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FINANCIAL PERFORMANCE AND FACTORS INFLUENCING ITS BANKING COMPANIES IN INDONESIA STOCK EXCHANGE

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ABSTRACT

This study is about the influence of corporate governance on corporate performance in Indonesia. Data from 20 banking companies in Indonesia Stock Exchange for the period of five years 2011-2016 conducted a panel data analysis with modeling by conducting Chow and Hausman tests. The results show that the influence of corporate governance (institutional share ownership, independent comers, audit committee and board of directors), non performing loan and loan to deposit ratio have an effect on company performance measure. in particular, the findings indicate that non performing loans have a negative and significant effect on return on assets, and audit committee variables have a positive and significant impact on return on equity, whereas while non performing loan and loan to deposit ratio have the negative and significant impact on return on equity. Other variables have no significant effect on return on assets and return on equity.

KEY WORDS

Banking companies, good corporate governance, non performing loan, loan to deposit ratio, return on assets, return on equity.

In mid-1997 the concept of Good Corporate Governance (GCG) began to be widely discussed in Asia, including Indonesia, and Indonesia is currently trying to improve the economy after several crisis times. The cause of the crisis is the existence of the fragility of fundamental economic (fundamental economic fragility) and one of them is the failure in the implementation of Good Corporate Governance derived from the system of weak legal framework, accounting standards, and auditing standards are not consistent, poor banking practices, supervision board of ineffective directors, as well as a lack of consideration of the rights of minority shareholders. In general, practitioners and academics also agree that one of the main causes of the crisis is the awareness of the importance of implementing GCG in the still low companies in Indonesia (CGPI Report 2004). Through the application of appropriate corporate governance / GCG principles, a company can increase profits, enhance competitiveness, credibility, and reputation and improve relationships with stakeholders such as investors, business partners, employees, customers, and so on.

In 1999 under the National Committee on Corporate Governance or the "National Committee on Policy (KNKCG) issued guidelines for the implementation of GCG This GCG Guideline, which contains the basic principles and guidelines of GCG implementation supported by three interconnected pillars, namely the state and its instruments as regulators , business world as market participants, and society as users of business products and services The principle of GCG that is transparency, accountability, responsibility, independence and fairness and equity is needed to achieve sustainability of the company by taking into account the stakeholders.

The forms of failure of the implementation of Good Corporate Governance are the scale of Indonesia's corruption rate is 8.85 (eight points eighty-five) close to 10 (under) and below India (scale 9.15). (survey Political and Economic Risk Consultancy / PERC, 2014). While the implementation of governance in Indonesia in 2014 according to PERC survey is 8.85 (eight points eighty-five). And the score is the same as the scale of the practice of corruption in which the score is close to 10 (ten), meaning that the company's management in Indonesia is worse compared to Southeast Asian countries such as Singapore, Malaysia, Philippines, and Thailand. Political Economic Risk Consultancy (PERC) is a rating agency conduciveness of the public bureaucracy to the business world based in Hongkong and it publishes its research results every year.

In the background of the economic crisis and entering the era of globalization, the demand for the use of the concept of Good Corporate Governance (GCG) is an urgent need that cannot be negotiable anymore. Transparency and disclosure are one of the principles of good corporate governance (GCG) which is currently under the spotlight of the public. At this time the public or the public need information disclosure, especially for companies that have to go ¬public, and the information is financial and nonfinancial information. Financial information published by the company to the public, including balance sheets, income statements, changes in equity, cash flow statement and notes to financial statements. Nonfinancial information is an integral part of the financial information and aims to increase the value added to the benefits of financial statements. Nonfinancial information is focused on the potential risk disclosure issues facing the company today and why management takes that risk.

According to Shleiver and Vishny (1997), said that Good Corporate Governance is a set of mechanisms that protect minority parties (outside investors/minority shareholders) from takeovers by managers and shareholders (insider) with emphasis on legal mechanisms. Besides, good Corporate Governance helps to create conducive and accountable relationships among elements within the company (Board of Commissioners, Board of Directors and shareholders) in order to improve financial performance. In relation to Good Corporate Governance (GCG) issues and their relationship with company performance, many of them are discussed by researchers: Aimen Ghaffar (2014) revealed that corporate governance variables have significant relationship with bank profitability, Adebayo Mudashiru et al (2014) there is a significant relationship between corporate governance and organizational performance, Shehu Usman Hassan and Abubakar Ahmed (2012) and Progress Shungu et al (2014) stated that corporate governance significantly influences company performance. While Pooja Gupta and Aarti Mehta Sharma (2014) argue that corporate governance has a limited impact on corporate performance and Gadi Dung Paul et al (2015), states there is no significant relationship between corporate governance and bank financial performance.

In addition, the company's financial performance, particularly non-performing loan (NPL) and Loan to Deposit Ratio (LDR) companies can affect financial performance. According to Dhanuskodi Rengasamy (2014), NPLs can have a positive, negative and no significant impact on ROA and the results of Lucy Mumbi Chege and Julius Bichanga (2017) research shows that nonperforming loans have a significant effect on the financial performance projected by ROA. Meanwhile, Tariku Kolcha Balango and Madhusudhana Rao K. (2017) stated that NPLs have a significant and negative effect on ROA.

Joseph Femi Adebisi and Okike Benjamin Matthew (2015), there is no relationship between Non-performing Loans (NPLs) and Return on Assets (ROA) of Nigeria Banks, meaning the company's assets are not affected by the NPL level. Meanwhile, shareholder wealth maximization is shown by the relationship between Non Performing Loan (NPL) and Return on Equity (ROE).

Based on the above explanation, there are several fundamental issues that form the basis of this research:

- What is the relationship between institutional share ownership, independent board of commissioner and audit committee, the board of corrections, NPL and LDR together with company performance?
- How is the relationship between institutional share ownership and company performance?
- What is the relationship between the independent Board of Commissioners and the performance of the company?
- How is the relationship between the Audit Committee and the performance of the company?
- How is the relationship between NPL and company performance?
- What is the relationship between LDR and company performance?

LITERATURE REVIEW

Good Corporate Gorvernance (GCG). Companies based on GCG principles must balance between sound business objectives and risk management as well as the company should strive to develop a conducive corporate culture. This cultural determination starts from a commitment by the Board of Directors (Board of Commissioners and Board of Directors), which is the key to the successful implementation of GCG.

Good corporate governance requires timely and accurate communication to a number of aspects of the company's business operations and corporate governance centered on the principles of accountability, transparency, fairness, and responsibility in corporate management. According to Rogers (2008), corporate governance is how to build credibility, transparency, accountability and an effective information channel to drive company performance. And the opinion of Keasey et al. (Francis OfunyaAfande, 2015), corporate governance encompasses the structures, processes, cultures, and systems that spawned the success of organizational operations. Meanwhile, Maria Inez S and Tuntun S Zen (2015), stated that Good Corporate Governance (GCG) is a system to control and establish the company, which can be seen from the mechanism of the relationship among all parties related to the company.

Thus the corporate governance system can be considered as a mechanism to establish ownership and control of the organization. In the assessment of GCG implementation, the Indonesian Institute of Good Corporate Governance (IICG) uses IICG's Corporate Governance Index (IICG) Perception Index that emphasizes aspects of Commitment, Transparency, Accountability, Responsibility, Independence, Justice, Competence, Leadership, Strategy, Ethics, and Knowledge Management.

The implementation of GCG in the banking industry in Indonesia is contained in several provisions, namely:

1. Regulation of the Otoritas Jasa Keuangan No.55/POJK.03/2016 on the application of Good Corporate Governance for Commercial Banks;
2. Circular Letter of Bank Indonesia No. 15/15/DPNP/dated 29 April 2013 regarding the Implementation of Good Corporate Governance of Commercial Banks;
3. Circular Letter of the Otoritas Jasa Keuangan No. 32/SEOJK.04/2015 on Open Corporate Governance. Regulation of the Otoritas Jasa Keuangan No. 17/POJK.03/2014 on the Implementation of Integrated Risk Management for Financial Conglomeration;
4. Regulation of the Otoritas Jasa Keuangan No.18/POJK.03/2014 on the Implementation of Integrated Governance for Financial Conglomeration;
5. Regulation of the Otoritas Jasa Keuangan No.8/POJK.04/2015 on the Issuer's Web Site or Public Company. Regulation of the Otoritas Jasa Keuangan No.31/POJK.04/2015 on Disclosure of Information or Material Facts by Issuers or Public Companies;
6. Regulation of the Otoritas Jasa Keuangan No.55/POJK.03/2015 on the Implementation of Good Corporate Governance for Commercial Banks.

In addition to the above provisions and GCG implementation guidelines, namely from the Organization for Economic Cooperation and Development (OECD); ASEAN Corporate Governance Scorecard; Komite Nasional Kebijakan Governance (KNKG) Basel Committee on Banking Supervision. Thus corporate governance can build credibility, ensure transparency and accountability and maintain an effective information disclosure channel and can improve company performance.

Corporate governance in this study is proxy in the form of:

Institutional shareholding. The shareholder as the owner of the capital has rights and responsibilities of the company in accordance with the laws and regulations of the company. According to Dana AL-Najjar (2015), Institutional ownership has the positive and insignificant effect on ROA and ROE, and Marcia M. Cornett et al (2007) stated Institutional share ownership significantly influence ROA, while Alizadeh et al. (2011) states that ownership concentration has no significant effect on company performance.

Board of Commissioners. The Board of Commissioners is a component of the company in charge of jointly monitoring and advising the Board of Directors and ensuring that the company executes GCG (KNKG, 2006). The BoC may consist of a Commissioner who is not an affiliated party known as an Independent Commissioner and an affiliated Commissioner and both are appointed by the GMS. The number of Independent Commissioners shall ensure that the oversight mechanisms operate effectively and inaccordance with the laws and regulations and must have an accounting or financial background. With regard to board issues, there are several researchers claiming; Hassan and Ahmed (2012), board composition has a negative effect on company performance, Ibrahim S. Alley et al (2016) stated that the composition of the board positively affects the performance of the company and Bhagat and Black (2002) found no significant relationship between board composition and performance. According to Kumar and Nihalani (2014), the board of directors of important roles in corporate performance and board meetings negatively impacted financial performance, AjalaOladayoAyorinde et al. (2012), revealed that the coop size and financial performance relationships are negative and significant, share ownership and performance finance is positive and significant. While Amina Buallay et al (2017), with the Tobin Q model, concluded that there is no significant impact on shareholder ownership and the independence of the Board of Directors on the performance of the company. and the relationship of ownership and size of the Board of Directors to the performance of the company is significant. While Linda Agustina et al (2015), the empirical results show that managerial ownership and independent commissioners have a significant effect on financial performance.

Audit Committee. The audit committee is a corporate governance mechanism designed to produce relevant, adequate and reliable information that can be used by investors and independent observers to assess company performance. The members of the audit committee are part of the board of directors responsible for formulating strategies to improve the financial health of the company, and safeguarding the company's financial transparency. According to Karam Pal Narwal et al (2015) and audit committee have a negative effect on profitability.

Board of Directors. Directors are people who apply corporate governance in achieving company goals (financial performance). According to MesutDoğan and Feyyaz YILDIZ (2013) the relationship of the number of board members (D BORD) with the return on assets (ROA) and return on equity ratio (ROE) is negative and significant. And according to Victor-Octavian Müller (2013), the composition of the company's board of directors has a significant positive impact on performance.

Non Performing Loan (NPL). NPLs are known for non-performing loans and this can have an impact on the bank's lack of capital and will have an impact on lending in the next period. Based on Bank Indonesia Regulation Number 6/10 / PBI / 2004 dated 12 April 2004 regarding Commercial Bank Rating System, the NPL ratio is 5%. If the value of NPL (above 5%) then the bank is not healthy and cause a decline in profits to be received by the bank.

Loan to Deposit Ratio (LDR). LDR (Loan to Deposits Ratio) is a ratio that measures the ability of banks to meet short-term liabilities by dividing total loans to total Third Party Funds (DPK). The LDR value is too high, meaning that banks do not have sufficient liquidity to cover their obligations to customers (DPK). Conversely, if the LDR value is too low it means that banks have enough liquidity to cover their liabilities, but may be lower incomes, as it is known that the banking world earns revenue through the distributed credit. The LDR value based on the BI regulation is 78% -94%.

Financial performance. According to the Indonesian Institute of Accountants (IAI), financial performance is the company's ability to manage and control its resources. Prior research that measures the company's performance is Khatab et al (2011 using Return on Assets (ROA) and Return on Equity (ROE) for case studies on the Karachi stock market, Dana AL-Najjar (2015) using Return on Assets (ROA) and Return on Equity (ROE) for the Jordanian Listed Firms case study and Marcia Millon Cornett et al (2007) using Return on Assets (ROA) for companies incorporated in S & P 100 (obtained from Standard & Poor's). Based on hypothesis testing results from Elly Halimatusadiah, et.al (2015), the level of implementation of Good Corporate Governance has a positive effect on the profitability of the company (return on assets), Ogege S. and Boloupremo T. (2014), said board size, board composition, corporate governance, firm size and debt have no significant effect on Return on Assets (ROA) as well as Return on Equity (ROE). So that, Yolanda (2017) states ROA is a ratio that can reflect the level of effective management of assets owned by the company.

METHODS OF RESEARCH

The data used for this study is secondary data obtained from the financial statements of banks listed on the Indonesia Stock Exchange (BEI) between the period of six years (2011 and 2016) which consists of 20 banks with the criteria:

1. Commercial banks that publish the financial statements consistently period end of the month in 2011-2016 and submitted to Bank Indonesia.
2. The Company presents the complete financial statements and ratios required in this research for 5 consecutive years.
3. Have a positive and consistent profit during the period 2011-2016, because with a positive profit then there will be no extreme data that can lead to problems in data processing.

The main purpose of this study is to examine the effect of corporate governance on the performance of banking companies listed on the BEI 2011-2016 with analysis techniques using software Eviews with the descriptive statistical test, hypothesis test using f test and t-test and chow test/Hausman Test. Multiple linear regression (Equation of data panel regression with One Way Model) and the last test of the coefficient of determination.

Model Specification of this research is:

Model 1

$$ROA_{it} = \beta o + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3t} + \beta_4 X_{4t} + \beta_5 X_{5t} + \beta_6 X_{6t} + \mu \quad (1)$$

Model 2

$$ROE_{it} = \beta o + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3t} + \beta_4 X_{4t} + \beta_5 X_{5t} + \beta_6 X_{6t} + \mu \quad (2)$$

Where:
Variable Y represents the performance of the company represented by Return on Assets / ROA (Y_1) and Return on Equity / ROE (Y_2) for banking companies listed on BEI at time t;
Variable X_1 is Institutional Share Ownership which is described as the proportion of Institutional Share Ownership to total outstanding shares for a listed banking company in IDX at time t;
Variable X_2 is an Independent Board of Commissioners described as the proportion of the Board of Independent Commissioners to the total Board of Commissioners for banking companies listed on the IDX at time t;
Variable X_3 is the Audit Committee of a banking company listed on the IDX at time t;
Variable X_4 is a Board of Directors at a banking company listed on the Stock Exchange at time t;
Variable X_5 is a Non-Performing Loan (NPL) in a banking company listed on the BEI at time t;
Variable X_6 is a Loan to Deposit Ratio (LDR) at a banking company listed on the IDX at time t.

To achieve the research objectives, the following hypotheses:

- H_1: There is a significant positive relationship between institutional share ownership and company performance;
- H_2: There is a significant positive relationship between the independent Board of Commissioners and the performance of the company;
- H_3: There is a significant positive relationship between the Audit Committee and the company's performance;

- H_4: There is a significant positive relationship between the Board of Directors and the company's performance;
- H_5:There is a significant positive relationship between NPLs and company performance;
- H_6: There is a significant positive relationship between LDR and company performance.

RESULTS AND DISCUSSION

Descriptive statistics:

Model I. Table 1 shows the values of the mean, median, maximum, minimum and standard deviations of all the variables studied i.e. between institutional ownership, independent board of commissioners and audit committee, corrections board, NPL, LDR and ROA.

Table 1 – Descriptive Statistics

	Y1?	X1?	X2?	X3?	X4?	X5?	X7?
Mean	1.941228	74.55789	6.087719	3.964912	8.315789	2.234035	77.41737
Median	1.820000	82.61500	6.000000	4.000000	9.000000	2.125000	80.00000
Maximum	5.150000	99.79000	9.000000	8.000000	14.00000	8.800000	140.0000
Minimum	-4.900000	11.03000	3.000000	2.000000	4.000000	0.230000	21.43000
Std. Dev.	1.383053	21.34579	1.716971	1.240395	2.584213	1.253092	22.06438

Source: data processed (2017).

Model II. Table 2 illustrates the values of the mean, median, maximum, minimum and standard deviations of all the variables studied i.e. between institutional ownership, independent board of commissioners and audit committee, corrections board, NPL, LDR, and ROE.

Table 2 – Descriptive Statistics

	Y2?	X1?	X2?	X3?	X4?	X5?	X6?
Mean	14.18728	74.55789	6.087719	3.964912	8.315789	2.234035	77.41737
Median	13.16500	82.61500	6.000000	4.000000	9.000000	2.125000	80.00000
Maximum	42.49000	99.79000	9.000000	8.000000	14.00000	8.800000	140.0000
Minimum	-38.30000	11.03000	3.000000	2.000000	4.000000	0.230000	21.43000
Std. Dev.	10.86148	21.34579	1.716971	1.240395	2.584213	1.253092	22.06438

Source: data processed (2017).

According to table 1 and 2, it can be described as follows:

- Average Return on Asset Value of a company that is positive, this reflects that the total assets used for the company's operations are able to provide profit for the company;
- The average Return on Equity value of the firms studied is close to zero, indicating that firms are less efficient in using the capital to generate income;
- The average institutional shareholding is above 70%;
- The average number of independent Board of Commissioners is 6 persons;
- The average number of audit committees are 4 persons;
- The average number of Board of Directors of the company under study is 9 persons. The average value of the NPL is 2.125. This value indicates that the problematic credit risks faced by the firms under study are under the terms tolerated by BI at 5%.
- Maximum LDR score of the firms studied is 140, minimum 21.43 and average 80. This reflects the existence of an unhealthy company in carrying out its operations (PBI No. 17/11/PBI/2015 dated June 25, 2015, LDR value healthy companies in carrying out their operations are between 70%- 92%).

Regression analysis:

Model I. Hausman test results (cross section random with Prob 0.9557) showed that the random effect is the selected model because the probability value is greater than 0.5. The random effect model has a constant coefficient value of 19 banking firms of 3.0301 with a probability of 0.0017 (significant).

Table 3 – Model of Common Effect, fixed Effect and Random Effect

Variable	Common effect			Fixed effect			Random effect		
	Coefficient	t-Statistic	Prob.	Coefficient	t-Statistic	Prob.	Coefficient	t-Statistic	Prob.
C				3.465159	3.463199	0.0008	3.030101	3.214073	0.0017
X1?	0.026767	0.304294	0.7615	-0.004952	-0.941504	0.3490	-0.005214	-1.036415	0.3023
X2?	0.212494	2.156299	0.0333	-0.013461	-0.142676	0.8869	0.019179	0.223685	0.8234
X3?	0.173182	4.169049	0.0001	0.092248	1.144554	0.2555	0.117038	1.540026	0.1265
X4?	-0.459233	-4.930137	0.0000	0.058343	1.014885	0.3129	0.077208	1.505215	0.1352
X5?	0.014760	2.098022	0.0382	-0.535764	-9.858734	0.0000	-0.531508	-9.861303	0.0000
X6?	-0.010204	-1.610952	0.1101	-0.008515	-0.909935	0.3653	-0.008618	-0.972216	0.3331
R-squared	0.327608			0.860986			0.518268		
Adjusted R-squared	0.296478			0.823499			0.491256		
F-statistic				22.96755			19.18590		
Prob (F-statistic)				0.000000			0.000000		

Source: data processed (2017).

Partial test from table 3 above is obtained:

- NPL (X_5) has a negative and significant relationship with ROA (Y_1).This shows the increasing number of nonperforming loans so the level of profit earned decreases because the benefits of the credit obtained. The results of this study are in line with research results of Kolcha Balango1 and Madhusudhana Rao K (2017) and Yuga Raj Bhattarai (2016);
- Institutional shareholdings (X_1) and LDR (X_6), have a negative and insignificant relationship with ROA (Y_1). In line with the results of this study M. Nayeem A and NusratJahan (2014) which states are not significant;
- The effect of independent variables simultaneously on ROA is significant;
- Board of commissioners (X_2), Audit Committee (X_3) and Board of Directors (X_4), have a positive and insignificant relationship with ROA (Y_1);
- The amount of influence of independent variable to ROA is 49,13% and the rest influenced variable not examined.

Model II. Based on table 4, Hausman test results (cross section random with Prob 0.3804) showed that random effect is the appropriate model. The random effect model has a constant value of 19 banking companies has a coefficient of 3.0301 with a probability of 0.0017 (significant).

Table 4 – Model of Common Effect, fixed Effect and Random Effect

Variable	Common effect			Fixed effect			Random effect		
	Coefficient	t-Statistic	Prob.	Coefficient	t-Statistic	Prob.	Coefficient	t-Statistic	Prob.
C				40.10018	4.712325	0.0000	32.39493	4.222899	0.0001
X1?	-0.066028	-1.296659	0.1975	-0.016504	-0.368940	0.7130	-0.015520	-0.368568	0.7132
X2?	0.215611	0.304903	0.7610	-1.167765	-1.455310	0.1491	-0.507508	-0.717325	0.4747
X3?	1.771935	2.236712	0.0274	0.884305	1.290085	0.2004	1.233861	1.943660	0.0546
X4?	1.262040	3.779261	0.0003	0.165259	0.338009	0.7362	0.409572	0.973920	0.3323
X5?	-3.609064	-4.819697	0.0000	-5.060975	-10.95005	0.0000	-4.951767	-10.83640	0.0000
X6?	0.094844	1.677000	0.0964	-0.130604	-1.641054	0.1043	-0.131180	-1.771977	0.0792
R-squared		0.295431		0.836961			0.552741		
Adjusted R-squared		0.262812		0.792996			0.527661		
F-statistic		-		19.03678			22.03919		
Prob(F-statistic)		-		0.000000			0.000000		

Source: data processed (2017).

Partial test, showing audit committee (X_3), NPL (X_5) and LDR (X_6) have the significant effect on ROE at α = 10%. This means the three variables affect the company's profit and capital (equity). NPL and LDR have a negative effect on ROE, which means that the higher NPL (credit problem), the profit received by the banks will decrease and also the higher LDR reflects the banks do not have enough liquidity to cover their obligations to customers (DPK) and profit will fall as banks earn profits from third-party funds (DPK).

This is contrary to research results Yuga Raj Bhattarai (2016) which states that the NPL has a positive effect on ROE. Meanwhile, variable of institutional share ownership (X_1), the board of commissioner (X_2) and board of directors (X_4) have no significant effect on ROE (Y_2).

Simultaneously the influence of independent variable above to ROE is significant, while the influence of independent variable to ROE is 52,76% and strong influence.

CONCLUSION AND RECOMMENDATIONS

Based on the main objective of this study is to assess the impact of institutional ownership, independent board of commissioner and audit committee, the board of directors, NPL and LDR on the performance of selected commercial banks in Indonesia, for the sample period from 2011 to 2016 the following conclusions:

- Good corporate governance, no significant effect on ROA or ROE, unless audit committee has significant influence with ROE.
- The impact of the Non-Performing Loan Ratio is negative which means that the increase in NPL leads to a decrease in profitability (ROA and ROE).
- The value of Loan to deposit ratio (LDR) describes the health of a company in carrying out its operations. Based on the result of research of LDR relation to ROA is the negative mean increase of LDR value will decrease company ability in profit making.
- Based on the findings and conclusions of the study, the following recommendations may be given:
- Implementation of corporate governance must be consistent because it can improve the quality of corporate financial statements and minimize agency cost, ie costs arising as a result of delegation of authority to management.
- Bank management needs to be careful in preparing a credit policy that will not affect the decline in profitability.
- LDR calculation is used as an indicator to determine the level of vulnerability of a bank, therefore for the bank must be careful in channeling third-party funds LDR and not to reduce profitability.

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