The Influence of Corporate Governance Mechanism On the Financial Performance of the State-Owned Bank Listed On the Indonesia Stock Exchange (IDX)

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Abstract

The banking industry plays a very important role as a driving force for a country's economy, including in Indonesia. This research was carried out to test the influence of Corporate Governance Mechanism on Financial Performance in the state-owned banks on the Indonesia Stock Exchange (IDX) in 2010-2020. This research used a quantitative approach with panel data regression analysis method. The independent variables in this study are Board of Directors, Remuneration Committee, and Risk Monitoring Committee. While the dependent variable in this study is financial performance (ROA). The results showed that simultaneously Board of Directors, Remuneration Committee, and Risk Monitoring Committee had a significant effect on Financial Performance. Partially, Remuneration Committee, and Risk Monitoring Committee have no effect on Financial Performance, while Board of Directorshas a goodimpact on financial performance.

Keywords
Board of Directors, Remuneration Committee, Return On Assets (ROA), Risk Monitoring Committee

1. Introduction
Based on the constitution Number 7 of 1992 about Banking, the role of bank which states that the purpose of Indonesian banking is to support the implementation of national development in order to increase equity, economic growth, and national stability in order to improve people's welfare. According to Sunarsip (2003) in (Bachtiar, 2019), in developing countries, such as Indonesia, the existence of the banking industry is becoming increasingly important because of the saving-investment gap that cannot be overcome by the government budget. The involvement of banks in collecting and redistributing public funds will greatly assist the process of economic development.

Besides being able to be an important role in supporting national development, the profits generated by banks, especially state-owned banks, also contribute to state revenues in the form of taxes, dividends, and Non-Tax State Revenue. The following is an image showing the contribution of State-Owned Enterprises to national revenues in 2010-2020.

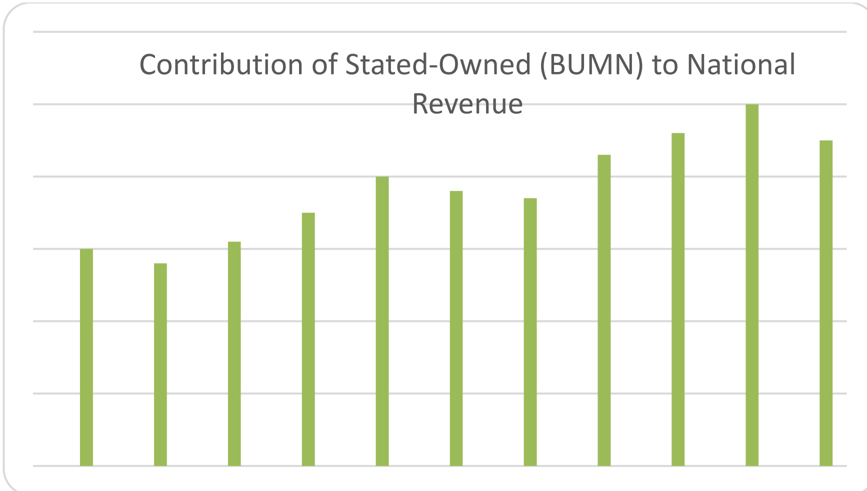

Figure 1. The Profit of State-Owned Enterprises Against the National Revenue 2010-2020
*Source:*Indonesian *Ministry of Finance, (data processed by the author)*

Based on Figure 1 Ministry of Finance explain contribution of State-Owned Enterprises (BUMN) to revenues in the form of taxes for a decade, from 2010 to 2020, reached IDR. 1,709.8 trillion. National revenues from BUMN profits in 2020, some of which will come from BUMN banking profits, namely PT. Bank Rakyat Indonesia (Persero) TbkIDR. 6,9 trillion, PT. Bank Mandiri (Persero) TbkIDR. 6,2 trillion, and IDR. 500 billion is estimated to come from PT.Bank Negara Indonesia (Persero) Tbk. In addition, the Ministry of Finance revealed that the 3 largest BUMN dividend contributions to the state in 2020 which reached IDR. 45 trillion came from the banking sector. The biggest contributor is PT. Bank Rakyat Indonesia (Persero) Tbk with a contribution of 26,4% of the total dividends. Then PT. Bank Mandiri (Persero) Tbk with 22,2% and PT Bank Negata Indonesia (Persero) Tbk with 5,2% contribution.

Optimal financial performance is a company goal that can be achieved through the implementation of the financial management function. One way to improve company performance apart from financial decisions is to implement Good Corporate Governance (Jariah, 2019).The company's financial performance can be measured using the return-on-asset ratio. The use of the Return On Assets ratio in measuring financial performance is because Bank of Indonesia is more concerned with assessing Return On Assets because the profitability of a bank is measured by assets with the largest source of funds from third parties or the public (Siregar, 2021). Return on Assets is the company's ability to manage its assets in obtaining earnings. The greater the ROA of a company, the better the level of effectiveness and efficiency of the use of assets owned, in other words, with the same amount, greater profits can be generated or vice versa (Azis &Hartono, 2017). Based on the Circular Issued by Bank of Indonesia, namely SE No.13/24/DPNP on October 25, 2011, it is stated that the ideal minimum ROA limit for banks is 1.5%. If the bank obtains an ROA value below the minimum limit, then the bank is declared not yet optimal in managing its assets.

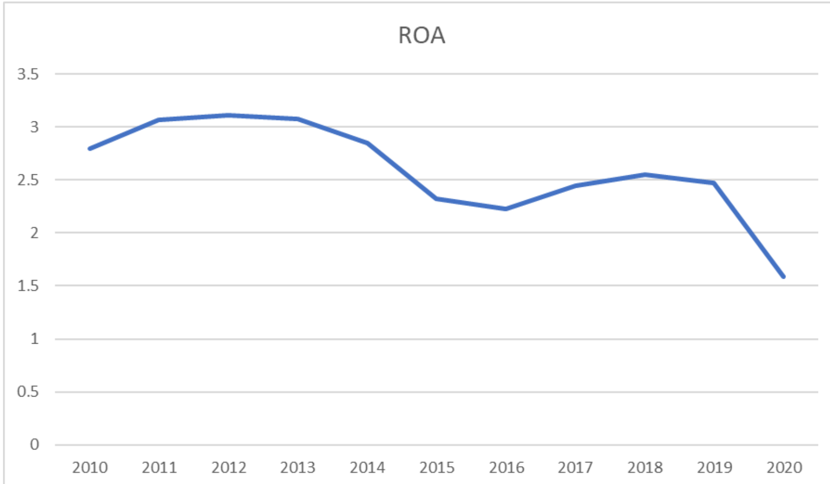

Figure 2. Average of ROAto Banking industry in Indonesia 2010-2020
Source: Financial Services Authority of Indonesia, (*data processed by the author*)

Figure 2 above shows the average return on assets (ROA) of banking companies for the 2010-2020 period. The calculation of ROA in banking companies is proxied by total net income divided by total assets from 2010 to 2020 which can be seen by looking at the annual reports of each company. Despite a sharp decline in 2020, the entire averageROAvalue of banking companies from 2010-2020 shows that there is no calculation result below the minimumROAvalue set by Bank of Indonesia Regulations, which is 1,5%. This shows that banking companies in Indonesia can manage their assets optimally.

One of the phenomenon involving the issue of net profit is PT. Bank Rakyat Indonesia (Persero) Tbk. The Covid-19 case caused net profit in the third quarter of 2020 to decrease by 36,9%, which was IDR. 10,2 trillion compared to the first semester of 2019, PT. Bank Rakyat Indonesia (Persero) Tbk's net profit of IDR. 16,16 trillion. The decline in net profit in the second semester of 2020 was due to a loan restructuring of IDR. 189 trillion which resulted in reduced profitability. This caused PT. Bank Rakyat Indonesia (Persero) Tbk's ROA value in 2020 to be 1,96%, a decrease of 1,55% compared to the previous year of 3,5%. This shows that PT. Bank Rakyat Indonesia (Persero) Tbk has not been able to maintain its financial performance by utilizing its assets.

Another phenomenon that occurred during pandemic of COVID-19 was that in the fourth quarter of 2020, Bank BTN recorded a net profit of IDR.1,60 trillion in the fourth quarter of 2020, an increase from the position of IDR. 209 billion in the previous year. Based on BTN's financial report, the company's net profit was supported by interest income of IDR. 25,16 trillion in the fourth quarter of 2020. The interest income was contributed by lending, which continued to grow despite being under the pressure of the pandemic. This resulted in the ROA value at Bank BTN in 2020 increasing from the previous year, from 0,13% to 0,69%. This shows that Bank BTN can develop a strategy for asset utilization in the midst of a pandemic and can improve its financial performance.

The importance of implementing Good Corporate Governance (GCG) is believed to be able to have a significant impact on increasing company profitability which can improve the company's financial performance (Istighfarin, Gusti, and Wirawati, 2005). The implementation of GCG in state-owned banks is expected to be able to overcome the problems that occur and the effectiveness and efficiency in managing the company, especially the company's ability to generate profits, increases. Effective good corporate governance in a company will make management not abuse their authority and work for the benefit of the company (Nurcahyani 2013).

1.1 Objectives

The goal of our research is to find out the influence of Corporate Governance Mechanism proxied by board of directors. remuneration committee, and risk monitoring committeeon Financial Performance proxied by Return On Asset (ROA) in the state-owned banks recorded on the Indonesia Stock Exchange (IDX) in 2010-2020.

2. Literature Review

2.1 Financial Performance

According to the Indonesian Institute of Accountants (2007), financial performance is the company's ability to manage and control its resources. Meanwhile (Irham Fahmi 2012)states that financial performance is an analysis carried out to assess the extent to which the company has implemented it using financial implementation rules properly and correctly. Therefore, in order for financial statements to be able to provide information according to the company's wishes, it is necessary to analyze and interpret the data contained in the financial statements as an initial stage to meet information needs (Rusti'ani and Wiyani 2017).A company can be said to be successful if it has achieved the standards and goals that have been set (Makatita, 2016). In this study the measurement of financial performance will be measured using Return on Assets (ROA). According to (Halim and Hanafi 2009)states that Return On Asset is a measurement of the company's ability to generate profits by using the total assets (wealth) owned by the company after adjusting for the costs to fund these assets. The higher the rate of return obtained, the higher the company's ability to utilize its assets to earn a profit (Wijaya 2019).

2.2 Board of Directors

According to (Kusmayadi et al. 2015)the Board of Directors is a corporate organ that is collegially responsible and responsible for managing the company. Each member of the Board of Directors can carry out their duties and make decisions in accordance with the division of tasks and authorities. However, the implementation of duties by each member of the Board of Directors remains a shared responsibility. The board of directors has a role to set strategic direction, set operational policies and is responsible for ensuring the soundness of company management (Ratna 2019). In addition, according to (Mulyadi 2002) the board of directors also has the responsibility to develop and implement relationship programs with parties outside the company. The existence of the board of directors as the party that determines the company's operational obligations to manage the company to achieve optimal financial performance.

2.3 Remuneration Committee

According to (Rahardjo 2018)the remuneration committee was formed to make a remuneration plan or compensation plan. The package can attract other parties to join as members of the board of commissioners or directors. The package can also be used as a tool to motivate company managers so that they can produce optimal performance. If the company's performance is good then the welfare of investors can be achieved. According to (Ruparelia amd Njuguna 2016) said that remuneration is a reward or remuneration for employee performance which is manifested in financial and non-financial forms, in the form of salaries, bonuses, stock options, restricted shares, pension funds, and other benefits (health, car, house, etc).

2.4 Risk Monitoring Committee

According to Regulation Bank of Indonesia Number 8/4/PBI/2006 about the Implementation of Good Corporate Governance in Commercial Banks, the Risk Monitoring Committee is a committee formed by and responsible to the Board of Commissioners in an effort to support the implementation of the duties and responsibilities of the Board of Commissioners in relation to implementation and supervision. risk management in the company. The regulation states that the Risk Monitoring Committee must be chaired by an Independent Commissioner and the proportion of its membership is at least 51% from independent parties which is expected to support increasing the effectiveness of the company's Good Corporate Governance (GCG) implementation. The Risk Monitoring Committee is responsible to the board of commissioners. In banking companies and Indonesian export financing institutions (LPEI), the existence of a Risk Monitoring Committee in the organizational structure has been required based on various regulations set by the relevant regulators (Tulung et al. 2020).

3. Methods

This research uses quantitative methods. The analytical method used is panel data regression analysis. The hypothesis in this study was tested using EViews software. The population in this research is the state-owned banks which recorded on the Indonesia Stock Exchange (IDX) from 2010 to 2020. All of data is collected from financial statements and company's annual reports accessed on the Indonesia Stock Exchange (IDX) website or company's website, statistical data collected from the Central of Statistics Agency Indonesia. This research uses purposive sampling, which is a sample methodology with considered criteria. This research was used some criteria,, namely: (1) state-owned banks which is recorded on the Indonesia Stock Exchange (IDX) in 2010-2020, and (2) state-owned banks which notrecorded on the Indonesia Stock Exchange (IDX) in 2010-2020. Based on the sample criteria, the number of samples used in this study was 4 banks which recorded on the Indonesia Stock Exchange with a research period of 11 years, butall of observations sample are 5.

Based on the research objectives mentioned in the previous section, to complete the analysis, panel data regression analysis was used. This study uses a fixed-effecr model (FEM) for panel data regression model. Based on the analysis of panel data using the *Eviews* software, this is the following hypothes is will be used:

H1 : Board of Directors, Remuneration Committee, and Risk Monitoring Committee simultaneously affect on the Financial Performance of state-owned banksrecorded on the Indonesia Stock Exchange for the 2010-2020 period.
H2 : Board of Directors has a partially favorable impact on state-ownes bank's financial performance recorded on the Indonesia Stock Exchange for the2010-2020 period.
H3 : Remuneration Committee has a partially favorable impact on state-ownes bank's financial performance recorded on the Indonesia Stock Exchange for the2010-2020 period.
H4 : Risk Monitoring Committee has a partially favorable impact onstate-ownes bank's financial performance recorded on the Indonesia Stock Exchange for the2010-2020 period.

3.1 Variable Measurement

To testthe hypothesis above the research needs a measurement for each variable.Table 1 shows the measurement variablesthat used in this research withratio scale.

Table 1. Research Variable

Variable	Information	Measurement
Financial Performance (ROA)	Return on Asset is a metric that measures a company's capacity to make profits in relation to its total assets. (Ningsih and Utami 2020).	Net Profit Divided by Total Assets
Board of Directors	The board of directors has a role to set strategic direction, set operational policies and is responsible for ensuring the soundness of company management (Ratna, 2019)	Number of Board of Directors Member
Remuneration Committee	The Remuneration Committee is one of the company organs that assists the performance of the board of commissioners in helping carry out the functions and duties of the board of commissioners related to the remuneration of members of the board of directors and membersof the board of commissioners (Ruparelia and Njuguna 2016).	Number of Remuneration Committee Member
Risk Monitoring Committee	The Risk Monitoring Committee is a committee formed by and responsible to the Board of Commissioners in an effort to support the implementation of the duties and responsibilities of the Board of Commissioners related to the implementation and supervision of risk management in the company (Tulung et al. 2020).	Number of Risk Monitoring Committee Member

4. Results and Discussion

4.1 Numerical Results

Table 2 shows descriptve statistic analysis to describe the data that has been collected as it is without having the intention of making generally accepted conclusions or generalization (Sugiyono 2017). The table of descriptive statistics hows measures of central tendency, such as mean and measures of dispersion (distribution spread) such as standard deviation, minimum, and maximum of the variables. The ROA has a mean of 0,026695and a standard deviation of 0,012569. The Board of Directors has mean and standard deviationof 10.06250 and 2.224503. The Remuneration committe has a mean of 7.031250 and a standard deviation of 2.600176. The risk monitoring committe has mean and standard deviation of 5.480012 and 1.915210. Based on the mean and standard deviation of all variables, it can be concluded that all of data is less varied, because the standard deviation is smaller than the mean.

Table 2. Descriptive Statistical Analysis

Information	Board of Directors	Remuneration Committee	Risk Monitoring Committee	ROA
Mean	10.06250	7.031250	5.480012	0.026695
Maksimum	17.00000	17.00000	10.00000	0.051500
Minimum	6.00000	2.00000	3.00000	0.001300
Std. Dev	2.224503	2.600176	1.915210	0.012569
Observation	44	44	44	44

Analysis of the panel data regression model was used to identify the best panel data regression model used in this study, that is the common effect model (CEM), random effect model (REM), or fixed effect model (FEM) will be used.

Table 3. Chow Test on a Panel Data Regression Model

Effects Test	Statistic	d.f.	Prob.
Cross-section F	31.520065	(3,57)	0.0000
Cross-section Chi-square	62.587622	3	0.0000

From Table 3 the probability value of the Chi-Square cross-section is 0.0000 which smaller than $\alpha = 0.05$ (significant degree = 5%). Based on the results, it can be concluded that H0 is rejected and H1 is accepted, so the model that can be used is the fixed effect model (FEM). Furthermore, a hausman test will be carried out to compare between the random effect or the fixed effect model that can be better to use in this research.

Table 4.Hausman Test on a Panel Data Regression Model

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	94.560194	3	0.0000

Based on Table 4 of the Cross-Section Random probability value is 0.0000,, which is less than $\alpha = 0.05$, it can be indicate that H0 is rejected and H1 is accepted, so that the best panel data regression model is the fixed effect model (FEM).

Table 5. Fixed Effect Model Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Financial Performance (Y)	0.050977	0.007529	6.770892	0.0000
Board of Directors (X1)	-0.002651	0.000987	-2.686158	0.0095
Remuneration Committee (X2)	0.000636	0.000719	0.883941	0.3804
Risk Monitoring Committee (X3)	-0.000329	0.000510	0.644521	0.5218
R-squared	0.661052			
Adjusted R- squared	0.625373			
F-statistic	18.52790			

Prob(F-statistic)	0.000000

Based on the Table 5, it shows that R-squared value is 0.661052 or 66.1%. This shows that Good Corporate Governance as proxied by the board of directors, remuneration committee, and risk management committee can explain the financial performance variable as proxied by Return on Assets (ROA) of 66.1%, and the remaining 33.9% is influenced by variable outside of research.

This study's panel data regression equation is as follows:

$$\text{Financial Performance} = 0{,}050977 - 0{,}002651(X1) + 0{,}000636(X2) - 0{,}000329(X4) + e$$

4.2 Validation

The Effect of Board of Directors, Remuneration Committee, and Risk Monitoring Committee on Financial Performance

Based on the results of tests that have been completed, it shows probability F Statistics value (Prob F statistics) using a fixed-effect model is 0.000000, that is less than 0.05 (significant value). So H0 is rejected, and H1 is accepted. The result is that Board of Directors, Remuneration Committee, and Risk Monitoring Committee simultaneously have a impact on Financial Performance in state-owned banks recorded on the Indonesia Stock Exchange (IDX) for the 2010-2020 period. This means that Board of Directors, Remuneration Committee, and Risk Monitoring Committee simultaneously have a substantial impact on Financial Performance, so companies must pay attention to the quality of these three independent variables members that increase financial performance

The Effect of Board of Directors on Financial Performance

Based on Table 5 shows that the probability value of board of directors is 0.0095, it less than 0.05, so it can be concluded that board of directors partially have a significant influence on financial performance in state-owned banks sub-sector companies recorded on the Indonesia Stock Exchange (IDX) period 2010-2020.This is because the more members of the board of directors, the division of tasks will be clearer from each member, which of course will have a good impact on investors.

Although the results of this study are same as research by (Eksandy, 2018)which revealed that the board of directors had a positive effect on financial performance, while this study was not in line with research (Tulung et al. 2020) which revealed that the board of directors did not has a significant effect on financial performance. The existence of a board of directors can make the company's strategy well, and increase focus on financial performance

The Effect of Remuneration Committee on Financial Performance

Based on Table 5 shows that the probability value of remuneration committee is 0.3804, it bigger than 0.05, so it can be concluded that remuneration committee partially have no significant influence on financial performance in state-owned banks sub-sector companies recorded on the Indonesia Stock Exchange (IDX) period 2010-2020.This happens because the presence of remuneration committee within a company does not guarantee an improved financial performance of the company and allows the company management to consider that the existence of a remuneration committee in the corporate governance structure is not very important because the board of commissioners can still carry out these duties effectively and efficiently. efficient (Destiana and Muslih 2019).

Based on the result shows this study are not in line with the results of research by (Setyawati and Hudayati 2019), that explain the remuneration committee has a positive effect on company performance as proxied by Return On Assets (ROA). While this research is in line with research (Destiana & Muslih, 2019) which shows the results of the partial test that the remuneration committee variable does not have a significant positive effect on the company's financial performance. This shows that the large or small number of remuneration committees does not guarantee a reduction in fraudulent acts by the board of commissioners or the board of directors so that it affects the company's financial performance.

The Effect of Risk Monitoring Committee on Financial Performance
Based on Table 5 shows that the probability value of risk monitoring committee is 0.5318, it bigger than 0.05, so it can be concluded that risk monitoring committe partially have no significant influence on financial performance in state-owned banks sub-sector companies recorded on the Indonesia Stock Exchange (IDX) period 2010-2020.

The result shows that the results of this study are not in line with the results of research (Zulfikar, 2021)which states that the risk monitoring committee has a significant effect on financial performance. While the results of the study are in line with research (Tulung et al., 2020) which states that the number of the Risk Monitoring Committee does not affect financial performance so that companies must pay more attention to the competence, skills and professionalism of each Risk Monitoring Committee.

5. Conclusion

This study analyzes the effect of board of director, remuneration committee, and risk monitoring committee on the financial performance of state-owned banks recorded on the Indonesia Stock Exchange (IDX) in 2010-2020. The results found in this study are that board of director, remuneration committee, and risk monitoring committee simultaneously have a impact on the financial performance of the state-owned banks recorded on the Indonesia Stock Exchange in 2010-2020, while partially remuneration committee and risk monitoring committee have no effect on financial performance, but the board of directors has a impact on financial performance. This research is anticipated to add to the existing literature. The authors suggest the next research to to add other sample of banks that not used in the study. Next researchers can add or replace the proxy of the Good Corporate Governance variable with the proxy of the corporate governance committee and replace the proxy of financial performance using Return Of Equity (ROE).

And next research can use the same independent variable proxy and dependent variable proxy by conducting research on another company industry. For the company, the results of this study can be a consideration for the implementation Good Corporate Governance there must be a board of directors, remuneration committee, and a risk monitoring committee so that the company can run well and improve the company's financial performance or ROA. For investors, should pay more attention to company’s good corporate governance when they want to invest in a company. Because the better the implementation of corporate governance, the better the management performance, thereby preventing financial performance from deteriorating.

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