The Effect of Good Governance on Financial Performance with Risk Management as A Mediation Variable in Banking Companies Listed on The IDX Year 2018 – 2021

Kristinawati, Dien Noviany Rahmatika, Abdullah Mubarok
{kristinarpus@gmail.com}

Magister Management, Universitas Pancasakti Tegal, Indonesia

Abstract. The purpose of this study was to determine the effect of 1) institutional ownership on risk management, 2) audit quality on risk management; 3) independent commissioner on risk management; 4) institutional ownership of financial performance; 5) audit quality of financial performance; 6) independent commissioners on financial performance; 7) risk management on financial performance; 8) audit quality of financial performance with risk management as a mediating variable; 9) independent commissioners on financial performance with risk management as a mediating variable; 10). independent commissioner on financial performance with risk management as a mediating variable.
The population of this research is all banking companies (commercial banks) operating in Indonesia from 2018-2021, totaling 41 companies. The sampling technique used by researchers in this study was purposive sampling and 34 banks were obtained as samples. The technique used to collect data in this study is documentation. The data analysis method of this research is descriptive statistics and PLS analysis.

Keywords: Institutional Ownership, Audit Quality, Independent Commissioner, Risk Management, Financial Performance.

1. Introduction

The obstacles faced by companies in producing high financial performance usually revolve around. The success of a banking company is highly dependent on the strategy and characteristics of management. The success of the company will be reflected in the financial performance achieved [1]. Company performance is a description of the company's financial situation, and analyzed with financial analysis tools to understand financial quality and reflect performance in a certain period [2]. This is very important so that resources can be used optimally in dealing with environmental changes.

Reviewing financial performance is one way that management can do in order to fulfill its obligations to funders and achieve the goals set by the company. A company's ability to generate profits is the main focus in evaluating a company's financial performance [3]. Profit is not only an indicator of a company's ability to meet its investors' obligations, but also an element of company value creation, which shows the company's future prospects [4]. The obstacles faced by companies in producing high financial performance usually revolve around something that is natural, namely: (1) a company needs to have the ability to manage its resources effectively and efficiently, covering all areas (2) the consistency of the management-shareholder separation system so that the company can minimize the possibility of conflict of interest (3) the need for oversight of management so that it acts in the best interest company [5].

The Covid-19 pandemic resulted in a decrease in the average net profit of banks in Indonesia in 2020. Even the four banks with the largest assets in the country could not withstand this decline. The decrease in net profit in 2020 ranged from 5-78.7% compared to 2019 in the same period.

Figure 1. Banking Financial Performance

Compared to several banks with large assets, Bank of Central Asia (BCA) has the highest net profit by generating IDR 27.13 trillion in 2018, down 5% from IDR 28.6 trillion in 2019. Bank Negara Indonesia (BNI) net profit decreased to 78.7% in 2020. Previously, BNI could create Rp. 15.38 trillion, but in 2020 it decreased to Rp. 3.3 trillion. Apart from BCA and BNI, Bank Mandiri and Bank Rakyat Indonesia (BRI) also experienced a decline in financial performance. This is suspected as an increase in reserves or reserves of each bank. Because these four banks have carried out restructuring for customers whose businesses have been affected by Covid-19.

One of the risks faced by banks is the risk of extending credit. NPL is the ratio of non-performing loans to total loans and reflects the scale of non-performing loans faced by a bank. The higher the non-performing loan ratio, the higher the risks faced by the bank in its business activities. The Large-Scale Social Restrictions (PSBB) implemented in mid-March 2020 increased the credit risk (NPL) of the National Bank. Indonesian banking statistics from the Financial Services Authority (OJK) show that the ratio of non-performing loans in the banking sector has been more than 3% since May 2020, while bank credit values have decreased.

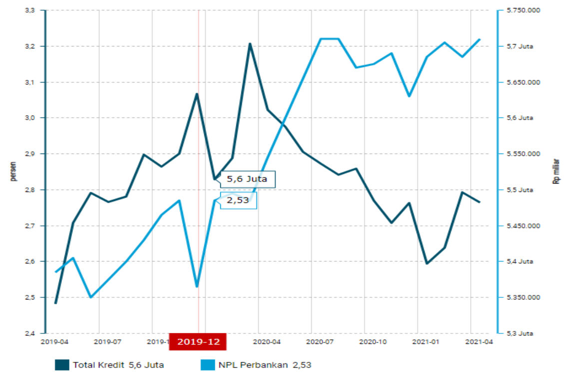

Figure 2. Banking Credit Risk

Based on OJK data, banking NPLs in April 2021 reached IDR 176.48 trillion or 3.22% of the total loans disbursed, which was IDR 5,482.17 trillion. A total of IDR 2,463.1 trillion (4.9

percent) of bank credit was extended to finance working capital, IDR 1,558.4 trillion (28.4%) for consumption credit, and the remaining IDR 1,460.6 trillion (26.64%) for consumer credit. investation. This PPKM policy is expected to increase the bank's NPL ratio again in line with reduced economic activity until 20 July 2021.

As the nation's central bank, Bank Indonesia (BI) places a high priority on the application of risk management and good corporate governance (GCG). The execution of Bank Indonesia Regulation (PBI) Number 8/14/PBI/2006 and the publication of Bank Indonesia Circular Letter (SEBI) Number 15/15/DPNP on April 29, 2013, both of which concern the application of GCG for commercial banks, are examples of this. Through PBI No. 11/25/PBI/2009 regarding the application of risk management for commercial banks, Bank Indonesia has released regulations for applying banking risk management to control risks encountered by banks.

In general, banking financial performance can be seen from the ratio of return on assets. There are many factors that can affect changes in a bank's return on assets, such as bank internal factors, macroeconomic conditions and factors from customers, both creditor and debtor factors. Several studies have found a link between financial performance and good corporate governance [6]. Audit quality is a very crucial thing in a financial report, because this will determine how good a company's financial reports are [7]. The quality of the audit is a result that has a tendency for the auditor to find a discontinuity of information between the accounting system and reports issued by the accountant in their research prove that auditing has an effect on financial performance while research by detects no effect of auditing on performance finance [8].

Several previous studies linking the quality of governance with bank risk management, such as research. Some of the same studies were conducted by Indonesian researchers using banking objects in Indonesia [9]. It found a link between institutional ownership and bank risk. Based on previous studies, many studies have revealed the effect of corporate governance on risk disclosure in companies and banks [10]. The risk disclosure that has been studied is the disclosure of all risks including risk management which can be seen from the narrative of the annual report, while this research wants to see the effect of governance on credit risk in conventional banks because previous research linking the quality of governance with bank credit risk has not been widely studied.

Based on the problems of financial performance, risk management and governance that have been described, as well as the inconsistency of the results of previous research, it is interesting to conduct research with the title "The Influence of Good Governance on Financial Performance with Risk Management as a Mediation Variable in Conventional Banking Companies Registered in BEI Year 2019-2021"

2. Research Method

This type of research is a quantitative research type with a descriptive approach. The population of this research is all banking companies (commercial banks) operating in Indonesia from 2018-2021, totaling 41 companies. The sampling technique used by researchers in this study is purposive sampling. The technique used to collect data in this study is the documentation technique. Methods of data analysis namely Descriptive Statistics and PLS Analysis.

3. Result and Discussion

Descriptive statistics

Descriptive statistics are statistics to describe data that has been collected as it is without intending to make general conclusions or generalizations. Data analysis techniques in descriptive statistics include: sample average (mean), maximum value, minimum value and standard deviation value (δ).

PLS analysis

Partial least squares was used for data analysis (PLS). PLS is a type of structural equation modeling based on components or variants (SEM). PLS is a different strategy that switches from a covariance-based SEM strategy to a variance-based strategy. Because it is not predicated on a lot of assumptions, PLS is a strong analytical technique. PLS is used to aid with prediction by researchers. Three categories can be made out of the parameter estimations that PLS produced. The first stage produces weight estimates, the second stage produces estimates for the internal and exterior models, and the third stage produces estimates for the facility and location.

Internal Model or Structural Model. Based on entity theory, the intrinsic models (intrinsic relationships, structural models, and entity theory) define the connections between latent variables. The Stone-Geisser Q-square test was used to predict correlations, t-tests, and the significance of structural path parameter coefficients. Structural models were assessed using R-square for correlation constructs. The R-squared for each dependent latent variable should be the first thing you consider when assessing a model using PLS. Regression's reasoning is also applicable here. If many independent latent factors have a significant impact on the influence of the dependent latent variable, it can be determined by changes in the R-squared value (Ghozali, 2018). Examine the prediction of the Q-squared correlation of the constructed model in addition to the R-squared value while evaluating the PLS model. The model's ability to produce observed and estimated parameters is measured by Qsquare.

Test the structural model (internal model) by looking at the value of R-squared (R2), which is a goodness-of-fit model test. To test the proposed hypotheses, the influence between latent variables is examined. These results can be understood by evaluating the output of data processing using PLS against the results of internal weights. The limit of the T statistic for rejecting and accepting the proposed hypothesis is 1.96 (t-table significance 5% = 1.96).

Measurement model or external model. The convergent validity of the measurement model and the indicator reflection model was assessed based on the correlation between item scores/component scores and structural scores calculated by PLS. If the reflectance measurement has a correlation of more than 0.70 with the construct being measured, it is called a high reflectance measurement. However, for previous studies that developed a measurement scale, a loading value of 0.5 to 0.60 was considered sufficient.

4. Conclusion

The success of a banking company is highly dependent on the strategy and characteristics of management. The success of the company will be reflected in the financial performance achieved. Company performance is a description of the company's financial situation, and analyzed with financial analysis tools to understand financial quality and reflect performance in a certain period. This is very important so that resources can be used optimally in dealing with environmental changes. The Covid-19 pandemic resulted in a decrease in the average net profit of banks in Indonesia in 2020. Banking companies need to have a good corporate governance system to overcome these obstacles and maximize financial performance by implementing good corporate governance (GCG). Economic practitioners believe that a company's performance is determined by the core processes that govern its activities. Company performance may be the result of continued good corporate governance practices. One of the determinants that affect financial performance is the implementation of good governance as reflected in institutional ownership, audit quality, independent commissioners to reduce banking risk.

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