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The *Good Corporate Governance* Mechanism Effects Toward Bank Pembangunan Daerah Performance in Indonesia with Ownership Structure as Moderation

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***Abstract*—This study will examine the effect of Good Corporate Governance (GCG) on the performance of regional banks in Indonesia. This is based on the growth of Regional Development Banks throughout Indonesia which continue to commit to appearing as leaders in their respective regions. The research will also examine the moderating effect of ownership structure on the effect of GCG on company performance. This research was conducted at regional development banks with a research period of 2015-2017. The results of the research conducted indicate that in this study it can be concluded that the performance of the Regional Development Bank (BPD) is influenced by the size of the board of directors, audit committee, remuneration and nomination committee, and ownership structure. The results of the research conducted also found a moderating effect of ownership structure on the influence of the size of the director and the remuneration committee and nominations on ROE and ROA. The moderating effect of ownership structure on the influence of the board of directors size on ROE and ROA is negative. However, the moderating effect of ownership structure on the influence of the remuneration committee and nominations on ROE and ROA is positive.**

Keywords: Good Corporate Governance (GCG), company performance, ownership structure, regional development bank

I. INTRODUCTION

Good Corporate Governance is a concept that emphasizes the importance of shareholder rights to receive information accurately, precisely, and on time. *Good Corporate Governance* helps to create a good and responsible relationship between company elements (Board of Commissioners, Board of Directors, and shareholders) to elevate the company's performance. In this paradigm, the Board of Commissioners belongs in a position to make sure the management has done their jobs well for benefit of the company based on the previously discussed strategy and also to secure the interests of the shareholder – that is to elevate the economic value of the company. Such is the case with the Audit/Inspection Committee that has an important and strategic role to maintain the credibility process of the monetary reports like adequately protecting the creation of the company's surveillance system and its execution.

The rules related to the application of *Good Corporate Governance* are issued by Bank Indonesia (BI), Badan Pengawas Pasar Modal (BAPEPAM), and BUMN Ministerial Decree. Those rules were manifested in Bank Indonesia Rules Number 8/4/PBI/2006 regarding the Execution of *Good Corporate Governance* for General Banks as well as Circular Letter Number 9/12/DPNP dated May 30th, 2007 regarding the Implementation of *Good Corporate Governance* for General Banks [1]. The bank must implement the *Good Corporate Governance* principles in each of their activities for every level of their organization. Badan Pengawasan Pasar Modal (Bapepam) dan Bursa Efek Jakarta (BEJ) has also asked for the establishment of an independent commissionary and Audit Committee for every public company. Besides, BUMN Ministerial Decree Number 117/2002 has also asked for the same requirements for BUMN. There are some publicly renowned references about the best practices for it, like FCGI that is used as a reference for best risk management and audit committee practice, and also via the *Indonesian Society of Independent Commissioners* (ISICOM) for the best functional practice and the roles of an independent commissioner.

During the monetary crisis, *Corporate Governance* in the banking industry of developing countries like Indonesia becomes incredibly important in conjunction with several things. *First*, the bank occupies the most dominant position in the economic system, especially in economical growth [2]. *Second,* in countries that have been marked by the underdeveloping stock market, the bank plays the main role as a funding source of companies. *Third*, the bank is a primary institution in mobilizing national savings. *Fourth*, banking system liberation, be it via privatization or economic deregulation, causing bank managers to have a bigger space to run the bank operation [3]. Caprio and Levine [4] explain that there are two interconnected things regarding banking monetary intermediary institutions that would affect *Corporate*

Governance. First, the bank is a non-transparent business sector, meaning that agency problem is a possibility. Second, the bank is a highly-regulated business sector in some areas and could halt the *Corporate Governance* mechanism. The agency problem in the monetary-banking sector, in general, can be divided into two categories. First is the *debt agency problem* and second is *the separation of ownership and control*.

In this research, the Regional Development Bank / Bank Pembangunan Daerah throughout Indonesia will be the research object. This is based on the growth of BPD in Indonesia that is committing to emerge as the leader in their respective region. This commitment is increasing since the *BPD Regional Champion* (BRC) is planned by Bank Indonesia through 23 monetary and banking policy package on December 21st of 2010. Since then, BPDs keeps on reflecting on themselves and improving so that they can move out under the shadow of national banking and became the engine of local economic growth. The direct result of BPD's commitment towards *Regional Champion* can be seen from many growing aspects of BPD's performance. In the last 5 years, both the monetary and operational aspects of BPD's performance is increasing. This can be reflected from many indicators that BPD throughout Indonesia has accumulated. Per December 2013, BPD's assets have reached Rp. **390,117** trillion or increasing **4,94**% compared to December in 2012 that has reached Rp. **371,81** trillion.

Credit performance in the last 5 years has also shown pretty good growth. In December 2013, the BPD throughout Indonesia has a credit position reaching Rp. **255,88** trillion or increasing by **21,41%** compared to December 2012 that only reach Rp **219,71** trillion. The position of Dana Pihak Ketiga (DPK) / Third Party Fund from BPD throughout Indonesia in December 2013 has reached Rp. **282,98** trillion or slowly decreasing by **0,36%** compared to the same position in December 2012 which is Rp **284** trillion. The Core Stock has reached Rp. **38,48** trillion per December 2013 position, increasing by **19,99%** compared to December 2012 position that was Rp. **32,06** trillion. With the nation-wide growth and achievement that BPD has gained currently, BPD BPD-SI is optimistic to be the frontrunner of the local economy to support government programs in creating job opportunities, this will help in elevating the local lifestyle and reduce the poverty rate nationally and also increasing the nation's prosperity.

This research is based on the Kusumati and Riyanto [5] research and Gunawan, Effendie and Budiarjo [6] research that investigates the performance effect of *Corporate Governance* and *Ownership Structure*. The research shows that the number of board commissioners and *cross-directorship* greatly impacts the company's performance, on the other hand, the GCG transparency doesn't affect the company significantly. Besides that, this research also refers to Darmawati, Khomsiyah and Rahayu [7], Wulandari [8] that investigate the mechanical effect of *Corporate Governance* towards the company's performance. The research shows that *Corporate Governance* mechanism which the number of board of directors, the board of commissioners proportions, and the institutional ownership doesn't affect the company in a significant manner towards the company's performance. The difference between this research and the previously mentioned research is in the independent variables used. In this research, the addition of the newly analyzed variables are risk monitoring committee and remuneration committee, and nomination that is a committee under the board of committee that has a special task and its existence is based on Bank Indonesia rules. Other than that, the other difference as the object in this research is the BPD throughout Indonesia.

II. Literature Review

A. Good Corporate Governance (GCG)

The *Good Corporate Governance* concept evolves along with public demands who wanted a healthy, clean, and responsible business life. OECD 2004 and FCGI 2001 in Gideon [9] defines *Good Corporate Governance* as a set of tool that establishes the relationship between shareholders, caretaker, creditors, government, employees and also the internal and other external interests holder regarding their rights and responsibility, in other words, a system that commands and directs the company. *Good Corporate Governance* is applied to a company to fulfill four important factors. OECD 1999 in FCGI [10] explains the four important factors in *corporate governance* as follows*:*

- Fairness. This factor guarantees the safety of shareholder rights, including the rights of minority shareholders and foreign shareholders, and also guarantees the commitment execution with the investors.
- Transparency. This factor requires the need for open information, on-time, direct, clear, and can be compared for cases that require monetary condition, company management, and company ownership.
- Accountability. This factor explains the rights and responsibilities, and also supports the effort to guarantee the balancing of managerial interest and shareholder, as is monitored by the board of commissioners.
- Responsibility. This factor guarantees the compliance of working terms and conditions as a reflection of social values obedience. Responsibility is the company's response to obey the working law and legislation.

B. Company's Monetary Performance

Monetary performance is one of the factors that shows the effectiveness and efficiency of an organization to reach its goal. Effectiveness is when the management has the ability to choose the correct goal or the correct tool to achieve that goal. On the other hand, efficiency can be defined as a comparison ratio between input and output which is by submitting a certain input in order to optimize the output. According to Hastuti [11], company performance is the result of many individual decisions that are constantly made by management. Therefore, to judge the performance of a company, decisions were done by including cumulative and comparative monetary effect analysis and considering it by using a comparative measure. Darmawati [7] explains that company assessment including performance is often conducted for the purposes such as merger and acquisition, restructuration and business interest, and divestment, are needed as a part of company stock from the strategic partner to gain reasonable income as an inclusion to show that the company is worth more than it is described on the scale, and to obtain expenditure based on loan establishment or funding addition.

C. Previous Research

This research is based on Kusumati and Riyanto [5] research that investigates the effect of *corporate governance* towards performance. The result of this research shows that the number of board commissioners and cross-directorship have a significant impact on the company's performance. Meanwhile, the GCG transparency has no significant bearing on the company's performance.

Trinanda and Mudoqim [12] research that investigates *corporate governance's* effect on monetary banking performance, shows that *Corporate Governance* has a significant impact on *Return On Equity, Return on Investment, Return on Asset,* and *Net Profit Margin*. This means that the correct implementation of *Corporate Governance* would result in a good monetary performance as well. This goes to show that the company's management realizes in the long-term impact of *Corporate Governance* implementation, which is a direct monetary impact such as the net profit of the company and that it helps in making the company healthier.

Darmawati, Khomsiyah and Rahayu [7] research that investigates *corporate governance effect* on monetary banking performance, shows that in the regression model with *return on equity* as its dependent variable, only *corporate governance* variable that is statistically significant in impacting the *return on equity* value. Whereas there is not a single control variable that could impact the *return on equity* value significantly. Therefore it can be concluded that the hypothesis of this research is supported, meaning that *corporate governance* affects monetary banking performance.

Hastuti [11] research that investigates the *corporate governance* mechanism on monetary banking performance, shows that there is no significant connection between the ownership structures and the company's performance. There is also no significant connection between profit management and the company's performance but there is a significant connection between disclosure and the company's performance.

Hastuti [11] research investigates that the ownership structure as part of *Corporate Governance* mechanism has an impact on monetary banking performance. Foreign ownership has no impact on banking performance, government ownership has no impact on banking performance, institutional ownership has a positive impact on banking performance, and managerial ownership has no impact on banking performance.

III. Hypothesis Expansion

This research will examine the effect of *Good Corporate Governance* (GCG) on Bank Pembangunan Daerah performance. Other than that, this research will use the stock structure as the moderating variable. With that, this research will test six hypothesis that is expanded based on a theoretical basis and previous research as follows.

A. The Impact of the Board of Director Numbers towards Company Performance

Pfeffer & Salancik [13] explains that the bigger the needs of a more effective external connection, the needs of having an increasing number of boards or council will also increase. The effectiveness and efficiency of the company will rely on the management mechanism as the company's arrowhead, which is the job of the direction. The good or bad of the performance will rely on the capability of the board of directors as a resource. The advantage of the bigger number of boards is based on the point of view of *resource dependence* [14]. The research gives an image that to reduce the conflict of interest, the number and size of the board of directors could reduce the problem in agency and also able to limit the *controlling owner* that exploit the interest of *noncontrolling owner* [15]. Based on the explanation above, the following hypothesis can be formulated as:

Hypothesis 1 (H_1). The number of boards of directors has a significant impact on the performance of Bank Pembangunan Daerah throughout Indonesia.

B. The Impact of the Board of Independent Commissioners towards Company Performance

The connection between the boards of commissioners with performance and company value is supported by functional perspective service and control that can be given by the board of commissioners. The *service* function shows that the board of commissioners may act as advisor and consultation to management and directors. By focusing on those activity functions by the board of commissioners, the expertise or counseling duty given by the board of commissioners becomes a quality service for the management and the company that cannot be given by the market [16]. Members of the board of commissioners that have the ability in certain aspect can also give some valuable advice to organize strategies and the establishment of the company [17], this is done to optimize the performance of the company's management. Xie, Davidson, and Dadalt [18] also say the same thing which is the more the number of the board of commissioners involved, then the limitation towards foul play or frauds can be done more effectively, leading in a better performance. The board of commissioners that came from outside of the company or known as an *outside director* can reduce the opportunist nature of the management by increasing the surveillance act towards the management, which will lead to a more efficient performance [19]. Based on the description above, the following hypothesis can be formulated as:

Hypothesis 2 (H_2). The number of the independent board of commissioners has a significant impact on the performance of Bank Pembangunan Daerah throughout Indonesia.

C. *The Effect of Independent Audit Committee towards the Company Performance*

Audit Committee has a very important and strategic role to maintain the credibility of organizing the monetary report as well as maintaining the establishment of the adequate monitoring system of the company, and also the implementation of *good corporate governance*. Should the audit committee function effectively, then the *control* towards the company will become increasingly better, making the agency conflict that occurs because the management's will to take advantage of the system can be minimized.

The establishment of formal communication between the boards, management, external and internal auditor will guarantee the well-being of internal and external audit processes. The correct implementation of both audits will increase the monetary report accuracy and thus, building the trust towards monetary report [20]. In Xie's research, this means that the audit committee establishes in the company as a mean of *corporate governance* mechanism could reduce the number of profit manipulation by the management. Based on this, it can be concluded that the audit committee in banking company has done its job correctly in providing monitoring and surveillance towards the company by upholding the *corporate governance* principle, transparency, fairness, responsibility, and accountability [21] in which would elevate the value of the company in its process. Based on the description above, the following hypothesis can be formulated as:

Hypothesis 3 (H_3). The Independent audit committee has a significant impact on the performance of Bank Pembangunan Daerah throughout Indonesia

D. *The Impact of Risk Monitoring Committee towards Company Performance*

Risk Monitoring Committee / Komite Pemantau Resiko (KPR) bank is one of the committees that was established by the Board of Bank Commissioners to support the effectiveness of task implementation and responsibility, as mentioned in the Bank Indonesia Rules Number 8/4/PBI/2006 about the implementation of *Good Corporate Governance* for General Bank [1]. Gradually, the Risk Monitoring Committee keeps on perfecting its policy and risk management guidance so that it can be used in the decision making of bank business. Concerning the monitoring of task execution SKMR, the KPR has evaluated the Bank Risk Profile report, including credit risk, market risk, liquidity risk, operational risk, legal risk, reputation risk, strategy risk, and obedience risk. The gradual implementation of this risk monitoring will hopefully improve bank performance. Based on the description above, the following hypothesis can be formulated as:

Hypothesis 4 (H_4). Risk Monitoring Committee has a significant impact towards the performance of Bank Pembangunan Daerah throughout Indonesia

E. *The Impact of Remuneration Committee towards Company Performance*

Based on the Bank Indonesia rules about the implementation of *Good Corporate Governance* that has been included in the workflow of the Committee, it can be concluded that the Remuneration and Nomination Committee has a job and responsibility concerning the policy concerning remuneration, nomination, and other policies connected to human resources and self-value. This committee has a strategic role in executing evaluation and giving recommendations relating to remuneration for the directors and other employees. Based on the description above, the following hypothesis can be formulated as:

Hypothesis 5 (H_5). Remuneration and Nomination Committee has a significant impact on the performance of Bank Pembangunan Daerah throughout Indonesia

F. *Structural Ownership Moderation Effect in Good Corporate Governance Impact towards Company Performance*

In this research, the ownership structure that is a *corporate governance* mechanism is represented by 4 variables, that is: 1) Foreign ownership. Foreign ownership is the number of stocks that a foreign party (overseas) has, be it individual or non-individual, over a company in Indonesia. The company that has a bigger foreign ownership stock number can reach better financial performance [22]. 2) Government ownership. Government ownership is the number of company stock that the government has. 3) Managerial Ownership. Managerial ownership is the number of company stock that is owned by the management party involved in the decision-making (director and commissioner). Jensen and Meckling [23] have an opinion that when the percentage of managerial ownership is increased, the agency problem can be decreased. And lastly, 4) Institutional Ownership. Institutional ownership is an ownership percentage of a company that institutional investor has, like the government, investment company, bank, insurance company also the ownership of other organization and company. Investor pushes the monitoring towards management performance to be better and more optimal. Based on the description above, the following hypothesis can be formulated as (see Figure 1):

Hypothesis 6 (H_6). Fund structure moderates the relationship between *Good Corporate Governance* mechanism towards the performance of Bank Pembangunan Daerah throughout Indonesia.

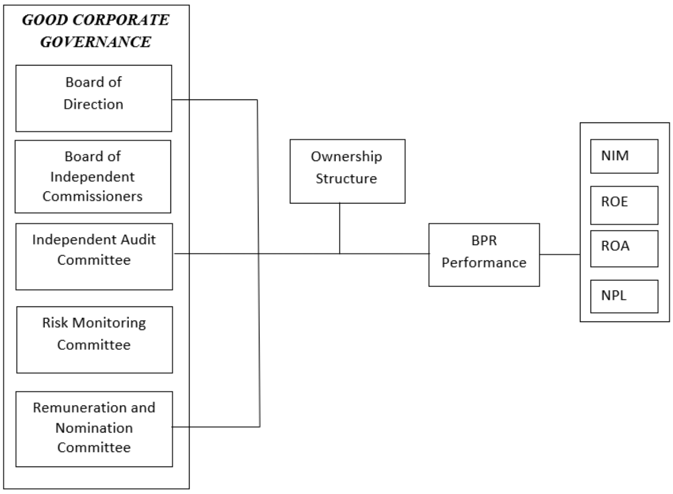


Fig. 1. Thinking framework.

IV. METHODS

Population mentioned in this research all Bank Pembangunan Daerah in Indonesia. The sample choosing for this research is done by a *purposive sampling* method with the goals to obtain representative samples that befit the predetermined criteria. In this research, the sample is divided into two groups, which are *analysis sample* and *holdout sample*. The criteria used to determine the *analysis sample* are as follows:

- The sample is the registered Bank Pembangunan Daerah in Bank Indonesia between year 2015-207.
- The chosen sample that came from this one industry is done to avoid the influence of industrial differences.
- The sample has publicly exhibited its audited monetary report between the years 2015-2017.
- The sample is the companies that have fulfilled the criteria as a bank group representative that has reported a positive profit.
- Has the data about the number of their board of directors, the board of commissioner, the audit committee, the monitoring committee, and the remuneration and nomination committee.

The data used in this research is secondary data consisting of the audited monetary report of the sample companies between 2015 and 2017 that is obtained from Bank Indonesia. From the report, relevant information related to the variables used in this research can be obtained. Included in the *Corporate Governance* mechanism data are the number of board of directors, the number of board of independent commissioners, the existence of independent audit committee, risk monitoring committee, and remuneration and nomination committee.

This research will perform the research about GCG impact towards performance by adding ownership structure as a moderating variable. The operational variable can be defined as follows:

- The number of Board of Directors / Dewan Direksi (DIR) is measured by the number of available board of directors in BPD.
- The number of Board of Commissioners/Dewan Komisaris (BOD) is measured by the number of available boards of independent commissioners in BPD.
- Audit Committee (AUDCOM) is measured by the number of independent audit committee members that BPD has.
- Risk Monitoring Committee (RISKCOM) is measured by the number of meetings done by the risk monitoring committee within one year.
- Remuneration and Nomination Committee (RENCOM) is measured by the number of meetings done by the remuneration and nomination committee within one year.
- Ownership Structure is measured by using the percentage number of provincial government ownership that.
- Monetary performance reflects the company's fundamental performance. The monetary performance in this research is measured by using *Net Interest Margin, Return on Equity, Non-Performing Loan,* and *Return on Asset.*

This research will use Moderated Regression Analysis (MRA) model because in this research the moderation effect of ownership structure test will be done towards GCG impact on performance. The regression equation used will be shown as follow:

$$\begin{aligned}\text{PERFORMANCE} = {} & \alpha + \beta_1\text{DIR} + \beta_2\text{BOD} + \beta_3\text{AUDCOM} + \beta_4\text{RISKCOM} + \beta_4\text{RENCOM} + \beta_5\text{STRUCTURE} \\ & + \beta_6\text{DIR*STRUCTURE} + \beta_7\text{BOD*STRUCTURE} + \beta_8\text{AUDCOM*STRUCTURE} \\ & + \beta_9\text{RISKCOM*STRUCTURE} + \beta_{10}\text{RENCOM*STRUCTURE} + \varepsilon\end{aligned}$$

Explanation:

PERFORMANCE	: Company Performance
DIR	: Board of Director Numbers
BOD	: Independent Board of Commissioners
AUDCOM	: Independent Audit Committee
RISKCOM	: Risk Monitoring Committee
RENCOM	: Remuneration and Nomination Committee
STRUCTURE	: Ownership Structure

V. Results and Discussion

A. Research Sample Description

This research is done by using Bank Pembangunan Daerah (BPD) as the research population. This population is selected to measure the number of samples used by using the purposive sampling method. The selection process resulted in 22 out of 26 BPD in Indonesia as the research sample with 3 years of monitoring period which is the year 2015 through 2017. The selection process done is presented in Table 1 below.

TABLE I. RESEARCH SAMPLING SELECTION PROCESS

Description	Amount
BPD in Indonesia up to 2017	26
Unavailable BPD annual report	(3)
Inaccessible BPD annual report	(1)
Number of BPD used as the sample	22

Source: processed data.

Table 1 shows that the number of BPD in Indonesia up until 2017 are 26 companies. But there are 4 BPD that cannot be used as the research samples because their annual report is either unavailable or inaccessible. The BPD whose annual report is categorized as unavailable are BPD Papua, BPD South Sumatra Bangka Belitung, and BPD West Sumatra, while BPD Maluku is the one being inaccessible. With this, the final number of BPD that can be used as the sample is 22 companies with 3 years period of research, which would make 66 number of the observation that needs to be done.

B. Descriptive Statistics

The next to be discussed is the result of a previously conducted descriptive statistic test. This test is done to understand the imagery data of obtained research variables. The related data imagery includes minimum, maximum, mean, and deviation standard value. The statistic test done is presented in the Table 2 below.

TABLE II. STATISTIC DESCRIPTIVE TEST RESULT

Variable	Amount	Min	Max	Mean	Deviation Std.
DIR	66	3	7	4,59	0,877
BOD	66	0,5	1	0,817	0,175
AUDCOM	66	3	6	3,52	0,808
RISKCOM	66	3	6	3,41	0,784
RENCOM	66	3	6	3,7	0,944
Ownership Str.	66	0,2726	0,9998	0,449	0,154
NIM	66	0,0117	0,0973	0,0708	0,0165
ROE	66	0,061	0,341	0,20613	0,056
ROA	66	0,009	0,0496	0,0289	0,0077
NPL	66	0,0004	0,0565	0,0135	0,012

Source: processed data

C. Classic Assumption

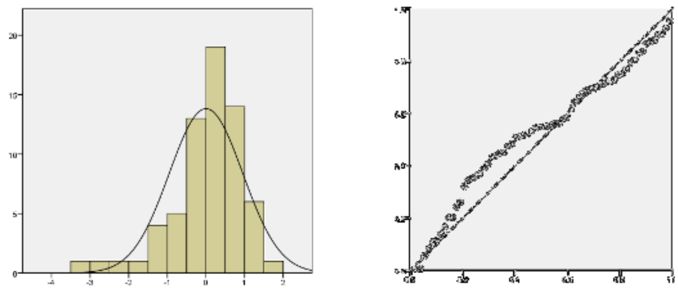
The normality test in this research is conducted to understand the data distribution rate that the research has. The normality test in this research is done based on Kolmogorov Smirnof, histogram, and P-Plot test. Thus the result of this normality test is as shown in the Table 3 below.

TABLE III. K-S TEST RESULT

Description		Dependent Variable			
		NIM	*ROE*	*ROA*	*NPL*
N		66	66	66	66
Exponential Parameter	Mean	0, 0090513	0, 0348706	0, 0047712	0, 0108039
	Absolute	0,152	0,126	0,102	0,147
	Positive	0,067	0,103	0,102	0,088
	Negative	-0,152	-0,126	-0,092	-0,147
Kolmogorov-Smirnov		0,922	0,737	0,577	0,705
Asymp. Sig (2-tailed)		0,363	0,649	0,893	0,703

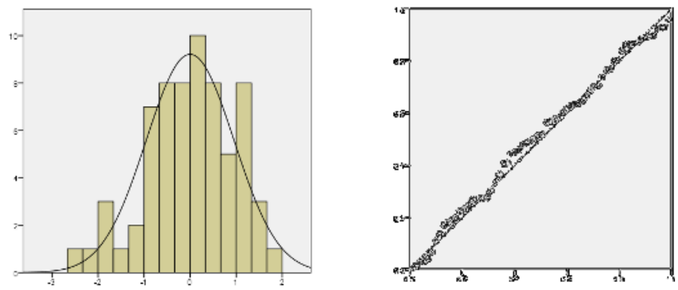
Source: SPSS Output.

Table 3 above shows the result of the normality test that is the Kolmogorov-Smirnov test. The significance test from each equation shows the value above 5%, meaning that the data used in this research has a normal distribution rate. The image that will be shown below will further explains about data normality rate obtained from histogram and P-Plot for each equation by using 4 types of dependent variables.



Source: SPSS Output.

Fig. 2. Histogram and P-Plot NIM.



Source: SPSS Output.

Fig. 3. Histogram and P-Plot ROE.

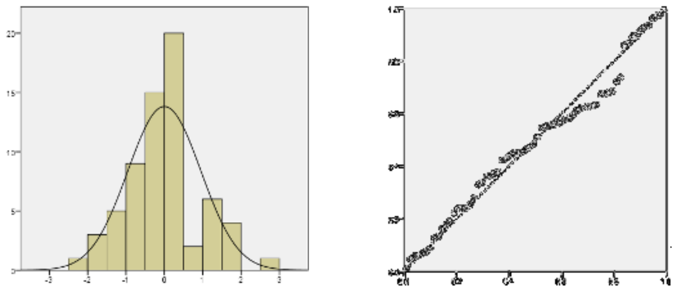
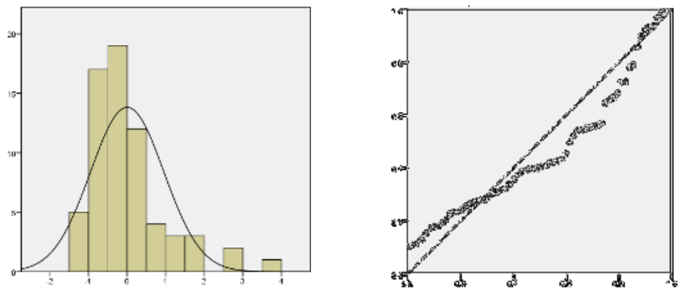


Fig. 4. Histogram and P-Plot ROA.



Source: SPSS Output.

Fig. 5. Histogram and P-Plot NPL.

Figure 2-5 shows the result of histogram and p-plot for four different types of dependent variables. Four of the histogram image shows a rather right-leaning director, this means that the data distribution is normal. Four of the o-plot also show the directors towards a straight line, meaning that the data distribution shown is also normal.

Autocorrelation test is conducted to detect the availability of ??? between independent variable caused by the data time series; This research is done by comparing Durbing Watson value with the value of dL and dU. The value of dL and dU in this research is 1,4102 and 1,8041 because the independent variable number is 6 and the number of observations is 66. The regression test result done in this research is presented in Table 4 as follows.

TABLE IV. AUTOCORRELATION TEST RESULT

Dependent Variable	Durbin Watson Value
NIM	1,759
ROE	1,788
ROA	1,779
NPL	1,706

Source: SPSS Output.

Table 4 above shows that the Durbin Watson value of the four types of regression equation in this research located between dL and dU value. Therefore, it can be concluded that the regression equation in this research is free from autocorrelation indication.

The next research is multicollinearity that is used to detect whether or not there is a perfect correlation that happened between one independent variable to another. The multicollinearity test is based on VIF value. The following Table 5 provides the result of multicollinearity that has been done.

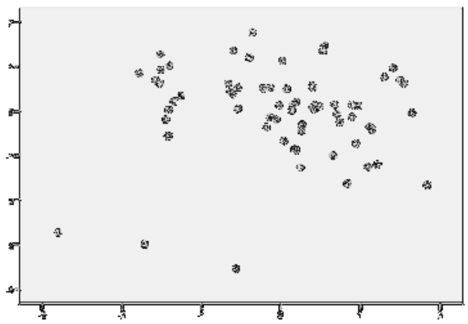
TABLE V. MULTICOLLINIARITY TEST RESULT

Independent Var.	VIF
DIR	1,748
BOD	1,111
AUDCOM	2,571
RISKCOM	2,788
RENCOM	1,228
Ownership Str.	1,187

Source: SPSS Output.

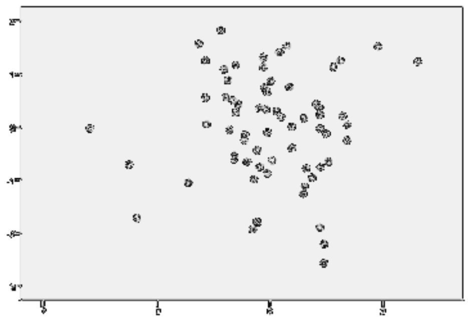
Table 5 above shows that the VIF value for each independent variable in this research is less than 10. Therefore, the regression quotation in this research is not affected by multicollinearity symptoms.

The last classic assumption test is heteroskedasticity. The purpose of this heteroskedasticity test is to discover whether the variance is involved or not in every monitoring and estimator. The heteroskedasticity test is done by using a scatterplot. The result of heteroskedasticity test in this research is presented at Figure 6- 9 as is shown below.



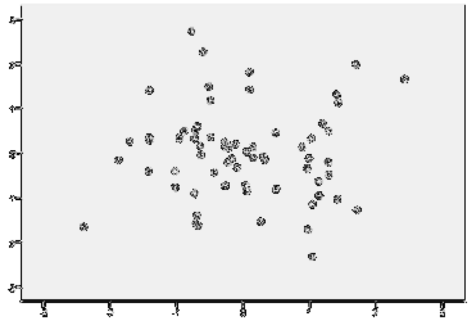
Source: SPSS Output.

Fig. 6. Heteroskedasticity NIM test result



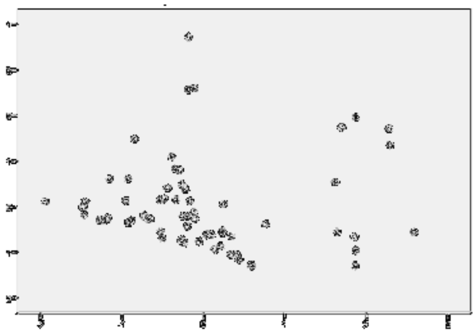
Source: SPSS Output.

Fig. 7. Heteroskedasticity ROE test result.



Source: SPSS Output.

Fig. 8. Heteroskedasticity ROA test result.



Source: SPSS Output.

Fig. 9. Heteroskedasticity NPL test result.

Figure 6-9 shows that scatterplot in this research has no shape and converge at one point. This means that there is no indication of heteroskedasticity symptoms in this research.

D. Hypothesis Test

This hypothesis test is divided into three types of tests, which are the determination coefficient (R^2), F test, and hypothesis test. The hypothesis test is a partial effect test of each independent variable towards dependent variables based on significant and beta value. The result of each test conducted is presented as follows.

TABLE VI. HYPOTHESIS (DIRECT) TEST RESULT

Independent	NIM		ROE		ROA		NPL	
	B	***Sig.***	***B***	***Sig.***	***B***	***Sig.***	***B***	***Sig.***
α	0,1	-	0,19	-	0,035	-	0,008	-
DIR	0,005	0,063	-0,021	0,032	-0,004	0,005	0,003	0,232
BOD	-0,009	0,456	0,062	0,103	0,002	0,635	-0,014	0,152
AUDCOM	0,002	0,541	-0,03	0,794	0,002	0,174	-0,005	0,083
RISKCOM	-0,004	0,277	0,013	0,343	-0,002	0,397	0,000	0,941
RENCOM	-0,008	0,001	0,021	0,006	0,003	0,002	0,003	0,152
Ownership Str.	-0,021	0,125	-0,108	0,016	-0,013	0,034	0,023	0,036

Source: SPSS Output.

Table 6 shows the result of the partial effect test from independent variables towards dependent without the involvement of the moderation effect. The test result shows that BPD performance proxied by NIM is affected by the number of directors at a significant level of 10% and remuneration and nomination committee at a significant level of 5%. The test result shows that BPD performance proxied by ROE and ROA is affected by the number of directors, remuneration and nomination committee, and ownership structure at a significant level of 5%. The test result shows that BPD performance proxied by NPL is affected by the audit committee at a significant level of 10% and ownership structure at a significant level of 5%.

TABLE VII. HYPOTHESIS (MODERATE) TEST RESULT

Moderation	ROE		ROA		NPL	
	B	***Sig.***	***B***	***Sig.***	***B***	***Sig.***
α	0,244	-	0,033	-	0,001	-
Kep*DIR Str.	-0,048	0,000	-0,088	0,000	-	-
Kep*AUDCOM Str.	-	-	-	-	0,012	0,152
Kep*RENCOM Str.	0,39	0,025	0,007	0,003	-0,005	-

Source: SPSS Output.

Table 7 shows the result of the hypothesis test from an independent variable with the ownership structure as moderation. The moderation effect test is only done on three performance dependent variable which is ROE, ROA and NPL. This is done because the ownership structure has no direct impact on performance proxied by NIM.

The first and second moderation effect test is only done unto the dependent variables proxied by ROE and ROA. The moderation effect is only tested at the number of director and remuneration and nomination committees. This is done because only those two variables that have a significant effect on NPL variable. The result shows that ownership structure has a moderation effect on the influence of audit committee and remuneration and nomination committee towards ROE and ROA. This result is based on significant value shown on the table that has a score/value below 0.05.

The last moderation effect is done for the dependent variable proxied by NPL. The moderation effect is only tested on the audit committee. This is done because only the audit committee that has a significant impact on NPL variable. The result shows that the ownership structure has no moderation effect on the audit committee towards NPL. This result is based on the significant value shows on the table that has a score/value above 0,05.

The next test is the determination coefficient (R^2) test. This test is conducted to discover the rate of the explanatory ability of the independent variable towards the dependent variable. The result of this determination coefficient is as shown in the table below.

TABLE VIII. DETERMINATION COEFFICIENT TEST RESULT (R^2)

Dependent Variable	Direct Effect		Moderation Effect	
	R Square	Adjusted R Square	R Square	Adjusted R Square
NIM	0,206	0,125	-	-
ROE	0,289	0,217	0,243	0,219
ROA	0,315	0,245	0,276	0,253
NPL	0,227	0,149	0,202	0,177

Source: SPSS Output.

Table 8 above shows that adjusted R-square value for each dependent variable which are NIM, ROE, ROA and NPL are 0,125; 0,217; 0,245;0,149 respectively. This shows that explanatory ability of independent variable towards dependent variable without moderation effect is 12,5%, 21,7%, 24,5%, and 14,9% respectively, while the rest is explained by other factors besides variables processed in this research.

Table 8 above shows that adjusted R-square with moderation effect value for each dependent variable which are NIM, ROE, ROA and NPL 0,219; 0,253; 0,177. This shows that explanatory ability of independent variable towards dependent variable with moderation effect are 21,9%, 25,3%, and 17,7% respectively, while the rest is explained by other factors besides variables processed in this research.

TABLE IX. F TEST RESULT

Dependent Variable	Direct Effect		Moderation Effect	
	F	*Sig,*	*F*	*Sig.*
NIM	2,545	0,029	-	-
ROE	3,999	0,002	10,101	0,000
ROA	4,513	0,001	12,014	0,000
NPL	2,894	0,015	7,985	0,001

Source: SPSS Output.

Table 9 shows that in the test without moderation effect and with moderation effect, all independent variables have a simultaneous impact towards tested dependent variables. This is based on the significant value that is less than 0,05.

E. Discussion

1) The impact of directors size towards Bank Pembangunan Daerah performance: Board of Direction size (DIR) variable in this research affects the performance approximated by Net Interest Margin (NIM), Return on Equity (ROE), and Return on Assets (ROA). The effect of DIR towards NIM in this research is at a significant state of 10%, meanwhile, the size of DIR towards ROE and ROA is at 5%. This is based on the alpha signification value influenced by the DIR variable towards NIM, ROE, and ROA which has a value of 6,4%, 3,2%, and 0,5% respectively. The impact of DIR towards NIM is on the positive side, unlike the value towards ROE and ROA which is on the negative side. This resulted in a state that the more the NIM value increased, the more the value ROE and ROA drop. Therefore, the H1 hypothesis researched can be accepted in which it is stated that the number of board of directors has a significant impact on the performance of Bank Pembangunan Daerah in Indonesia.

The result of this research shows that a high number of directors will increase the net interest of BPD. However, the number of board of directors still needs to be proportional because if the number of directors is too high, their salary will also increase, thus decreasing the ROE and ROA values. The result of this research supports the opinion of Pfeffer & Salancik [13], in which it explains that the number of boards of directors is determined by the needs of an external connection. The more the need for effective external connection, the more the need for increasing the number of board of directors. This research also supports the *resource dependence* view, stating that a larger number of boards of directors will benefit the company [14].

The result of this research is in line with the research from Khomsiyan and Rahayu [7], Kusumati and Riyanto [5], Trinanda and Muqodim [12]. All three of these research also proves that good corporate governance has an impact on performance. This also shows that Bank Pembangunan Daerah in Indonesia needs to decide the recruitment number of the board of directors based on the required rate of their company towards an external party. The objective of this implementation is to make the business process more effective.

2) The board of independent commissioner effect towards bank pembangunan daerah performance: The Independent variable of the board of commissioners in this research didn't show to have an effect on performance proxied by Net Interest Margin (NIM), Return on Equity (ROE), Return on Asset (ROA), and Non-Performing Loan (NPL). This result is based on the signification value from risk monitoring committee effect towards NIM, ROE, ROA, and NPL that is more than 5%, in which it has 45,6%, 10,3%, 63,5%, and 15,2%, Therefore, H2 hypothesis in this research cannot be accepted, which is that the board of independent committee has a significant impact towards the performance of Bank Pembangunan Daerah in Indonesia.

The result of this research is not in line with the research from Khomsiyah and Rahayu [7], Kusumati and Riyanto [5], Trinanda and Muqodim [12] which states that good corporate governance impacts performance. The result of this research also disagrees with the statement by Cornett et al [18] which states that the board of commissioner members that came from outside the company or also known as an *outside director* could reduce the management's opportunistic act, and improve the company's performance. This thing could happen because the commissioners that came from outside of the company are not always able to control the business operations that happens. Other than that, not all of the board of commissioner member has the ability and competence in for their respective duty, namely the monetary and banking field.

3) The audit committee effect towards Bank Pembangunan Daerah performance: The audit committee size (AUDCOM) variable in this research has an impact on the performance proxied by Non-Performing Loan (NPL). The effect of the audit committee towards NPL in this research is in the signification rate of 10%. This result is based on the alpha signification effect of the audit committee towards NPL in which each has a rate/value of 8,3%. The audit committee effect towards NPL is negative, this shows that the bigger the size of the audit committee, the lesser the NPL rate becomes. Therefore, the H3 hypothesis in this research can be agreed upon, which states that the independent audit committee has a significant effect on the performance of Bank Pembangunan Daerah in Indonesia.

It is implied from the result of this research that the audit committee can reduce the number of NPL in Bank Pembangunan Daerah, thus making BPD performance better. This happens because the audit committee has a very important and strategic role in maintaining the well being of the security system's credibility and the use of *good corporate governance.* This audit committee has to help the board of commissioners to monitor the monetary report process by the management to improve the credibility of their monetary report. Therefore, with the monitoring from the audit committee during BPD's business process execution, it will lower the rate of unclaimed risk from the given credits by the bank. This will maximize the interest income rate and also elevates the company's performance.

So far the result of the research is in line with the research from Khomsiyah and Rahayu [7], Kusumati and Riyanto [5], Trinanda and Muqodim [12]. All three of those research has also proven that good corporate governance has an impact on performance. This shows that BPD in Indonesia needs to decide the number of audit committees compatible with the operational complexity of the company. The goal is so that the audit committee can perform more effective monitoring and observing the company's operational transaction.

4) The risk monitoring committee effect towards Bank Pembangunan Daerah performance: The risk monitoring committee variable in this research didn't show to have an effect on performance proxied by Net Interest Margin (NIM), Return on Equity (ROE), Return on Asset (ROA), and Non-Performing Loan (NPL). This result is based on the signification value from risk monitoring committee effect towards NIM, ROE, ROA, and NPL that is more than 5%, in which it has 27,7%, 34,3%, 39,7%, and 94,1%. Therefore, the H4 hypothesis in this research cannot be accepted, which is that the risk monitoring committee has a significant impact on the performance of Bank Pembangunan Daerah in Indonesia.

The result of this research is not in line with the research from Khomsiyah and Rahayu [7], Kusumati and Riyanto [5], Trinanda and Muqodim [12] which states that good corporate governance impacts performance. The result of this research also disagrees with the statement by Cornett et al [19] which states that the board of commissioner members that came from outside the company or known as an *outside director* could reduce the management's opportunistic act, and improve the company's performance. This thing could happen because the majority of risk monitoring committees came from the outside of the company, thus making the monitoring process for the internal business became limited. A thorough monitoring process is better done by the company's internal party like internal audit and the board of directors.

5) The remuneration and nomination committee effect towards Bank Pembangunan Daerah performance: The remuneration and nomination committee variable in this research is proven to affect the performance proxied by Net Interest Margin (NIM), Return on Equity (ROE), and Return on Assets (ROA). The effect of remuneration and nomination towards NIM, ROE, and ROA in this research is at the signification rate of 5%. This is based on the alpha signification rate affected by the remuneration and nomination committee towards NIM, ROE, and ROA that has a value of 0,1%, 0,6%, dan 0,2% respectively. The remuneration and nomination effect towards NIM is negative, while its effect on ROE and ROA is on the positive side. It shows that the bigger the size of the audit committee, the lesser the NIM rate produced, but it has the opposite effect on ROE and ROA. Therefore, H5 hypothesis in this research can be agreed upon, which states that the remuneration and nomination committee has a significant effect on the performance of Bank Pembangunan Daerah in Indonesia.

The result of this research supports and is in line with the explanation from Bank Indonesia rules about the establishment of *Good Corporate Governance*. The remuneration and nomination committee has a task and responsibility in policy decisions regarding remuneration, nomination, and other policies related to human resources and self-evaluation. This committee has a strategic role in giving evaluations and recommendations related to remuneration for director and other employees. The correct policy given towards remuneration for the employees and evaluation towards other employees at BPD will be able to optimize the performance of their works. Therefore, the monetary performance produced by BPD will be maximized.

So far the result of the research is in line with the research from Khomsiyah and Rahayu [7], Kusumati and Riyanto [5], Trinanda and Muqodim [12]. All three of those research has also proven that good corporate governance has an impact on performance. This shows that BPD in Indonesia needs to decide the number of their remuneration and nomination committee correctly. The goal is so that the correct decision could be made in deciding the remuneration options during the policy and strategy-making process, and this would lead to the performance optimization from all parts of Bank Pembangunan Daerah.

6) Ownership structure moderation effect towards director number impact on Bank Pembangunan Daerah performance: Ownership variable in this research is the variable that will be used as the moderation variable for its impact towards the board of directors number, the board of independent commissioners, audit committee, risk monitoring committee, and remuneration and nomination committee and how it affects the performance. Therefore, the ownership structure variable in this research needs to be directly tested for its effect on performance proxied by Net Interest Margin (NIM), Return on Equity (ROE), Return on Asset (ROA), and NPL.

The result of direct testing for the ownership structure towards *Net Interest Margin* (NIM), *Return on Equity* (ROE), *Return on Asset* (ROA), and NPL shows that ownership structure only has an impact on, ROE, ROA, and NPL. This is based on the signification rate that is less than 5% for each impact testing, which has a value of 1,6%, 3,4%, and 3,6% respectively. Therefore, the asset structure can only be the equation moderation that uses ROE, ROA, and NPL as its dependent variable.

The result of the moderation testing conducted shows that ownership structure can only be a moderation towards the number of the board of directors and remuneration and nomination committee towards *Return on Equity* (ROE) *and Return on Asset* (ROA). This is based on the signification rate that is less than 5% for each impact testing, which has the value of 0,0% dan 2,5% respectively for ownership structure moderation effect for the number of the board of directors and remuneration and nomination committee towards ROE, and also the value of 0,0% dan 0,3% respectively for ownership structure moderation effect for the number of the board of directors and remuneration and nomination committee towards ROA. The ownership structure is proven to have no moderation effect on the audit committee towards *Non-Performing Loan* (NPL). It is shown by the signification rate that is more than 5%, which is at 15,2%. Therefore, the H6 hypothesis in this research can be accepted, which states that the ownership structure moderates the effect between *Good Corporate Governance* mechanism towards the performance of Bank Pembangunan Daerah in Indonesia.

The result of this research shows that the ownership structure moderation effect on the impact of the board of directors towards *Return on Equity* (ROE) and *Return on Asset* (ROA) is negative. This is based on the beta value that has a minus rate of -0,048 and -0,088 respectively. Therefore, the research shows that the larger the number of provincial government ownership rates will reduce the effect of the board of directors on ROE and ROA. The research also shows that the moderation effect of the ownership structure on remuneration and nomination committee towards *Return on Equity* (ROE) and *Return on Asset* (ROA) is positive. This is based on the beta value that has a positive rate of 0,39 and 0,007 respectively. Therefore, the research shows that the larger the number of provincial government ownership rates will increase the effect of remuneration and nomination committee towards ROE and ROA.

The result of this research shows that the high rate of internal ownership can reduce the negative effect of the board of directors' numbers towards ROE and ROA. This research also shows that the high rate of internal ownership can increase the positive effect of remuneration and nomination towards ROE and ROA. This result is in line with the opinion from Jensen and Meckling [23], stating that if the managerial stock of ownership is increased, it can reduce the agency problem. This happens when the company's internal ownership is high (direction), it will create a sense of belonging towards the company. Therefore, BPD needs to create proportionate internal ownership to do so.

VI. Conclusion

The research conducted shows that in this research, it can be concluded that the performance of Bank Pembangunan Daerah (BPD) is affected by the number of the board of directors, audit committee, remuneration and nomination committee, and ownership structure. The performance of BPD related to *Net Interest Margin, Return on Equity,* and *Return On Asset* is determined by the size of the board of directors and the remuneration and nomination committee. And the performance of BPD related to *Non-Performing Loan* is affected by the audit committee and the remuneration and nomination committee.

The research also resulted in finding the moderation effect on the size of directors and the remuneration and nomination committee towards ROE and ROA. The moderation effect of ownership structure towards the size of the board of directors for ROE and ROE is negative. But the ownership structure moderation impacts on the remuneration and nomination committee has towards ROE and ROA is positive. This shows the bigger the provincial ownership on BPD will result in the smaller influence the board of directors has towards ROE and ROA. But, the bigger the provincial ownership has on BPD, it will result in a bigger influence the remuneration and nomination committee has.

The result of this research can be accepted with some limitations this research has to consider. This is done to make the next research better by fixing the limitations this research has to face. Therefore, this research will also give suggestions for the next conducted research in the future. As for the limitation and suggestions provided in this research will be explained as follows:

The number of the company used as the sample for this research is not maximally utilized because of the inaccessible and unavailable annual report for download, resulting in a lesser sample that can be obtained. Therefore, should the next research be conducted, it is better to look for another source of reference to obtain the inaccessible or unavailable annual report on the BPD website.

- The duration of research used for this research is only limited to three years, so the variety of data obtained is not optimized / not enough. So hopefully, the next research conducted may be able to extend the observation duration so the data obtained could be more varied.
- The rate of explanatory of the independent variable (adjusted R square) in this research hasn't reached the high number. Therefore, some independent variables or control variables need to be added for the next research to elevate the rate of adjusted R square.

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