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GCG disclosure and risk profile on bank performance: case studies on state-owned banks

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ABSTRACT: This study aims to examine the effect of corporate governance disclosures and risk profiles on bank performance where bank performance was measured by return on assets (ROA) and corporate governance disclosures were measured by a self-assessment conducted by the bank. Moreover, the risk profile consists of credit risk was measured by a non-performing loan (NPL), liquidity risk was measured by loan to deposit ratio (LDR), operating risk was measured by the operating expenses to operating income ratio (OEIR), and capital risk was measured by the capital adequacy ratio (CAR). The population in this study was 4 state-owned banks because only 4 banks were taken as samples. The observation period is 6 years (2011-2016). To test the hypothesis, the author uses multiple regressions. The results show NPL and CAR do not affect bank performance. LDR and GCG disclosure have a positive effect on bank performance. While OEIR has a significant effect but negative on state-owned bank performance.

Keywords: corporate governance disclosure, credit risk, liquidity risk, operating risk, capital risk

1 INTRODUCTION

A bank is a company that is highly regulated by the government because most of its assets are sourced from the public. Therefore, a bank must be able to carry out good risk management and good governance, so that they can get high trust from the public. If the public has high trust in banks, they will trust their funds to be managed by banks so that the banks can improve their performance. According to the Regulation of Bank Indonesia No. 13/1/PBI/2011, banks must be able to control risk profiles, disclosure of GCG, earning and capital in order to improve their performance. In contrast, Olamide et al. (2015) state that risk management has no effect on profitability in banks in Nigeria.

The risk profile consists of credit risk as measured by non-performing loans (NPL) and liquidity risk as measured by loan-to-deposit ratio (LDR). NPL shows the non-performing credit, where the high NPL represents that a bank has low performance. According to Haneef et al. (2012), credit risk has a negative effect on profitability. Similarly, Noman et al. (2015) also state a negative effect of NPL on profitability. On the contrary, Mercylynne & Omagwa (2017) and Taiwo et.al (2017), actually propose that the NPL has no effect on bank performance. Meanwhile, the LDR shows the amount of credit disbursed to customers. The bank's major income comes from credit, so the greater the LDR, the better the performance of the bank. Taiwo et.al (2017) and Mercylynne & Omagwa (2017) propose a significant and positive effect between LDR and bank performance. Conversely, Ayaydin & Karakaya (2014) utter no effect between LDR and profitability.

The disclosure of Good corporate governance is a requirement for banks in Indonesia, where assessment must be carried out in an efficient manner. The better the corporate governance carried out by banks, the higher the trust of the public, so that it is expected to improve the performance of the bank. Gupta & Newalkar (2015) and Aggarwal (2013) assert a positive effect of GCG disclosure on profitability. Likewise, Narwal & Jindal (2015) utter a positive effect of GCG on bank performance. In contrast, Cengiz (2016) stated that GCG disclosure has no significant effect on profitability in banks in Turkey.

Operational risk as measured by the ratio of operating costs to operating income (OEIR) is the level of efficiency of the bank. The high OEIR shows that the banks are inefficient because the operating costs are too high which results in a decrease in profitability, thus, OEIR has a negative effect on bank performance. The findings of Ayaydin & Kakaraya (2014) support the theory. Haneef et al. (2012) also find that there is a negative effect between OEIR and profitability.

Capital is very important for banks because it can be used to cover possible losses. The government specifies the minimum capital limit as measured by a CAR of 8%. The higher the CAR, the healthier the bank, which will result in high trust from the public and ultimately can improve the bank performance. Noman et al. (2015) propose a positive effect on bank performance, but Ayaydin & Kakaraya (2014) obtain that CAR has a significant and negative effect on bank performance.

1.1 *Corporate governance and bank performance*

Corporate governance assessment is required for banks, because transparency for banks is very important. With the disclosure of GCG, customers have high trust in the bank, so they don't hesitate to deposit their funds in the bank. Thus, the bank has a considerable amount of funds to be channeled as credit, so that it can improve its performance. The results of research conducted by Aggarwal (2013) and Gupta & Newalkar (2015) show a positive and significant effect between disclosure of GCG and bank performance. Similarly, the research conducted by Narwal & Jindal (2015) and Babatunde & Akeju (2016) obtain a similar effect.

H_1 : GCG disclosure has a positive effect on bank performance

1.2 *Risk Profile and bank performance*

The risk profile in this study consists of several risks: credit risk, liquidity risk, operational risk, and capital risk.

First, credit risk is measured by the non-performing loan. This NPL shows the amount of non-performing loan in the bank, meaning that the higher the NPL, the higher the failure of the bank in providing credit. A high NPL can result in a decrease in profits and will ultimately reduce the performance of the bank. The findings by Mercylynne & Omagwa (2017) show that NPL has significant effect on bank performance. Similarly, Noman et al. (15) obtain a significant and negative effect between NPL and bank performance.

H_2: NPL has a negative effect on bank performance

Second, liquidity risk as measured by LDR. LDR shows the amount of credit provided, meaning that the higher the LDR, the greater the credit provided. The bank's main income comes from interest fee of the provided credit, so that the higher the LDR, the higher the profits. According to the findings of Taiwo et.al (2017) and Mercylynne and Omagwa (2017), LDR has a positive effect on bank performance.

H_3: LDR has a positive effect on bank performance

Third, the operational risk as measured by OEIR shows the amount of the cost compared to income, meaning that the higher the OEIR, the greater the costs incurred and the lower the profitability, which will reduce the bank performance. This is consistent with the findings of Haneef et al. (2012) and Ayaydin and Kakaraya (2014) that find OEIR has a negative effect on bank performance.

H_4: OEIR has a negative effect on bank performance

Fourth, capital is a reserve fund to cover losses. Bank capital as measured by CAR is regulated by the government with a minimum provision of 8%, meaning that the higher the CAR, the greater the level of customer trust, so that the better the loyalty to the bank. The findings of Noman et.al (2015) show that CAR has a positive effect on bank performance.

H_5: CAR has a positive effect on bank performance

2 RESEARCH METHODS

The population in this study was a state-owned bank, because there were only 4 state-owned banks, the samples were taken from all state-owned banks. Data use five years period with quarterly data. The research variable consisted of the dependent variable namely banking performance measured by ROA and there were five independent variables consisting of credit risk (NPL), liquidity risk (LDR), GCG, bank efficiency (OEIR) and capital (CAR).

3 RESULTS AND DISCUSSIONS

The following table shows the descriptive statistics of the study:

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean
ROA	96	1.02	5.15	3.0922
GCG	96	1.00	3.00	1.6294
NPL	96	0.31	3.83	1.2103
LDR	96	67.93	112.27	89.6711
OEIR	96	57.46	89.91	72.1076
CAR	96	14.33	22.91	17.3444

Bank performance as measured by ROA shows a minimum value of 1.02% and a maximum of 5.15% with an average of 3.09%, meaning that government banks have shown good performance. The minimum corporate governance value 1 and maximum 3 with an average of 1.21 implies that state-owned bank has implemented GCG well, because the number of 1 shows very good GCG.

Credit risk (NPL) shows a minimum value of 0.31% and a maximum of 3.83% with an average of 1.21%, meaning that credit risk can be controlled properly because the maximum limit is 5%. While, liquidity risk (LDR) shows a minimum value of 67.93% with a maximum value of 112.27% with an average of 89.67%. This signifies that the average LDR is good even though there are government banks that have LDR above the maximum provision. While the operational risk (OEIR) is very good because the minimum value is 57.46% and the maximum value is 89.91% with an average of 72.11%. Capital (CAR) above the minimum requirement of 8% with an average rate of 17.34%.

The ordinary least square method or multiple regression using SPSS program version 20.0 was used in order to test the hypothesis, with the following results:

Table 2. The Results of Regression

Variables	B	t	Sig.
NPL	0.036	0.247	0.808
LDR	0.029	2.474	0.024
GCG	-0.345	-2.058	0.054
OEIR	-0.135	-7.482	0.000
CAR	0.137	2.019	0.059

Based on the results of the hypothesis testing, it was found that the NPL has no effect on bank performance because the results were 0.808 greater than the condition. This is because state_owned bank has been able to control the NPL, so that the credit risk can be reduced as low as possible. These results are in accordance with the research of Mercylynne & Omagwa (2017) and Taiwo et.al (2017) that utter NPL has no effect on bank performance. The results of the hypothesis testing show that the LDR has a positive effect on bank performance, thus, the higher the LDR, the higher the bank profits which would ultimately improve bank performance. The research of Taiwo et.al (2017) and Mercylynne & Omagwa (2017) show similar results that LDR has a positive effect on bank performance.

Good corporate governance (GCG) shows significant negative results. Since a good GCG rating is 1 and the higher score shows worse results, there is a negative relationship interpreted as having a positive effect. The better the GCG of a bank, the better the performance, because public. These results are in accordance with the research of Aggarwal (2013), Gupta & Newalkar (2015), Narwal & Jindal (2015) and Babatunde & Akeju (2016) who obtain a positive and significant effect between disclosure of GCG and bank performance.

Bank efficiency as measured by OEIR has a significant and negative effect, meaning that the higher the OEIR, the more inefficient the bank. Bank fees are too high so they can reduce the profitability of the bank, therefore, banks must be able to reduce OEIR in order to improve their performance. This study supports the findings of Haneef et al. (2012) and Ayaydin & Kakaraya (2014) that show OEIR has a negative effect on bank performance. Meanwhile, CAR has a significant and positive effect on bank performance with a significance level of 10%. These results indicate that the amount of bank capital can increase public trust, so as to improve bank performance. The results are in accordance with the findings of Noman et.al (2015) that utter CAR has a positive effect on bank performance.

4 CONCLUSION

The results of the study show that there is only one variable that has no significant effect on the performance of state-owned banks, namely NPL, while other variables have a significant effect on bank performance. The results of this study only analyze state-owned banks so that there is a need to develop the study on other banks. The results of this study are expected to provide good practice for bank management and in theory to be further developed by future researchers.

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