



CORPORATE GOVERNANCE, FINANCIAL PERFORMANCE AND MACROECONOMICS: THE IMPACT ON BANK PROFITABILITY INFORMATION

Andry Priharta^{1(*)}, Nur Asni Gani², Azizatul Munawaroh³, Tri Ananto⁴

¹Department of Accounting, ^{2,3,4}Department of Management, Faculty of Economic and Business, Universitas Muhammadiyah Jakarta, Kota Tangerang Selatan, Banten, Indonesia

Correspondence Author^(*): andry.priharta@umj.ac.id

Abstract

Banks are institutions with stringent regulations related to corporate governance implementation and the demand for high financial performance. Macroeconomic conditions significantly affect the financial performance, including profitability, of banks. The study focused on Indonesia's four state-owned banks, Bank Tabungan Negara (BBTN), Bank Negara Indonesia (BBNI), Bank Rakyat Indonesia (BBRI), and Bank Mandiri (BMRI). The research sample or saturated sample was the entire population. The 10-year observation period ran from 2011 to 2020. The panel data regression model with a common effect was used to evaluate the data. The data showed that CGPI and LDR had no discernible impact on profitability. While NPL and FOREX had a large negative impact on profitability as evaluated by ROA, CAR, NIM, SIZE, and BIRATE had a significant positive impact. All independent factors simultaneously have a major impact on profitability. All independent factors were able to explain their impact on profitability to a degree of 94.39%, according to adjusted R-squared, while other variables outside the model were responsible for the remaining effects.

Keywords: Corporate governance; Financial performance; Macroeconomics; Profitability.

Abstrak

Bank memiliki regulasi yang sangat ketat terkait penerapan tata kelola dan tuntutan kinerja keuangan yang tinggi. Kondisi makroekonomi sangat memengaruhi kinerja keuangan selama operasinya. Variable-variabel ini diduga memengaruhi profitabilitas bank. Studi ini melibatkan empat bank Badan Usaha Milik Negara (BUMN) di Indonesia, yaitu Bank Negara Indonesia (BBNI), Bank Rakyat Indonesia (BBRI), Bank Tabungan Negara (BBTN) dan Bank Mandiri (BMRI). Oleh karena itu, sampel yang digunakan adalah populasi atau sampel jenuh. Dengan menggunakan analisis regresi data panel common effect model, periode pengamatan adalah sepuluh tahun dari 2011 hingga 2020. Temuan penelitian membuktikan bahwa CGPI dan LDR tidak berpengaruh signifikan terhadap profitabilitas. CAR, NIM, SIZE dan BIRATE berpengaruh positif signifikan, sedangkan NPL dan FOREX berpengaruh negatif signifikan, terhadap profitabilitas yang diukur dengan ROA. Secara simultan seluruh variabel independen berpengaruh signifikan terhadap profitabilitas. Adjusted R-squared menunjukkan seluruh variabel independen mampu menjelaskan pengaruhnya terhadap profitabilitas sebesar 94,39%, sedangkan sisanya dipengaruhi oleh variabel lain diluar model.

Kata Kunci: Corporate governance; Kinerja keuangan; Makro ekonomi; Profitabilitas.

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Profile and corresponding author: Andry Priharta from Department of Accounting, Faculty of Economic and Business, Universitas Muhammadiyah Jakarta.

INTRODUCTION

The Indonesian economy is highly dependent on state-owned businesses, or BUMNs (Badan Usaha Milik Negara), including a source of state revenue to finance state expenditure. This role can only be carried out if State-owned Enterprises (SOEs) can create profits in their operational activities. These profits will later be channeled back to the community through various programs, such as development in various fields and other welfare improvements. This role can be carried out if the bank has a certain level of profitability according to the previously planned profit scheme. However, Figure 1 shows a downward trend in profitability experienced by SOEs over the last 10 years.

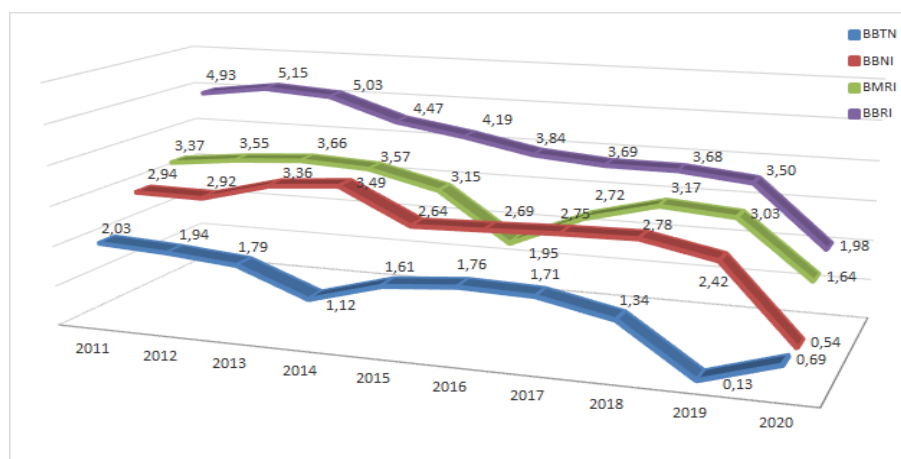


Figure 1. Profitability from 2011 to 2020
Source: www.idx.co.id (Processed Data, 2022)

The increase in the cost of the allowance for impairment losses (Cadangan Kerugian Penurunan Nilai - CKPN) or provisions to prepare for bad loans as a result of the Covid-19 pandemic was the cause of this drop in performance, as illustrated in Figure 1 (Setiawan, 2021). In addition, the Association of State-Owned Banks (Himpunan Bank Milik Negara - HIMBARA) has been documented as restructuring loans to MSMEs and corporations for 3.7 million debtors with a total value of Rp. 441 trillion during the covid-19 pandemic, demonstrating the strategic role of BUMN Banks as an accelerator to help the economy of society and the nation (Anjaeni, 2020) certainly affects the achievement of bank performance. However, the results of the study of (Ilahiyah et al., 2021) explains that BUMN Banks' condition in the new normal is still sound with a manageable level of risk, high profits with healthy levels of capital, and BUMN Banks' continued competitiveness and risk management.

Various factors affect profitability. Trust is the basis for implementing the intermediary financial function between banks and stakeholders. As stringently regulated institutions, banks need a mechanism that encourages the implementation of bank operations reliably. The public's perception of the bank's corporate governance is one factor that influences performance, especially profitability. The effectiveness of corporate governance practices, such as having a board of directors and an audit committee, has greatly improved profitability (Ahmad et al., 2019). Financial performance is substantially impacted by additional systems, such as a board of directors and audit committee, which serve as proxies for corporate governance. (Okoye et al., 2020). Similarly, (Rahman & Subagio, 2021) likewise conclude that corporate governance has a favorable and considerable impact on profitability.

Because of the risk that comes with conducting their daily business, banks need to be equipped with strong capital. A high capital adequacy ratio (CAR) indicates that the bank has enough capital reserves to manage risks and be secure even in dire circumstances. Customer confidence will rise as a result of the bank's capacity to endure and overcome these harsh circumstances, which will boost profitability. It has been demonstrated that CAR has a considerable and beneficial effect on profitability, including (Olalekan & Adeyinka, 2013), (Ongore & Kusa, 2013), and (Olalere et al., 2017). However, (Santoso, 2021) found different results—there is a negative and significant effect of CAR on profitability. In addition, (Nurlita, 2021) claims that the impact of CAR on ROA is negative and negligible.

Public savings will become a detrimental burden if banks cannot distribute them properly as loans. Banks will get interest from loans as a source of income, and they will also be required to pay interest to the general public on public savings. The Loan to Deposit Ratio (LDR) value provides insight into banks' capacity to treat public funds as productive assets in the form of loans. The likelihood of creating profitability increases with LDR. (Bashir, 2003) has proven that LDR has a significant positive effect on profitability. In addition, (Sufian & Habibullah, 2009) provide the same conclusion that LDR affects bank profitability. Different results are presented by (Priharta et al., 2022) and (Santoso, 2021) that LDR has a negative and insignificant effect on profitability. Meanwhile, (Tenriola, 2019) concludes a negative and significant effect between LDR and profitability.

The difference between interest income from loans and interest expenses paid to depositors, or net interest margin (NIM), demonstrates how well bank management can manage interest rate risk. The more effective the collecting and distribution of cash to the general population, and hence the profitability, the higher the NIM. (Priharta et al., 2022), (Putri & Satrio, 2014), and (Oktavianus, 2016) conclude a positive and significant effect of NIM on profitability. However, (Dewi, 2017) finds a different result, stating that NIM negatively and not significantly affects profitability.

Credit distribution without good risk management will impact the risk of uncollectible loans or Non-performing Loans (NPL). The more NPL and the higher the NPL ratio a bank has, a decrease in profitability. The decrease in profitability is significantly affected by NPL (Priharta et al., 2022); (Setiawan & Hermanto, 2017); (Budiyono, 2017). However, (Pitasari & Baehaki, 2020) conclude that NPL does not significantly affect profitability.

Banks with large assets are considered to have a high level of (Kosmidou & Zopounidis, 2008); these banks are also considered to have a large amount of information and better internal controls to become the center of public attention (Priharta et al., 2018). For this reason, the size of the company (SIZE) is considered to affect profitability significantly. (Masood & Ashraf, 2012) and (Alper & Anbar, 2011) prove that profitability is significantly affected by company size. However, (Priharta et al., 2022) confirm a contradictory finding that SIZE does not affect profitability.

In addition to internal bank factors, macroeconomic variables such as the Bank Indonesia Interest Rate (BIRATE) are considered to affect bank profitability. The interest rate is why customers deposit their funds in the bank. Meanwhile, the interest rate offered by banks is strongly affected by BIRATE. Budiyono (2017) and Sunarya (2018) have proven that bank profitability in Indonesia is positively and significantly affected by BIRATE. Figure 2 presents the very

fluctuating BIRATE from 2011 to 2020. Since BIRATE is one of the benchmarks for the bank's interest rate, BIRATE is suspected to be one factor that affects bank profitability.

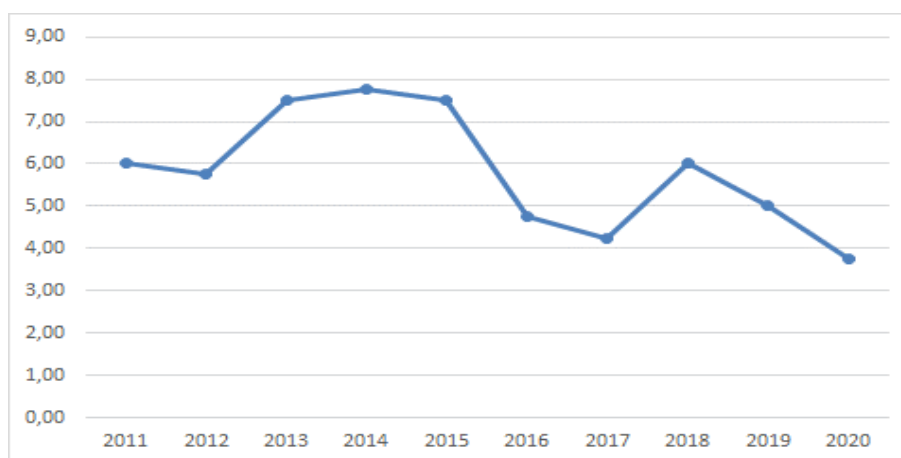


Figure 2. BI Rate from 2011 to 2020
Source: www.bi.go.id (Processed Data, 2022).

The banking sector cannot be separated from fluctuations in foreign exchange rates (FOREX). Foreign exchange rates also influence people's choices in placing their funds in banks, which affects deposits and lending s, so this factor is considered one of the variables determining bank profitability (Chowdhury & Rasid, 2016); (Menicucci & Paolucci, 2016). Figure 3 shows the average foreign exchange fluctuation of IDR against USD from 2011 to 2020. Since bank activity is closely related to foreign currency exchange rates, this research tries to find the correlation between FOREX and profitability generated by banks.

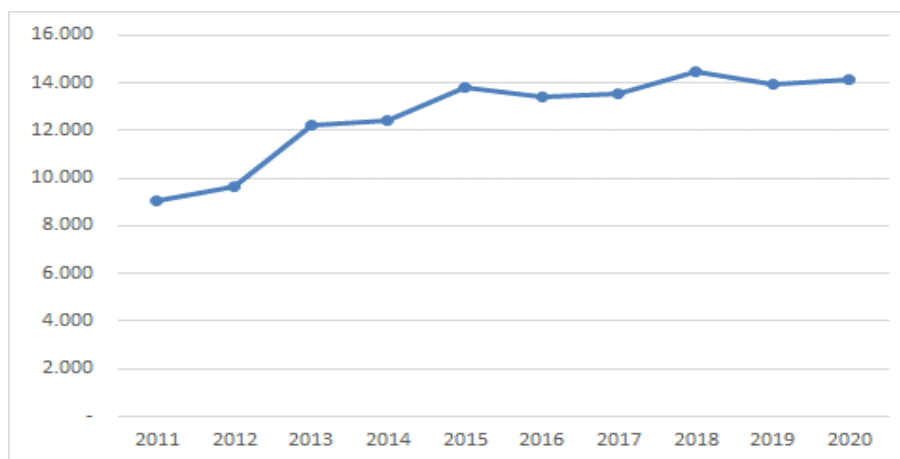


Figure 3. Foreign Exchange of the Year 2011-2020
Source: www.bi.go.id (Processed Data, 2022).

Previous studies show inconsistent results. Therefore, we conducted this present study. We re-discussed factors concerning bank profitability. Based on the introduction, the aim of this research is to analyze whether corporate governance, financial performance and macroeconomics influence the profitability of state-owned banks in Indonesia.

Variables like the board of directors and audit committee have been used in previous studies on corporate governance (Ahmad et al., 2019). Some use bank board and directors' stakes as proxies for corporate governance (Okoye et al., 2020), and other studies use institutional

ownership, managerial ownership, and independent commissioners (Priharta, 2017). The corporate governance perception index (CGPI) score is used in this study. The Indonesian Institute for Corporate Governance and SWA Magazine conduct the evaluation. Since 2001, these institutions have assessed the corporate governance practices of companies in Indonesia; they present the final result in CGPI scores. It is voluntary participation; therefore, it shows banks' commitment to implementing corporate governance. As the research object, the four state-owned banks have all participated in the CGPI program in the last 10 years. The state-owned banks have become a benchmark for bank management success in Indonesia.

LITERATURE REVIEW

Stakeholder Theory

Stakeholder theory explains that a company is not an entity that operates only to fulfill its own goals, but must pay attention to other parties related to the organization (Freeman, 2010). This theory explains which parties the company must be responsible for, and in this case the company must maintain relationships with stakeholders, especially shareholders, who have bargaining power over the availability of company resources. Management has the responsibility to create good governance, achieve bank performance related to funding and lending, and pay attention to macroeconomic conditions, as variables that have an impact on bank profitability, which is the main goal of shareholders.

Signaling Theory

Investors are currently confronted with ambiguity over their investments since management is more knowledgeable than they are. Management must communicate the information it possesses as a warning of specific future events that are anticipated to be highly received by investors (Ross, 1977). Investors can receive this signal by reading published financial statement (Julia & Umar, 2021), information about dividend payments and profit achievement (Brigham & Houston, 2014). Management must disseminate it in order to eliminate information asymmetry because it serves as the foundation for investors to make wise investment decisions. The information is anticipated to explain the company's current state, previous performance, and future prospects.

Corporate Governance and Profitability

The interaction between shareholders, management, creditors, employees, and other internal parties is outlined by a system of regulations called corporate governance, as well as external stakeholders following their rights and obligations. It aims to maximize the company's value, improve the organization's performance and contribution, and maintain its sustainability in the future (Priharta & Rahayu, 2019). Since 2001, the Indonesian Institute for Corporate Governance (IICG) and SWA Magazine have worked together to evaluate the country's governance standards and provide a score known as the Corporate Governance Perception Index (CGPI). The assessed aspects consist of compliance, conformance, and performance. It is voluntary participation; therefore, companies participating in this program are considered highly committed to implementing good corporate governance. The implementation of corporate governance is expected to create a high corporate performance so that the organization's sustainability continues to run along with the high corporate value. In practice, corporate governance means the presence of a board of directors, audit committee, independent commissioner, managerial ownership, and others. Several studies have proven that the

existence of this structure has succeeded in improving organizational performance. The existence of the board of directors and audit committee turns out to have a positive and significant impact on performance (Ahmad et al., 2019). Similarly, (Rahman & Subagio, 2021) prove that the corporate governance has a positive and significant effect on profitability. In Nigeria, (Okoye et al., 2020) also prove that bank boards and directors' stakes as proxies for corporate governance significantly affect financial performance.

H₁: Corporate governance has a positive effect on profitability.

Capital Adequacy Ratio and Profitability

Management has responsibility for achieving company performance. In the perspective of stakeholder theory, managers have an obligation to manage the company's capital adequacy to a level that is able to create profitability as expected by shareholders. Capital Adequacy Ratio (CAR) shows the bank's ability to accommodate the risk of loss faced by the bank. The higher the CAR, the better the bank's ability to bear risks on credit or productive assets. The responsibility of the management's duty to attain company performance. Stakeholder theory holds that managers have a responsibility to manage the capital adequacy of the organization to a level that can generate profits as anticipated by shareholders. The bank's capacity to absorb the risk of loss it faces is indicated by the Capital Adequacy Ratio (CAR). The bank's capacity to absorb risks associated with credit or productive assets is stronger when the CAR is higher. CAR measures capital adequacy to support assets that contain risk, which is performed by calculating the ratio between equity and total assets (Masood & Ashraf, 2012); (Abel & le Roux, 2016). The data in CAR reflects how well-capitalized the bank is to prepare for potential losses. The bank is better able to manage the risks connected with its producing assets the higher the CAR value. Banks may grow their company and boost profits when their CAR is high. Numerous research have been done to determine how CAR affects performance. (Olafer et al., 2017) have proven that CAR positively affects profitability. In addition, (Ongore & Kusa, 2013) and (Olalekan & Adeyinka, 2013) prove that CAR has a positive and significant effect on profitability.

H₂: CAR has a positive effect on profitability.

Loan to Deposit Ratio and Profitability

Referring to stakeholder theory, debtors are the main stakeholders in bank credit distribution. In carrying out its role as a financial intermediary, bank income comes from lending to debtors. Thus, the large amount of credit disbursed has an impact on achieving bank profits. The Loan to Deposit Ratio (LDR) reflects the loan size given to public savings. This ratio shows the risk preference bank management faces because high loan disbursement impacts the potential for high profitability. However, on the other hand, it also has high credit risk. Therefore, a high LDR will provide greater opportunities for banks to earn interest income which, in turn, can increase profitability (Almazari, 2014); (Negara & Sujana, 2014).

H₃: LDR has a positive effect on profitability.

Net Interest Margin and Profitability

An indicator of a bank's ability to manage profitable assets is the net interest margin (NIM). Net interest income is defined as the difference between interest income and expense as shown in the financial accounts. NIM is the proportion of earning assets to net interest income. The profitability will increase as the NIM rises. In the view of stakeholder theory, management is responsible for creating a high NIM, as part of its duties to fulfill as the party entrusted with managing the organization. Numerous research have been done to support this. Profitability

and ROA are significantly and favorably impacted by NIM. (Sari & Suryono, 2016); (Priharta et al., 2022); (Anggriani & Suryaningtias, 2017).

H₄: NIM has a positive effect on profitability.

Non-Performing Loans and Profitability

In the perspective of stakeholder theory, management is responsible to shareholders and other stakeholders to minimize bad loans which are reflected in the non-performing loan (NPL) ratio. Apart from the bank's ability to distribute credit, the ability to manage uncollectible risk is also equally important in achieving profitability. In carrying out their role as a financial intermediary, banks will be affected by the risk of NPL. NPL is a disbursed loan, but the collectibility is substandard, doubtful or bad. A high NPL will have a negative impact on banks, causing the emergence of losses on bad debts, thereby reducing bank capital. If bad loans continue to occur in significant numbers, it will reduce loan disbursements. Therefore, a high NPL will decrease profits, which, in turn, will affect profitability. (Setiawan & Hermanto, 2017) Consequently, ROA and ROE metrics show that NPL has a negative and considerable impact on profitability. Similar results were also found by (Budiyono, 2017) and (Priharta et al., 2022), proving that the impact of NPL on profitability as assessed by ROA is negative and considerable.

H₅: NPL has a negative effect on profitability.

Company Size and Profitability

The company size reflects how big or small the company is, and the public view big companies as having better managerial abilities. The bigger the company, the better its ability to create profit. Various researches have been conducted on company size using total assets as a proxy (Chowdhury & Rasid, 2016); (Bougatef, 2017). Researchers have proven mixed and inconsistent results. (Singh & Sharma, 2016) and (Gul et al., 2011) find that the profitability of banks is negatively impacted by their size. (Rahman & Subagio, 2021), (Alper & Anbar, 2011), and (Masood & Ashraf, 2012) prove that company size has a positive effect on profitability. Meanwhile, (Tharu & Shrestha, 2019) prove that company size does not affect profitability.

H₆: Company size has a positive effect on profitability.

Bank Indonesia Interest Rates and Profitability

One of the influencing reasons for the interest rate established by commercial banks is the rate set by Bank Indonesia (BIRATE). The higher the BIRATE, the higher the interest rate for commercial banks. This condition allows depositors to earn high-interest income and an opportunity for investors to shift their investment from the capital market to savings in banks. The impact is that banks will have a large source of funds so that the ability to disburse loans to the public will be higher. A high loan rate will allow banks to make a profit, which will increase profitability. Several researchers have proven that BIRATE has a significant effect on bank profitability (Sunarya, 2018); (Budiyono, 2017). Different results are found by (Priharta et al., 2022), showing a negative relationship between BIRATE and profitability.

H₇: BIRATE has a positive effect on profitability.

Foreign Exchange Rates and Profitability

When the rupiah exchange rate (IDR) depreciates (in this study against USD), people tend to move their funds into bank savings products so that bank liquidity increases. This condition allows banks to increase the number of loans disbursed to the public, thereby encouraging a high level of profitability. Therefore, foreign exchange rates (FOREX) will be inversely related and are one of the determinants of achieving bank profitability (Menicucci & Paolucci, 2016); (Chowdhury & Rased, 2016). (Almaqtari et al., 2019) have proven that FOREX has been shown to have a considerable detrimental impact on profitability (Almaqtari et al., 2019). Different studies, however, have indicated that there is a beneficial relationship between foreign exchange and profitability (Saona, 2016); (Albulescu, 2015).

H₈: FOREX has a negative effect on profitability.

This study aims to show how macroeconomic factors, bank financial health, and corporate governance may all impact profitability. In addition, Figure 4 presents the research framework, and table 1 displays the relationships between the variables.

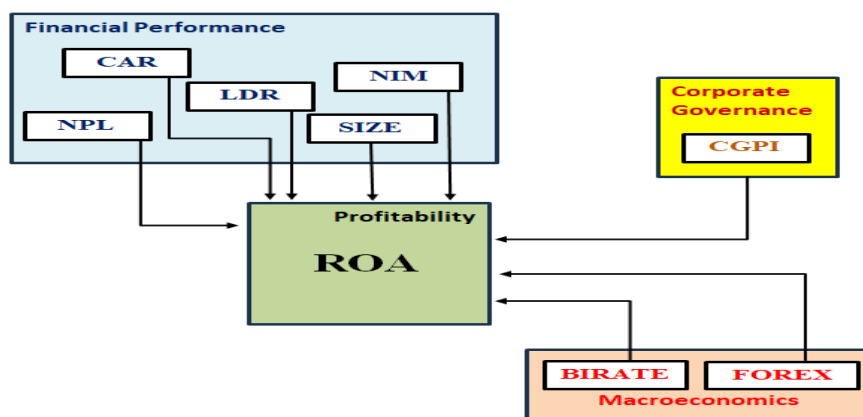


Figure 4. Research Framework
 Source: Processed Data, 2022

Table 1. Measurement and Interrelationships between Variables

Symbols	Variables	Proxy	Expected relationship
Profitability ROA	Return on Assets	Net Profit/Assets	
Corporate Governance CGPI	Corporate Governance Perception Index	CGPI Score	H ₁ (+)
Specific Bank CAR	Capital Adequacy Ratio	Capital/Risk-Weighted Assets	H ₂ (+)
LDR	Loan to Deposit Ratio	Total Loans/Total Deposits	H ₃ (+)
NIM	Net Interest Margin	Net Interest Income /Average Earning Assets	H ₄ (+)
NPL	Non-Performing Loans	Non-Performing Loans/Total Loans	H ₅ (-)
SIZE	Bank Size	The logarithm of Total Assets	H ₆ (+)
Macro-economic BIRATE	Bank Indonesia Interest Rates	Bank Indonesia Interest Rates	H ₇ (+)
FOREX	Foreign Exchange Rates	Foreign Exchange Rates	H ₈ (-)

Source: Processed Data, 2022.

RESEARCH METHOD

Population and Sample

This study set out the task of determining whether factors including corporate governance, financial performance, and macroeconomics are thought to have an impact on bank profitability. State-Owned Banks in Indonesia were the population under investigation. The four state-owned financial institutions are Bank Negara Indonesia (BBNI), Bank Rakyat Indonesia (BBRI), Bank Tabungan Negara (BBTN), and Bank Mandiri (BMRI). The sample was taken from either the entire population or a saturated sample.

Data Source

From 2011 through 2020, we used secondary data from the websites www.idx.co.id, www.bi.go.id, and the CGPI score provided by the Indonesian Institute for Corporate Governance and SWA Magazine.

Data Analysis

Data were analyzed using panel data regression to prove the effect between variables. The research model is presented in the following equation:

$$ROA_{it} = \alpha_0 + \alpha_1 CGPI_{it} + \alpha_2 CAR_{it} + \alpha_3 LDR_{it} + \alpha_4 NIM_{it} + \alpha_5 NPL_{it} + \alpha_6 SIZE_{it} + \alpha_7 BIRATE_{it} + \alpha_8 FOREX_{it} + \epsilon_{it}$$

In which:

- ROA = Return on Assets
- CGPI = Corporate Governance Perception Index
- CAR = Capital Adequacy Ratio
- LDR = Loan to Deposit Ratio
- NIM = Net Interest Margin
- NPL = Non - Performing Loans
- SIZE = Bank Size
- BIRATE = Bank Indonesia Interest Rates
- FOREX = Foreign Exchange Rates

Panel Data Regression Model Selection

In panel data regression, we employed the common effect, fixed effect, and random effect models in panel data regression. The Chow test, Lagrange multiplier test, and Hausman test were used in a model selection process to determine which model was the best. The factors affecting profitability would be estimated using the chosen model (Priharta, et al. 2022).

RESULT AND DISCUSSION

Descriptive Statistics

Descriptive statistics calculate the mean, median, maximum, minimum, and standard deviation values for each variable being studied. Table 2 is located below and displays the results.

Table 2. Descriptive Statistics

Statistics	ROA	CGPI	CAR	LDR	NIM	NPL	SIZE	BIRATE	FOREX
Mean	2.77	88.86	18.40	89.90	5.98	2.73	33.92	5.82	12663.30
Median	2.85	87.85	18.41	87.96	5.79	2.64	34.07	5.87	13492.00
Maximum	5.15	94.94	22.96	113.50	9.58	4.78	34.95	7.75	14481.00
Minimum	0.13	84.16	14.64	70.37	3.06	1.55	32.12	3.75	9068.00
Std. Dev.	1.20	3.01	2.42	10.19	1.44	0.86	0.75	1.35	1804.14

Source: Processed data, 2022.

The ratio of net profit to assets, or ROA, has a mean and a median of 2.77% and 2.85%, respectively. In 2012, BBRI had the highest maximum of 5.15%, and in 2019, BBTN had the lowest minimum of 0.13%.

The median and mean for the CGPI were both 87.85. BMRI's maximum score was 94.94 in 2020, while BBRI's lowest score was 84.16 in 2011. CAR, which stands for capital to risk-weighted assets, had a mean and a median of 18.40% and 18.41%, respectively. In 2014, BBTN had a minimum of 14.64% and BBRI had a high of 22.96%.

The Loan to Deposit Ratio (LDR) had a mean value of 89.90% and a median value of 87.96%, with BBTN achieving the highest value of 113.50% in 2019 and BBNI recording the lowest value of 70.37% in 2011. The NIM indicator has a mean value of 5.98 and a median value of 5.79, with the highest NIM reported by BBRI in 2011 at 9.58% and the lowest by BBTN in 2020 at 3.06.

The NPL variable, which displays the proportion of non-performing loans to all loans, had a mean and median score of 2.73% and 2.64%, respectively. In the meantime, BBRI noted the maximum value of 4.78% in 2012 and the lowest value of 1.55% in 2013.

The median for SIZE was 34.08 and the mean was 33.93. Maximums for BBRI and BBTN were 34.95 in 2020 and 32.12 in 2011, respectively. The median and mean for BIRATE were also 5.87%. In 2014, the maximum percentage has taken place, while in 2020, the least percentage occurred. The median for FOREX was 13,492 and the mean was 12,663.30. Maximum 14,481 events took place throughout 2018, and minimum 9,068 events occurred in 2019.

Model Selection

The primary objective of the model selection process was to provide the most accurate estimate for the analysis of the impact of corporate governance, financial performance, and macroeconomics on the profitability of Indonesia's state-owned banks. The common effect model was chosen as the most suitable model for the purpose of this research (Priharto, et al. 2022).

Panel Data Regression Analysis

The outcomes of panel data regression analysis using the common effect model are displayed in Table 3 below.

Table 3. Panel Data Regression

Variable	Coefficient	Prob.	
C	-1.853.974	0.0109	
CGPI	-0.065233	0.1349	
CAR	0.069230	0.0808	*
LDR	0.010957	0.3202	
NIM	0.240256	0.0097	***
NPL	-0.514323	0.0000	***
SIZE	0.807423	0.0085	***
BIRATE	0.208664	0.0010	***
FOREX	-0.000300	0.0006	***
R-squared		0.9554	
Adjusted R-squared		0.9439	
Prob(F-statistic)		0.0000	***

Significant at *** $\alpha = 1\%$, * $\alpha = 10\%$

Source: Processed data, 2022

The result of panel data regression can be seen in the following equation:

$$ROA = \alpha - 0.0652 \text{ CGPI} + 0.0692 \text{ CAR} + 0.0109 \text{ LDR} + 0.2403 \text{ NIM} - 0.5143 \text{ NPL} + 0.8074 \text{ SIZE} + 0.2087 \text{ BIRATE} - 0.0003 \text{ FOREX}$$

Discussion

CGPI has no significant effect on ROA. As a bank owned by the government of the Republic of Indonesia, the public finds the state-owned banks as a safe place to save their money. The principle of prudence is also strictly enforced by state-owned banks because they are overseen by the government and the public so that loan distribution is always with good risk management. In this case, the CGPI assessment becomes less relevant so that the bank performance shown in the profitability ratio is not affected by GCPI results. With high public trust, public savings funds can be disbursed through loans so that banks can create profits, which will increase profitability. The findings contradict the hypothesis. The findings corroborate (Ahmad et al., 2019) that the board of commissioners has no significant effect on ROA as a proxy for corporate governance. In addition, (Salisu & Saputri, 2021) conclude that the board size and the audit committee as corporate governance proxies do not affect company profitability.

CAR has a significant positive effect with a coefficient of 0.069230 at an alpha value of 10%. These findings indicate that banks have sufficient capital to carry out their operations and can support risky assets. This finding shows that the higher CAR, the higher ROA as a proxy for profitability. These results are in line with (Ongore & Kusa, 2013), (Olalekan & Adeyinka, 2013), (Olalere et al., 2017), (Bougatef, 2017), and (Salike & Ao, 2018), confirming a positive and significant effect between CAR and profitability. Therefore, the findings have proven the proposed hypothesis.

LDR has been shown to have no discernible impact on profitability. Bank Indonesia is only allowed to grant bank loans in the range of 75% to 105% since it serves as a financial middleman between the surplus unit and the deficit unit. Table 2 shows that the LDR is shown

at an average value or mean of 89.90%, meaning it is within the ideal limit for lending. Therefore, the bank has disbursed loans following the permitted rules because too high loan disbursement will impact credit risk. These results are in line with the findings of (Priharta et al., 2022), confirming no significant effect between LDR and ROA. (Santoso, 2021) also confirms no significant effect between LDR on ROA. The results of this study are not in line with the proposed hypothesis.

With a coefficient of 0.240256 at a 1% alpha value, NIM has a sizable favorable impact on ROA. One measure of bank management's success in managing productive assets to produce NIM, which therefore boosts profitability, is NIM. This result demonstrates that profitability increases with net interest income. These results support (Santoso, 2021), (Sari & Suryono, 2016), and (Anggriani & Suryaningtias, 2017), showing that the impact of NIM on profitability as assessed by ROA is favorable and considerable. As a result, the research's findings are consistent with the theory put forward.

NPL has a significant negative effect with a coefficient of -0.514323 at an alpha level of 1%. Credit risk exposed to NPL decreases bank profitability, so the higher the NPL, the lower the ROA. Therefore, bank management must pay attention to the risk of uncollectible loans with good risk management. This finding supports (Budiyono, 2017), (Setiawan & Hermanto, 2017), and (Priharta et al., 2022), revealing that NPL has a significant negative effect on the achievement of banking profitability in Indonesia. These results support the proposed hypothesis.

SIZE has a significant positive effect on ROA with a coefficient of 0.807423 at an alpha level of 1%. The bank size reflects the amount of information a bank has and signals the management's success in managing the bank. The bigger the bank, the greater the confidence of investors and the public, so that savings and loans provided can increase bank profitability. These results support (Terraza, 2015), showing that SIZE has a (significant positive effect on the profitability of European banks. Likewise, (Titawano et al., 2021) have found that SIZE has a positive and significant effect on profitability. The research findings support the proposed hypothesis.

Simultaneous Test and Coefficient of Determination

Based on the outcomes of the simultaneous test, Table 3 shows a significant relationship between the independent and dependent variables at the 1% alpha level. According to the adjusted R-square value of 0.9439, all independent variables may account for 94.39% of the dependent variable in the model, with the remaining portion being influenced by additional variables that are not included in the model. The outcomes of statistical tests on the proposed hypothesis can be shown in Table 4 based on the discussion.

Table 4. Conclusion of Hypothesis Testing

Variable	Hypothesis	Result	Conclusion
CGPI	+	-/not significant	Unproven
CAR	+	+/significant	Proven
LDR	+	+/not significant	Unproven
NIM	+	+/significant	Proven
NPL	-	-/significant	Proven
SIZE	+	+/significant	Proven
BIRATE	+	+/significant	Proven
FOREX	-	-/significant	Proven

Source: Processed data, 2022.

CONCLUSIONS

State-owned banks are one of the main choices for people to save their money because they are considered a safe place for savings. Supervision from the government as the main shareholder makes these banks have a high level of prudence and maintain their operations to always comply with regulations. For the state-owned banks, CGPI assessment or score has no significant effect on bank performance in terms of profitability; this may be due to a high level of public trust in state-owned banks. The profitability is not significantly affected by the CGPI score because, even without this assessment, the community considers the governance of the state-owned banks is good. As reflected in the LDR, loan disbursement is considered to have followed the bank's ability and regulations so that an increase in loan disbursement will not significantly affect profitability. If credit risk is wrongly assessed, it will increase the number of NPL. Investors should pay attention to the high CAR and NIM values, low NPL, and the size of the bank's assets because these variables positively affect profitability; thus, they impact the return to be received. The interest rate of Bank Indonesia and the rupiah exchange rate are also factors to be considered because both significantly affect the achievement of bank profitability.

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