

ANALYSIS OF THE INFLUENCE OF THE BOARD OF DIRECTORS, COMPANY SIZE, MANAGEMENT OWNERSHIP, AND KAP AUDIT ON THE FINANCIAL PERFORMANCE OF BANK PERKREDITAN RAKYAT (BPR)

Riwandari Juniasti
Universitas Kristen Indonesia
Email: Riwandari.juniasti@uki.ac.id

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ABSTRACT

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This study aims to analyze the effects of the board of directors, firm size, managerial ownership, and audit of KAP (Public Accounting Firm) audit on the financial performance of Bank Perkreditan Rakyat (BPR). This type of research is associative research. In this study, the population of rural banks located in the Bekasi area was used. The data obtained is based on financial reports that have been published on the website of the Financial Services Authority (www.ojk.go.id) for the period 2018-2021. The data obtained from the results of the study were analyzed using multiple linear regression analysis models using the Eview 10 software program. The results showed that the KAP audit variable had a significant influence on the return on assets of rural banks in the Bekasi area. This is because the resulting p-value is smaller than 0.05. Then the firm size variable significantly affects non-performing loans with a negative relationship direction. The KAP audit variable was also proven to have a significant effect on non-performing loans with a similar direction, namely negative. Both are able to affect non-performing loans because the p-value obtained is smaller than 0.05. Simultaneously also found the effect of the board of directors, company size, managerial ownership, and KAP audits on the return on assets or non-performing loans of BPRs in the Bekasi area for the 2018-2021 period.

KEYWORDS

Board of Directors, Company Size, Managerial Ownership, KAP Audit, Return on Assets, Non Performing Loan



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INTRODUCTION

In this era of free competition, banks must be good at reading opportunities and taking advantage of them in order to survive. Various methods are used by banks to increase market share and profits (Indiatsy, Mucheru, Mandere, Bichanga, & Gongera, 2014). One way that can be done to improve banking performance is through the implementation of Good Corporate Governance (GCG) (Napitupulu, Primiana, Nidar, Effendy, & Puspitasari, 2020). The factor that underlies the company implementing GCG is due to the agency theory which assumes a conflict of interest between the executive (agent) and the shareholders (principal) and other stakeholders, where the company's management does not act in the interests of shareholders but prioritizes the interests of shareholders (Jahja, Mohammed, Lokman, & Mohamed, 2020) himself. In such conditions, GCG is present. The implementation of GCG is expected to increase supervision over management to encourage effective decision making, prevent opportunistic actions that are not in line with the interests of the company, and reduce information asymmetry between executives and company stakeholders. Thus, GCG is expected to be able to create conducive conditions and a solid foundation for a good Rural Bank (BPR) operation (Manor & Desiana, 2018). Rural Banks (BPR) are banks that carry out conventional business activities which in their activities do not provide services in payment traffic as referred to in the Law concerning banking (Financial Services Authority Number 4/POJK.03/2015).

Based on the Financial Services Authority Regulation Number 4/POJK.03/2015 concerning the Implementation of Governance for Rural Banks, it is stated that Governance is the governance of BPRs that apply the principles of transparency, accountability, and responsibility independence (independency), and fairness (fairness). BPRs are required to implement Good Corporate Governance in each of their business activities at all levels or levels of the organization (Harjanto, 2019). One of them is implementing regulations regarding the number of directors based on core capital, a BPR with a core capital of at least 50 billion must have at least 3 (three) directors and a BPR with a core capital of less than 50 billion must have at least 2 (two) members of the board of directors. . Even for share ownership alone, the directors, either individually or jointly, are prohibited from owning shares of more than 25%. OJK also regulates the implementation of an external audit function, in this case BPRs are required to appoint a Public Accountant and a Public Accounting Firm to conduct an annual audit. BPRs are required to implement Good Corporate Governance in each of their business activities at all levels or levels of the organization (Endah, Tarjo, & Musyarofah, 2020). The implementation of Good Corporate Governance in financial institutions is important to do in order to further foster trust in the community and improve banking performance and progress (Olannye & Anuku, 2014). The problem of Good Corporate Governance and corporate ownership structure is not new, especially public companies which are usually owned by many shareholders (Jiang & Kim, 2020). Several studies have tested the effect of GCG on the company's financial performance. Sa'diyah (2020) examines the Effect of Good Corporate Governance on the Financial Performance of Islamic Commercial Banks in Indonesia, finding that corporate governance proxied by the Board of Commissioners, Independent Board of Commissioners, Board of Directors and Sharia Supervisory Board has no effect on financial performance. Saidat et al. (2018) also in his research examining the relationship between GCG and the financial performance of companies in Jordan, found that board size has a negative relationship with the performance of family

companies. On the other hand, board size in non-family firms has no systematic relationship with firm performance (Saidat, Silva, & Seaman, 2019).

The financial report is an information product produced by the company, and is a very important instrument related to the condition of the company (Lev, 2018). Therefore, every policy and decision taken in the process of preparing financial statements will greatly influence the assessment of the company's performance (Lev, 2018). According to POJK No. 4/POJK.03/2015 concerning Implementation of BPR Governance Article 76, RBs are required to send reports on the implementation of governance to the Financial Services Authority, the BPR Association in this case Perbarindo, and to 1 (one) media office or economic and financial magazine. Based on the data from Perbarindo, the names of 32 BPRs in the Bekasi area were taken which sent reports on their governance implementation as well as the published financial reports of BPRs for the first quarter of 2019 - until the second quarter of 2021 in the Bekasi area from the website of the Financial Services Authority.

By nature, banks are no different from other commodity companies or service companies. In this case, the bank produces output in the form of credit and input in the form of public savings funds (Bvirindi, 2021). Thus, banks can bridge the interests of the owners of funds with those who need funds or are called carrying out the intermediation function (Disemadi, 2019). The banking industry has a very important role in economic development. The history of the Indonesian economy shows that the Indonesian economy moves in tandem with the banking industry (Rizvi, Narayan, Sakti, & Syarifuddin, 2020). The Indonesian economy is a bank-based economy, an economy that depends on the existence of banks as a source of financing. Therefore, efforts to strengthen a healthy, efficient and beneficial banking system for the economy are the key to success in maintaining the sustainability of national economic development (Zhang, Shi, Zhang, & Xiao, 2019).

Examines the relationship between the GCG index and five financial performance measures (Suhadak, Rahayu, & Handayani, 2019). Partially, no statistically significant relationship was found. Simultaneously, however, statistically significant relationships emerged in both directions for most financial performance measures. Then Mahrani & Soewarno (2018) tested the effect of Good Corporate Governance and Corporate Social Responsibility on the company's financial performance, from the results of testing and analysis of the GCG and CSR mechanisms that had a positive effect on financial performance and earnings management.

Based on the study of thought above, the researcher is interested in raising the title "Analysis of the Influence of the Board of Directors, Company Size, Managerial Ownership, KAP Audit on the Financial Performance of BPRs in the Bekasi Region for the 2018-2021 period".

RESEARCH METHOD

This research is an associative type, where the research uses four independent variables, namely (board of directors, company size, managerial ownership, and KAP audit) and two dependent variables (return on assets and non-performing loans). This type of data collection uses secondary data obtained from quarterly BPR financial reports published by the Financial Services Authority (www.ojk.go.id) for the period March 2018 - June 2021 from a BPR in the Bekasi area who sends a report on the implementation of its governance to the

BPR Association, in this case Perbarindo. The data analysis method used in this study is simple regression analysis with assistance program Eviews 10. The following will explain the operational definition of each variable.

Table 1 Operationalization of Research Variables

Kind of Variable	Variable Name	Parameter	Scala
Independent	Board of Directors	Variable Name	Dummy = complete 1, incomplete 0
	Company Size	Board of Directors	Ln (Total Assets)
	Managerial ownership	Company Size	Dummy = There is 1, there is not 0
	KAP Audit	managerial ownership	Dummy = KAP audit 1, no KAP audit 0
Dependent Financial performance	<i>Return on Asset (ROA)</i>		$\frac{\text{Net Profit}}{\text{Total Assets}}$
	<i>Non Performing Loan (NPL)</i>		$\frac{\text{Total Non - Performing Loans}}{\text{Total Loans}} \times 100$

Source: Research Results (2021)

RESULT AND DISCUSSION

Classic assumption test

One of the classic assumptions used in this research is the normality test. Where in this study there are two dependent variables, so that the results of the normality test are presented as follows:

Table 2 Normality Test Model 1

Variabel Dependen	Jarque-Bera	Probability
<i>Return on Asset</i>	66570.87	0.000000

Source: Data Processing Results with Eviews version 10 (2021)

The results of the normality test of model 1 obtained a Jarque-Bera value of 66570.87 with a probability value of 0.000000 which is smaller than a significant level of 0.05, so it is stated that the data in this study is not normally distributed. Because the results of the normality test in model 1 are not normally distributed, the data is regressed using the eviews application and using the Newey-West HAC test. Where this method is one way of dealing with data that are not normally distributed or data variants are not homogeneous. For the results of the second model normality test as follows:

Table 3 Normality Test Model 2

Variabel Dependen	Jarque-Bera	Probability
<i>Non Performing Loan</i>	331.9191	0.000000

Source: Data Processing Results with Eviews version 10 (2021)

Furthermore, the results of the normality test of model 2 show that the Jarque-Bera value is 331.9191 with a probability value of 0.000000 which is smaller than the 0.05 significant level, so it can be concluded that the data in this study is not normally

distributed. Because the results of the normality test in model 2 are not normally distributed either, the data is regressed using the eviews application and the Newey-West HAC test.

Multiple Linear Regression Test

Because the data in model 1 and model 2 are not normally distributed, the data analysis in this study used multiple linear regression analysis with the Newey-West HAC test. The results of the Newey-West HAC test with multiple linear regression are presented in table 4 below.

Table 4 Newey-West Model 1 . HAC Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.95765	2.558122	4.283475	0.0000
BOARD OF DIRECTORS	-1.050886	1.902787	-0.552288	0.5810
SIZE	5.93E-09	3.49E-09	1.700895	0.0897
KEPMAN	-0.795014	0.952309	-0.834827	0.4043
AUDIT	-6.910605	2.472688	-2.794774	0.0054

Source: Data Processing Results with Eviews version 10 (2021)

Based on the results of the regression model 1 output that has been carried out in this study, a regression equation model can be made as follows:

$$\text{ROA_Y1} = 10.95765 - 1.050886\text{DIREKSI} + 5.93 \text{ SIZE} - 0.795014\text{KEPMAN} - 6.910605 + \varepsilon$$

Table 5 Newey-West Model 2 . HAC Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	21.54757	3.052198	7.059691	0.0000
BOARD OF DIRECTORS	-3.417810	1.823933	-1.873868	0.0616
SIZE	-2.17E-08	4.73E-09	-4.301113	0.0000
KEPMAN	-1.108887	1.480745	-0.748871	0.4543
AUDIT	-7.087053	2.627483	-2.697278	0.0073

Source: Data Processing Results with Eviews version 10 (2021)

Based on the results of the regression model 2 output that has been carried out in this study, a regression equation model can be made as follows:

$$\text{NPL_Y2} = 21.54757 - 3.417810\text{DIREKSI} - 2.17\text{SIZE} - 1.108887\text{KEPMAN} - 7.087053\text{AUDIT} + \varepsilon$$

Hypothesis testing

Hypothesis testing is a testing procedure that will result in a decision, namely the decision to accept or reject the hypothesis in a study. Hypothesis testing in this study uses partial hypothesis testing (t test), coefficient of determination test (R²), and F test. t test (Partial Hypothesis Testing)

Statistical t test is used to determine the effect of an independent variable individually in explaining the variation of the dependent variable (Ghozali, 2013). Criteria for acceptance and rejection of the hypothesis are based on the significance value of p-value.

If the p-value (significance) > 0.05, the research hypothesis is rejected.

If the p-value (significance) < 0.05 , the research hypothesis is accepted.

Based on the results of testing the partial hypothesis (t test) in the previous table, it can be concluded:

1. Influence of the Board of Directors on Financial Performance Return on Assets

Based on the table, the beta coefficient value for the model 1 board of directors variable is -1.050886 with a negative relationship direction, the p-value of model 1 is $0.5810 > 0.05$. Thus it can be concluded that the board of directors has no effect on the return on assets of the BPR.

2. The Effect of Firm Size on Financial Performance Return on Assets

Based on the table, the beta coefficient value of the model 1 firm size variable is 5.93 and the p-value of model 1 is $0.0897 > 0.05$. Thus it can be concluded that the size of the company has no effect on the return on assets at BPR.

3. The Effect of Managerial Ownership on Financial Performance Return on Assets

Based on the table, the beta coefficient value of the managerial ownership variable model 1 is -0.795014 with a negative relationship direction, the p-value of model 1 is $0.4043 > 0.05$, in this model the p-value is greater than 0.05 so that concluded that managerial ownership has no effect on return on assets at BPR.

4. The Effect of KAP Audit on Financial Performance Return on Assets

Based on the table, the beta coefficient value of the audit variable KAP model 1 is -6.910605 with a negative relationship direction, the p-value of model 1 is $0.0054 < 0.05$. The KAP audit variable model 1 has a p-value that is smaller than 0.05 , which means that the fourth hypothesis is accepted.

5. Influence of the Board of Directors on the Financial Performance of Non-Performing Loans

Based on the table, the beta coefficient value for the board of directors variable model 2 is -3.417810 with a negative relationship direction, the p-value of model 2 is $0.0616 > 0.05$. Thus it can be concluded that the board of directors has no effect on non-performing loans at BPR.

6. The Effect of Firm Size on the Financial Performance of Non-Performing Loans

Based on the table, the beta coefficient value of the model 2 firm size variable is -2.17 with a negative relationship direction, the p-value of model 2 is $0.0000 < 0.05$. Thus, it can be concluded that company size has effect on non-performing loans at BPR.

7. The Effect of Managerial Ownership on the Financial Performance of Non-Performing Loans

Based on the table, the beta coefficient value of the managerial ownership variable model 2 is -1.108887 with a negative relationship direction, the p-value of model 2 is $0.4543 > 0.05$. Thus, it can be concluded that managerial ownership has no effect on non-performing loans at BPR.

8. The Effect of KAP Audits on the Financial Performance of Non-Performing Loans

Based on the table, the beta coefficient value of the audit variable KAP model 2 is -7.087053 with a negative relationship direction, the p-value of model 2 is $0.0073 < 0.05$. The p-value obtained is smaller than 0.05 , so it can be concluded that the KAP audit has effect on non-performing loans at BPR.

Coefficient of Determination Test

The coefficient of determination (R²) test explains the percentage of total variation in the dependent variable which is explained together. R² describes the measure of conformity (goodness of fit), namely the extent to which the sample regression line matches the existing data. The criterion is that the higher the value of R² (R² is close to 1), the better the regression line of the sample. The results of the coefficient of determination in this study are as follows:

Table 6. Coefficient of Determination Test Results (R²)

	R-Squared
Model 1	0.031170 (3,11%)
Model 2	0.133453 (13,34%)

Source: Data Processing Results with Eviews version 10 (2021)

Based on Table 6 above, it is known that the results of the coefficient of determination test of the two models in this study will be explained below.

1. The R-square value in model 1 is 0.031170, this indicates that 3.11% of the variables of the board of directors, firm size, managerial ownership, and audit firm are influenced by the return on assets variable, while the remaining 96.89% is influenced by other variables. outside of the research.
2. The R-square value in model 2 is 0.133453 this shows that 13.34% of the board of directors variables, company size, managerial ownership, and KAP audit are influenced by non-performing loans, while the remaining 86.66% is influenced by other variables. outside of the research.

F test (simultaneous hypothesis testing)

The F test (simultaneous test) is used to test whether together all independent variables have a significant effect on the dependent variable. The results of the F test are presented in the following table:

Table 7 F-test

	F-statistic	Prob (F-statistic)
Model 1	3.5551/12	0.007206
Model 2	17.01758	0.000000

Source: Data Processing Results with Eviews version 10 (2021)

Referring to the table above, the significant value of p-value for model 1 is 0.007 < 0.05, with a statistical F value of 3.555 > 2.625. This means that the variables of the board of directors, company size, managerial ownership, and KAP audit together have a significant influence on the return on assets of BPR.

Then the p-value of model 2 is 0.000 < 0.05, with a statistical F value of 17.017 > 2.625. Thus, the variables of the board of directors, firm size, managerial ownership, and KAP audit together have a significant influence on non-performing loans in rural banks.

CONCLUSION

This study aims to determine the effect of the board of directors, firm size, managerial ownership, and KAP audit on return on assets and non-performing loans at BPR. Based on the explanation above, it is concluded that it is proven that in model 1 only KAP audits have a significant influence on return on assets. Meanwhile, for model 2, firm size and KAP variables have a significant negative effect on non-performing loans. Simultaneously the board of directors, company size, managerial ownership, and KAP audits are able to have an influence on both the return on assets and non-performing loans of BPR Bekasi area for the 2018-2021 period.

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