diyanti (2018), and Korompis, Rotinsulu, and Sumarauw (2015), which found that the CAR variable has a significant positive effect on ROA. Nonetheless, the findings of this study are consistent with those of Bintoro and Rahmadhani (2021), Abdul Hadi et al (2018), and Sherlita and Utami (2019), who discovered that CAR did not affect ROA.

In 2018, PT. Bank Danamon Tbk had the highest NIM value of 8.90 percent, while PT. Bank QNB Kesawan Tbk had the lowest NIM value of 1.73 percent. In 2019, PT. Bank

Danamon Tbk had the highest NIM value of 8.30 percent, while PT. Bank Bukopin Tbk had the lowest NIM value of 2.08 percent.

Furthermore, the NIM variable has a positive effect on ROA; the findings of this study are corroborated by prior research conducted by Sherlita and Utami (2019) and , which demonstrated that NIM has a significant positive effect on ROA.

In 2018, PT. Bank Bukopin Tbk. had the greatest NPL value with a value of 6.67 percent, and PT. Bank BTPN Tbk. had the lowest NPL value with a value of 0.78 percent. In 2019, PT. Bank Bukopin Tbk had the greatest NPL value with a value of 5.99 percent, and PT. Bank OCBC NISP Tbk had the lowest NPL value with a value of 0.78 percent.

Ultimately, according to the study's findings, the NPL variable has a favorable effect on ROA. The findings of this study contradict those of Sherlita and Utami (2019), who found that the Non-Performing Loan variable has a negative impact on ROA, as well as those of Bintoro and Rahmadhani (2021) and Abdul Hadi et al (2018), who found that NPL has no statistically significant relationship with ROA. However, the findings of this study are consistent with prior studies by Nicola, Manalu, and Hutapea (2017), Gunawan and Maynora (2019), Korompis, Rotinsulu, and Sumarauw (2015), who indicated that the NPL variable had a significant positive effect on ROA.

CONCLUSION

The research aims to examine the impact of factors like Good Corporate Governance (GCG), Capital Adequacy Ratio (CAR), Net Interest Margin (NIM), and Gross Non-Performing Loan (NPL) on the profitability of listed commercial banks from 2018 to 2019. It is feasible to conclude that the study's findings imply that the variables GCG, NIM, and NPL have a positive effect on Return on Assets based on the framing of the problem and the conversation (ROA). On the other hand, the CAR variable has no bearing on ROA.

From the preceding conclusions, the following suggestions can be made: the GCG variable on listed commercial banks from 2018 to 2019 has implemented corporate governance in compliance with the regulations of the Financial Services Authority. This performance can be enhanced so that the national banking system can attain a very good category, which will affect the national banking system's progress. Additionally, the NIM's condition declined, indicating that the quantity of net interest income earned is falling in comparison to the number of productive assets; to combat this, a rise in net interest income is required so that the risks contained in a bank can be controlled. As a result, the NIM's condition must be repaired soon because it will be considered by investors when deciding whether to invest. Then, the condition of NPL from 2018 to 2019 is in great condition since the average value is less than 5%, but there is credit risk seen from the trend of increasing the number of bad loans in the period 2018 to 2019, which shows an increase in the value of the bank's NPL, to overcome this problem. In this instance, banks should assess the process of giving credit to creditors to avoid future problems with credit repayment.

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