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Comparative Analysis of The Performance of State-Owned and National Private Companies in The Banking Sub-Sector Using the RGEC Model

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Abstract:

The goal of this study was to evaluate the profitability and soundness of state, national, and foreign private banks using the one-way ANOVA test and analyze the impact of RGEC ratios on profitability using the panel data regression statistical test using the random effect model. Issuers in the banking sub-sector from 2017 to 2022 make up the study's sample. The simultaneous panel data regression results (prob. F of 0.00) show that RGEC ratios have an influence on profitability as proxied by ROA. Partially, the independent variables NPL, PDN, and GCG have an influence on ROA, while LDR and CAR have no effect on ROA. The results of the one-way ANOVA test show that there are differences in bank profitability and health between state, national, and foreign private banks. Post-hoc analysis shows that state banks have better profitability than national and foreign private banks.

Keywords: RGEC ratio, panel data, profitability, private banks.

Introduction

In accordance with Article 2, paragraph 1 of Law Number 19 of 2003, one of the objectives of establishing a BUMN is to become a source of state revenue and to pursue profit. This is because, in terms of ownership and sources of capital, the government is the main owner and financier of BUMN, in accordance with article 4 paragraph 1 of Law Number 19 of 2003. Therefore, it is demanded to always be able to have an efficient and profitable performance considering the purpose of establishing BUMN companies is to contribute to state revenues, in addition to other mandates such as reducing numbers. In their business activities, state-owned enterprises also play a role in providing commodities to fulfill people's welfare. It is not uncommon to operate in industries that are less attractive to private companies (because they are considered less profitable) with the main objective of supplying the market. Not to mention the mandate borne by state-owned enterprises in terms of providing support to micro, small, and medium enterprises (MSMEs) run by the community so that they can grow and compete with large companies, which are generally owned by the private sector (Adler, 2018).

Especially in the financial sector, the role of financial institutions, both state-owned and private businesses in the form of banks and non-bank institutions, is crucial for the national economy. The distribution of People's Business Credit (KUR) aid as of November 2021 reached IDR 237.08 trillion out of a total distribution plan of IDR 285 trillion, per data from the Ministry of Cooperatives and SMEs, or KemenkopUKM (Ministry of Cooperatives and SMEs, 2021). Since 2015, the availability of KUR has grown annually at an average growth rate of 60% (Ministry of Finance, 2020). KUR distribution is, of course, a big responsibility that must be carried out well by companies in the financial sector because SME activities play a crucial role in Indonesia's national economy. This is because the contribution of SMEs to the national economy includes various things, starting from contributing to GDP (around 61% in 2021, or equivalent to IDR 8,573.9 trillion), reducing unemployment (absorbing up to around 97% of the total workforce), and managing more than 60% of investment funds nationally (Coordinating Ministry for Economic Affairs, 2021). In order to fulfill this mandate, the bank's health condition and adequate profitability are two of the many important factors for the continuity of the bank's business and require special attention because they are also related to the bank's performance in serving its customers (Akbar, 2018). In addition to health conditions, profit also plays an important role in building public trust in banks. Many banking experts believe that public trust in banking institutions is a valuable asset because it can reduce funding costs and provide access to the best borrowers. As the Republic of Indonesia's central bank, Bank Indonesia has developed the RGEC model (risk profile, corporate governance, earnings, and capital) to serve as a framework for assessing bank health (Lestari et al., 2021).

Literature Review

Performance management is how an organization designs organizational structures, systems, and culture to encourage employees to implement organizational strategies according to their roles and responsibilities. Performance management is a branch of management that combines and utilizes performance information as a basis for decision-making (Albulescu, 2015). The scope of performance management itself is quite broad; it can even cover the entire production chain, from input to final results. Financial performance is an analysis that aims to measure a company's compliance with the proper and correct implementation of financial regulations. Financial reports are the starting point for measuring a company's financial performance. Financial ratios are the main tool for analyzing financial reports. Financial ratios provide a basis for measuring the value and analyzing the financial health of the business. The capacity of a bank to conduct banking operations fairly and fulfill all commitments in compliance with applicable laws is known as "bank health." Bank health is a concept that is commonly used to express a bank's ability to face various obstacles. A sound banking system can be defined as one that has a solvable asset and liability position (a positive net worth measured by comparing assets with liabilities on the balance sheet) and is likely to be able to maintain these conditions (Amalia & Nugraha, 2021).

The phenomenon of a sudden decline in bank profitability is caused by banks' high-risk appetite, which is not balanced by adequate loss reserves and capital reserves. However, when bank management implemented a more conservative credit policy, reduced credit offers, and addressed non-performing loans, the bank's profitability level returned to normal. Banks that have better ROA ratios have a relatively low risk appetite. The concept of GCG

was born as an effort to answer agency problems in agency theory (Anggita & Djamaludin, 2021). By implementing GCG, it is expected that the tendency of bank management to commit fraud and corruption will decrease (Salim & Julian, 2019). By implementing GCG, bank management is also expected to avoid fraudulent practices in providing loans and prevent banks from suffering large losses (Latuamury et al., 2023). Management transparency has a positive correlation with bank financial stability and reduces the chance of serious banking problems (Subramanyam, 2014). GCG implementation was also found to have an influence on bank profitability (Pandiangan et al., 2022). The bank's capital adequacy status shows if it has enough capital to absorb unforeseen losses. To keep customer trust and avoid bankruptcy, this is necessary (Sutagana et al., 2022). One of the most crucial measures of the banking industry's financial stability is capital sufficiency (Bergh et al., 2019). The bank's ability to keep capital in a position that is proportionate to different types of risks, as well as the competence of bank managers to recognize, quantify, monitor, and manage these risks, are both indicators of capital adequacy (Madugu et al., 2019).

Methodology

A case study was used in this investigation. Case studies concentrate on gathering data about a particular thing, occasion, or activity, for instance, a certain business unit or organization. This study uses quantitative methods. Secondary data are the type of information used in this study. Researchers often collect secondary data through intermediary sources rather than directly. Data on financial ratios, financial reports, annual reports (annual reports of IDX issuers), and other supporting data published by Thomson Reuters, IDX, OJK, and other institutions are among the secondary data used in this study. The population in this study is all issuers on the IDX, totaling 500 companies. The sample selection method in this study is disproportionate sampling. Collecting data for this study using literature and documentation methods. There are two analytical methods used in this study. To analyze the effect of RGEC ratios on profitability, the panel data regression analysis method is used. Meanwhile, to analyze differences in profitability and RGEC ratios between state banks, national private companies, and foreign private companies, one-way ANOVA analysis is used.

Case studies

The results of this study support prior research that shows the independent variables had an equal impact on the dependent variable. The results of this study, however, are at odds with research that examines the impact of the RGEC ratio on the profitability of Islamic banking issuers. The results of this study are consistent with other research, which contends that capital and risk profile, two measures of bank soundness, are essential to bank profitability. Banks that have good credit quality, liquidity levels, and capital adequacy are proven to have good profitability as well. Management of the bank's internal factors, such as risk profile, management, and capital, affects profitability. That is, banks that have good management also have good profitability. Bank health can also be used as an indication of how well a bank survives when facing difficult conditions, and each element of a bank's health measurement is interrelated in determining the sustainability of a bank. Bank health is determined by solvency. Solvency itself is reflected in the bank's net worth, and because net worth is equal to capital plus reserves, the measurement of the health or unsoundness of a bank can be seen from the aspect of its capital. The possibility of a bank remaining solvable itself depends on the bank's ability to generate profits.

NPL does not affect ROA. The relationship between credit risk and profitability has also been studied previously, where bad credit causes interest income to decrease and provision costs to increase. It was in line with this that it was conveyed that the inverse relationship between bad loans and profitability was caused by bad management or bad bank management. When a bank has a very high level of profitability, bank management tends to engage in high-risk activities, such as providing low-quality credit. This causes an increase in the probability of default (PD) of the bank concerned. There is an influence between LDR and ROA. An explanation of the relationship between liquidity and profitability can be explained through the concept of the liquidity-profitability trade-off. When a

company has too much liquidity, profitability will actually decrease due to the costs that must be borne by holding too many current assets. Although a high liquidity ratio reflects a bank's ability to meet all short-term obligations, too much liquidity also reflects inefficiencies in the use of resources and can reduce returns. In the long run, current assets tend to generate less profit than risky and substandard assets.

There is no influence from PDN on ROA. Exchange rate fluctuations can affect profitability by changing a bank's NOP. If a bank is in a long position, an increase in the foreign currency exchange rate will weaken the local currency exchange rate, which will have the effect of increasing bank profits, and vice versa. According to the international Fisher Effect theory, changes in nominal interest rates between two countries will be followed by oppositely directional changes in exchange rates in the same portion. The two nations' various inflation expectations are reflected in the nominal interest rate differences between them. As a result, rising inflation will lead to falling interest rates and currency rates, and vice versa. GCG has an influence on bank profitability. Poor governance (GCG) is one of the factors causing banks to be unhealthy in various countries such as Argentina, Bangladesh, Bolivia, Brazil, Finland, and many other countries. governance failures with conflicts of interest and information asymmetry. One explanation for why GCG affects bank profitability is the existence of information asymmetry. Information asymmetry is a condition where one party in a transaction has more information than the other party regarding the quality of a good or service. Managers can exploit information asymmetry to reduce dividend payments to investors by exaggerating the investment needs of companies to strengthen their business prospects. Unhealthy banks in several countries are triggered by behavior that reflects poor governance (GCG), such as weak internal controls, speculative lending, poor accounting systems, political intervention, and so on.

An increase in the CAR ratio has an influence on earnings (income). The findings of this study contradict most other research findings, which state that capital influences profitability. One of the studies shows that banks that experience a lack of capital (have low net worth) will be more vulnerable to bankruptcy when facing unexpected economic shocks, such as massive policy changes, sharp asset price adjustments, liberalization of the financial sector, or natural disasters. Although contrary to the findings of most studies, the findings of this study are in line with other studies that state that the reason capital adequacy does not affect profitability is because banks that have sufficient capital tend to avoid high-risk activities. Excess capital is actually a sign of the bank's inability to optimize investment opportunities. Even though the most profitable banks tend to have a strong capital base, there are still indications that high capital tends to hinder high profits. According to research on the factors that affect commercial banks' profitability in Sub-Saharan Africa, institutions with stronger capital bases have a tendency to be more risk averse. Ample capital will only improve a bank's profitability if the capital it receives is reinvested.

The average profitability (ROA) and bank soundness (RGEC) of state banks, domestic private businesses, and international private businesses vary. The conclusions of this study are at odds with those of other studies, which found no differences in the average profitability of state banks, domestic private businesses, and overseas private enterprises. Compared to domestic private banks and overseas private banks, state banks are more profitable. The reason state banks have better profitability compared to private banks is because they generally maintain a relatively low level of capital adequacy (because the government indirectly underwrites their operational expenses). This factor of support from the government plays a crucial role in the level of profitability of state banks, which outperforms foreign and national private banks. State banks have a lower level of competition compared to private banks because the operational activities of banks are supported by the government, while private banks have to rely on investment from their shareholders and thus have to compete with other private banks to attract investors. The trust factor can also explain the relationship between public trust in the government, the president, banking regulations, and bank management and people's preference for saving in state or private banks. There is a positive relationship between public trust in the incumbent president and the decision to save at a state bank. Public distrust of financial institutions will encourage them to keep their money "under the mattress" due to their fear of future economic uncertainties and their fear of changing their physical assets to a form of symbolic public collective ownership.

State banks have a better level of soundness compared to national private banks and foreign private banks. This finding supports the results of previous research, which stated that the soundness level of state banks is better than the soundness level of private banks, both national and foreign. However, this finding differs from the results of other studies, which state that the level of soundness of state banks is below that of private banks. State banks have better performance because they are older, have a better competitive position, and have a larger size than private

banks. Banks in Vietnam show that state banks outperformed private and joint-venture banks because they had relatively larger inputs and outputs as well as a more credit-centered concentration of assets. During crises and sanctions, state banks are more stable because they receive assistance from the government. In addition, state banks also have a larger business size and are more actively involved in activities that generate fees.

Conclusion

The panel data regression test results show that the risk profile variables (proxied by NPL, LDR, and PDN), good corporate coverage (GCG), and capital (proxied by CAR) jointly or simultaneously influence the dependent variable income or profitability (proxied by ROA). The panel data regression test also shows that, partially or separately, only the capital variable has no influence on dependent income or profitability. However, there is one proxy for the risk profile, namely LDR, which is proven to have no influence on profitability as proxied by ROA. The results of the one-way ANOVA test show that there are differences between state, national, and foreign private banks in terms of income, profitability, and bank health levels. State banks are consistently better than national private banks and foreign private banks in terms of income and profitability and the level of bank health. Meanwhile, national private banks have a higher average income, profitability, and bank health level than foreign private banks.

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