



THE IMPACTS OF RISKS TOWARD FINANCIAL PERFORMANCE OF BANKS REGISTERED IN INDONESIA STOCK EXCHANGE

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Abstract

This research aimed to investigate the effects of credit, liquidation, market, capital adequacy, exchange rates, operational risk, and good corporate governance on financial performance. The data of this research were collected through literature study and secondary data. The sample participated in this research was construction companies registered in IDX (Indonesia Stock Exchange), with total number of 23 companies from 2013 to 2017. The data were analyzed by employing several statistical procedures, viz. multiple linear regression test, coefficient of determination, t test, and f test. SPSS software was used in this research. The results of regression analysis revealed that the independent variable of this research, viz. the risk of credit, liquidation, market, capital adequacy, and exchange rates, had shown that the value of these risks are positively related to the financial performance. It basically meant that the higher the level of the risks, the higher the level of the financial performance. The value of the risk of exchange rates and sufficiency indicated that there was a negative relation with financial performance. If the risk of exchange rates, operational, capital adequacy, and institutional ownership are getting smaller, the financial performance will be even greater.

Keywords: Risk Management, Good Corporate Governance, Financial Performance



INTRODUCTION

Since banks have numerous position to Indonesia economic situation that cause the existing risk becomes more complex, each banking company therefore has its risk management. As the risk turns more complex, it needs good governance and the function of identification, measurement, monitoring, and risk control of the bank. These factors are required in order to not cause losses that exceed the bank's capability. Thus, the increased risk faced by the bank has to be accompanied by the quality of adequate risk management.

One of the risks faced by banking companies is systematic risk, in which this risk will affect Indonesian macroeconomics. This condition not only leads to bankruptcy, but it also degrades public trust in banking companies and force them to find other alternatives for their savings or their financial funding in other fields. Hence, banking companies are always under supervision to avoid the great losses due to the potential risks.

This research aimed to investigate the effects of credit, liquidation, market, capital adequacy, exchange rates, operational risk, and good corporate governance on financial performance. This is research would help in understanding the factor of risk and good corporate governance and their impact on the profitability of the banking system, and the authors can emphasise risk management to mitigate all of risk by having good risk management in their banking system.

LITERATURE REVIEW

Banking risk management in Indonesia is being supervised by Bank Indonesia, the central bank in Indonesia, as stated in (PBI) 5/8/PBI/2013 about the implementation of bank risk management. Banks are required to manage banking risks through risk identification, risk measurement, risk monitoring, and risk control.

James in Hanafi (2006) assumes that enterprise risk management is a comprehensive and integrated framework for managing credit risk, market risk, economical capital, and transfer risk in order to make the most of the company value. In general, there are six objectives of risk management in a company or business entity, i.e. protecting the company, assisting to build a framework, encouraging the management to be proactive, warning to be cautious, and improving company performance.

Financial performance is a description of achievements of a company. The information can be obtained from the financial statements. Rudianto (2013:189) defines financial performance as "the results or achievements that have been achieved by a company management in carrying out its function in managing company assets for a certain period effectively".

The guidelines for calculation are fully arranged in the circular letter from Bank Indonesia regulation number 13/24/DPNP dated October 25th, 2011 concerning about the Evaluation of the Soundness Level of Commercial Banks. It is an implementation guideline from Bank Indonesia Regulation (regulation number 13/1/PBI/2011) which requires commercial banks to conduct self assessment toward Bank Soundness Level by utilizing Risk-based Bank Rating (RBBR) approach as individual or consolidation.

The purpose of this study is to examine risk in Indonesia banks and evaluate the effect on banks profitability and to know the impact from the impacts of risks toward financial performance of banks in Indonesia.

RESEARCH METHOD

Research Object

The research took commercial banks in Indonesia as the object to be analyzed. This method used in this research was purposive sampling method; a method in which the sample was opted under certain considerations and criteria applied to the sample. The criteria used in selecting the sample were:

1. Commercial banks that have been registered on IDX
2. Banking companies that have the data of their financial reports and GCG reports within the period of 2013-2017, and already audited by public accountants
3. Banking companies that have positive ROA during the period of this research

Research Variables

Variables in this research are further elaborated as follows:

1. Dependent Variable

In this research, the dependent variable is the level of banking profitability measured by applying *Return on Asset* (ROA). The individual stock returns (R_i) is determined by using the following formula:

$$\text{ROA} = \frac{\text{Net income}}{\text{Total assets}} \times 100\%$$

2. Independent Variable

The independent variables for this research are:

- a. Credit Risk, using the *Non Performing Loan* (NPL) indicator. NPL ratio can be formulated as follows:

$$\text{NPL} = \frac{\text{Non performing loans}}{\text{Total loans}} \times 100\%$$

- b. Market Risk, measured by using *Net Interest Margin* (NIM) indicator. NIM can be obtained by applying the statistical formula as follows:

$$\text{NIM} = \frac{\text{Net interest income}}{\text{Total assets}} \times 100\%$$

- c. Liquidity Risk, calculated by using *Loan to Deposit* (LDR) ratio. The formula of LDR is:

$$\text{LDR} = \frac{\text{Loans or debts}}{\text{Deposits}} \times 100\%$$

- d. Capital Adequacy Risk, measured by using the *Capital Asset Ratio* (CAR) indicator. The formula used to calculate CAR is:

$$\text{CAR} = \frac{\text{Capital}}{\text{Risk weighted assets}} \times 100\%$$

- e. Risk, measured by applying *Net Open Position* (NOP). The formula used to calculate NOP is presented as follows:

$$\text{PDN} = \frac{(\text{Assets + off balance sheet in assets}) - (\text{Liabilities + off balance sheet in liabilities})}{\text{Capital}} \times 100\%$$

The Data

This research took the companies in the field of all banks registered on Indonesia Stock Exchange in the time period 2012 – 2017 as the population. The analysis unit in this research was monthly financial reports listed on Indonesia Stock Exchange in 2012 to 2017. The list of companies used as the sample of this research is presented on table below.

Table 1 List of the Sample Company

No	Name of the Bank	Bank Code
1	Bank Artha Graha International	INPC
2	Bank BCA	BBCA
3	Bank Bukopin	BBKP
4	Bank Bumi Artha	BNBA
5	Bank Capital Indonesia	BACA
6	Bank CIMB Niaga	BNGA
7	Bank Danamon Indonesia	BDMN
8	Bank Ganesha	BGTB
9	Bank Mandiri	BMRI
10	Bank Maspion Indonesia	BMAS

11	Bank Mayapada International	MAYA
12	Bank Maybank Indonesia	BNII
13	Bank Mega	MEGA
14	Bank Mestika Dharma	BBMD
15	Bank Negara Indonesia	BBNI
16	Bank OCBC NISP	NISP
17	Bank Pan Indonesia	PNBN
18	Bank Permata	BNLI
19	Bank Rakyat Indonesia Agro Niaga	AGRO
20	Bank Rakyat Indonesia	BBRI
21	Bank Sinar Mas	BSIM
22	Bank Tabungan Negara	BBTN
23	Bank Woori Saudaraindonesia 1906	SDRA

Table 1...

ANALYSIS AND RESULTS

Classical Assumption Test

a. Normality

Normal data distribution test was carried out by applying *one sample Kolmogorov-Smirnov* test. Refer to the statistical result of the normality test, it shows that regression model for the variable is normally distributed with the Asymp. Sig. (0.531) > 0.05.

b. Multicollinearity

In order to discover the existence of multicollinearity, it was referred to the value of *Tolerance* and *Variance Inflation Factor (VIF)*.

If the tolerance value is greater than 0.10 and the VIF value is less than 10, it means that there is no correlation to the independent variables. From the results of multicollinearity test tested in SPSS, the coefficients column presents that all the tolerance values are less than 0.10 and the VIF value is less than 10. Thus, it can be concluded that the regression model is free from multicollinearity.

c. Heteroscedasticity

From the output of the statistical calculation, it can be seen that the significance value with the independent variables are more than 0.05. Thus, it can be interpreted that there is no problem of heteroscedasticity occurred in the regression model.

d. Autocorrelation

From the output, it can be seen that the Durbin Watson value is 0.905. The result indicates that it is free of autocorrelation.

The relationship of credit, liquidation, market, capital adequacy, and exchange rates risk on financial performance

From the result of statistical calculation using SPSS 21, the regression equation can be formed as follows:

$$Y = 2,281 + 0,343X_1 + 0,067X_2 + 0,055X_3 - 0,054X_4 - 0,015X_5$$

Based on the equation above, it can be seen that:

- a. The constant value of 2.281 can be interpreted that if the independent variables, namely the risk of credit, liquidation, market, capital adequacy, exchange rates, operational, and good governance, are worth 0, then it means that the dependent variable, namely financial performance, is worth 2.281. Hence, the risk of credit, liquidation, market, capital adequacy, exchange rates, operational, and good governance can be utilized as the tool to predict financial performance. It can occur due to the constant value in regression equation is positive.
- b. The regression coefficient value of credit risk is 0.343. The result can be interpreted that there is a positive relationship between liquidation risk and financial performance. If the credit risk gets bigger, the financial performance will be even greater.
- c. The regression coefficient value of liquidation risk is 0.067. It indicates that there is a positive relationship between liquidation risk and financial performance. The greater the liquidation risk, the greater the financial performance.
- d. The regression coefficient value of market risk is 0.055. The result shows that there is a positive relationship between market risk and financial performance. If the market risk is greater, the financial performance will be even greater. The value of regression coefficient for capital adequacy is -0.054 with the assumption that other independent variables are constant. Therefore, the higher the risk of capital adequacy, the lower the financial performance. Otherwise, if the capital adequacy risk is lower, the financial performance will be higher.
- e. The regression coefficient value of exchange rates is -0.015 with the assumption that other independent variables remain the same. Hence, the higher the risk of exchange rates, the lower the financial performance. Whereas, if the exchange rates risk is lower, the financial performance will be higher. It means that the risk of exchange rates has a significant impact on performance as the coefficient value of exchange rates is negative.

The influence of the risk of credit, liquidation, market, capital adequacy, exchange rates, financial performance simultaneously

Based on the result of the F test, it shows that the Sig. value is $0.001 < 0.05$. As a result, the H_0 is rejected and it is concluded that there is a significant impact among variables of credit, liquidation, market, capital adequacy, exchange rates risk toward the variable of financial performance.

The influence of the risk of credit, liquidation, market, capital adequacy, and exchange rates toward financial performance in partial

The t-test is used to determine whether the independent variables, i.e. systematic risk and non-systematic risk, partially have a significant effect on the dependent variable, namely the expected return on the stock. The test employed a 2-sided test with a significant level of 0.05.

The Results of the T-test

1. The coefficient testing of the credit risk variable

That the value of Sig. is 0.371, H_0 is accepted. It can be concluded that credit risk partially has no significant effect on financial performance.

2. The coefficient testing of the liquidation risk variable

The result that shown is 0.129, and it means that H_0 is accepted since the value of Sig. is $0.129 < 0.05$. It can be said that liquidation risk partially has no significant effect on financial performance.

3. The coefficient testing of market risk variable

The result shown that the value is 0.03. Since the value of Sig. $0.03 < 0.05$, it means that H_0 is rejected. The researcher drawn a conclusion that market risk partially has a significant effect on financial performance.

4. The coefficient testing of capital adequacy variable

It can be seen that the value of Sig. is 0.364. Since the value of Sig. is $0.364 > 0.05$, H_0 is accepted. It means that the risk of capital adequacy partially has no significant impact on financial performance.

5. The coefficient testing of exchange rates variable

The result reveals that the value of Sig. is 0.684. H_0 is accepted as the value of Sig. is $0.685 > 0.05$. The researcher then took a conclusion that the risk of exchange rates partially has no significant influence on financial performance.

Determination Analysis (R^2)

Based on the result of correlation test as a whole presented in the recent table, it can be stated that the determination coefficient is 66.3%, meanwhile the remaining 33.7% is influenced by other factors.

CONCLUSION

Based on the multiple linear regression analysis, the relationship of the risk of credit, liquidation, market, capital adequacy, exchange rates, operational and good corporate governance toward financial performance is formulated as follows:

$$Y = 2,281 + 0,343X_1 + 0,067X_2 + 0,055X_3 - 0,054X_4 - 0,015X_5$$

The coefficient value of the risk of credit, liquidation, and market is positive, hence it means that these risks are positively related to the financial performance. The higher the risk of credit, liquidation, and market, the higher the financial performance. The coefficient value of the variable is positive, as it indicates a positive relationship to the financial performance. The exchange rate coefficient value shows a sign of negative relationship toward the financial performance. If the risk of exchange rates and modal adequacy gets smaller, the financial performance will be greater. Otherwise, if the risk of exchange rates and modal adequacy gets bigger, the financial performance will get smaller.

The result from the variable of credit, liquidation, market, capital adequacy, and exchange rates risk is simultaneously Sig. 0.001 < 0.05. It means that H_0 is rejected and it can be concluded that there is a significant impact to the financial performance variable.

Partial significant test (t-test) reveals that the risk of credit, liquidation, capital adequacy, and exchange rates partially has no significant influence to the financial performance. In addition, the market risk partially has a significant effect on financial performance.

Further studies

Further studies shouldn't not only examine the effect of management risk on financial performance but for other risk that may impact in banking system and strategies can bring impact for financial performance.

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