THE EFFECT OF GOOD CORPORATE GOVERNANCE ON THE FINANCIAL PERFORMANCE OF BANK PERKREDITAN RAKYAT BALI (2018-2021)

A THESIS

Presented as a partial Fulfillment of the Requirements to obtain Bachelor Degree in Accounting Department

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DECLARATION OF AUTHENTICITY

Hereby I declare to the originality of this thesis; I have not presented someone's work to obtain my university degree, nor have I presented anyone else's words, ideas, or expression without acknowledgment. All quotation is cited and listed in the references of the thesis.

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Yogyakarta, July 17, 2023

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ABSTRACT

This study aims to investigate the effect of Good Corporate Governance (GCG) in Financial Performance in BPR as measured by the ratio of Return of Asset (ROA) which is proxied by the size of the board of directors, size of the board of commissioners and managerial ownership. This study uses the financial statement of BPR Bali that registered in OJK for the period of 2018 – 2022. The sampling method is purposive sampling. The data analysis technique uses descriptive analysis, classic assumption test and hypothesis testing with multiple linear. The result of this study indicates that the governance structure of the BPR, which is proxied by the size of boards of directors and the number of board of commissioners has a positive and significant effect on ROA, meanwhile managerial ownership does not have a significant effect on ROA. This research is important for company management to continue implementing GCG in the system, especially for the board of commission to improve company performance. For future research, it is expected to be able to increase proxies and examine areas that have never been studied.

Keywords: Good Corporate Governance (GCG), Financial Performance, Bank Perkreditan Rakyat (BPR), Return of Asset

ABSTRAK

Penelitian ini bertujuan untuk meneliti pengaruh Good Corporate Governance in Financial Performance in BPR yang diukur dengan rasio Return of Asset (ROA) yang diproksikan dengan jumlah dewan direksi, jumlah dewan komisaris dan kepemilikan manajerial. Penelitian ini menggunakan laporan keuangan BPR Bali yang terdaftar di OJK periode 2018 – 2021. Metode pengambilan sample adalah purposive sampling. Teknik analisis data menggunakan descriptive analysis, uji asumsi klasik dan uji hipotesis dengan linear berganda. Hasil penelitian ini menunjukan bahwa struktur tata kelola BPR yang diproksikan dengan jumlah dewan direksi dan jumlah dewan komisaris berpengaruh positif dan signifikan terhdap ROA, akan tetapi kepemilikan manajerial tidak memiliki pengaruh yang signifikan terhadap ROA. Penelitian ini penting bagi manajemen perusahaan untuk tetap mengimplementasikan GCG di dalam sistem terutama untuk board of directors and the size of the board of commission untuk meningkatkan kinerja perusahaan. Untuk penelitian selanjutnya diharapkan dapat memperbanyak proxy dan meneliti daerah yang belum pernah diteliti.

CHAPTER I
INTRODUCTION

1.1.Background Study

Banking is one organization that is important for life. Banks have a vital role in developing the economy in a country; wherein this sector, banks help raise funds provided by parties who have excess funds and channel it to underserved parties. Banking consists of various types; one of them is Rural Bank (Bank Perkreditan Rakyat), which provides credit for lower to middle-class people, especially for small businesses (UMKM).

One province in Indonesia with the most Bank Perkreditan Rakyat (BPR) is in Bali. Bali is the most famous Indonesian tourism in the world, every year; many tourists come to Bali, which is why one of the primary sources for Bali come from tourists, Bali people have much small business that caters to tourist that is why the existence of a BPR is essential, especially for the people of Bali, because BPR is practical and very helpful for people who do not have the capital to start a business by providing credit to the community, especially the middle to the lower class. However, according to Otoritas Jasa Keuangan (OJK), Non-Performing Loans or NPL banking in Bali in October 2020 was 3.36%. The NPL ratio was observed to decrease in December 2020 by 2.97%. Hence with the decreasing of the NPL this research would like to see whether the decreasing of NPL is the result from the implementation of Good Corporate Governance (GCG) in BPR. To maximize the role of BPR in supporting small businesses and facing competition among institutions other financial performance, BPR needs to be improved. Improved performance BPR finance can be done by Implementing Good Corporate Governance (GCG) in its management.

The implementation and management of good corporate governance is a concept that emphasizes the importance of the rights of shareholders to obtain correct, accurate, and timely information. The application of GCG principles is currently essential so that banks can survive and be resilient in the face of increasingly fierce competition and to be able to apply business ethics consistently to create a healthy, efficient, and transparent business environment.

The issue of corporate governance is motivated by agency theory, which stated that agency problems arise when a company's management is separated from its owner. Good corporate governance mechanisms are expected to reduce conflicts of interest between managers and shareholders and are expected to control agency costs. Good corporate governance mechanisms are divided into internal and external mechanisms.

This research will investigate how Good Corporate Governance affected the financial performance of BPR in Bali because the implementation of GCG will be increased BPR quality in doing their job.

1.2.Problem Formulation

1. Does the board of commissioners influence the financial performance of BPR in Bali?
2. Do independent commissioners influence the financial performance of BPR in Bali?
3. Does managerial ownership influence the financial performance of BPR in Bali?

1.3.Research objectives

The objectives of this study were:

1. Analyze the influence of board of directors' size on the financial performance of Bank Perkreditan Rakyat in Bali (2018-2021),
2. Analyze the influence of board of commissioners' size on the financial performance of Bank Perkreditan Rakyat in Bali (2018-2021),
3. Analyze the influence of managerial ownership on the financial performance of Bank Perkreditan Rakyat in Bali (2018-2021)

1.4.Research Contributions

The contribution expected from this research were:

1. Theoretical Contribution

   This research is expected to be a study for future researchers to reference the influence of corporate governance on financial performance, especially for BPR.

2. Practical Contribution

   It is expected that the result of this study can give an advantage for BPR to realize how important good corporate governance is to increase its performance.

1.5.Systematic Writing

Chapter I: Introduction

This chapter contained an explanation about the background of the study, problem formulation, research objectives, research contribution, and systematic writing

Chapter II: Literature Review

The literature review chapter discussed the theories that underlay this research and became the basis for the theoretical reference used in the analysis of this research. This chapter also reviewed the results of previous studies and the research's hypothesis.

Chapter III: Research Method

The research method chapter described how the research would be conducted and what method would be used. This also included the population and samples, the types and sources of the data used, the data collection methods, and the analysis methods used in the study.

Chapter IV: Research Findings and Discussion

This chapter contained descriptions of research objects, data analysis, and discussion of the issues raised based on data processing results and relevant theoretical foundations.

Chapter V: Conclusion, Implication, and Recommendation

The closing chapter contained a conclusion containing the research's limitation and suggestions, and recommendations of the study.

CHAPTER II

THEORETICAL REVIEW

2.1.Literature Review

2.1.1. Agency Theory

The agency theory by Jensen and Meckling (1976) predicts that higher levels of managerial ownership structure increase firm performance due to an incentive effect. It will motivate agents to act.

The definition of agency theory by Jensen and Meckling (1976) predicted that higher levels of managerial ownership structure increase firm performance due to an incentive effect. It would motivate agents to act on behalf of the owner when the agent's interests can otherwise be declared contrary to the owner's interests. Conflict arose because each party involved in the contract tries to get the best for themselves. The problems occurred because there is a conflict of interest. An agent relationship occurred when the perpetrator hired an agent to perform tasks on behalf of the owner. Owners generally delegated decision-making authority to agents. Agency theory is concerned with solving problems that arise in agency relationships, namely between owners (e., g. shareholders) and agents of the owners (e., g. company executives). This problem occurred because when there is a conflict of interest.

Agency theory is concerned with resolving two problems that arise in agency relationships. The first is the agency problem that occurs when (a) the desires or goals of the principal and agent conflict and (b) it is difficult or expensive for the principal to verify what the agent is doing (Eisenhardt, 1989). The problem is that the principal cannot make sure that the agent behaved properly. The second is the problem of risk sharing that arises when the principal and agent have different attitudes toward risk (Eisenhardt, 1989). However, the problem here is that the principal and the agent may have different actions because they have other risk preferences.

One way to reduce agency problems is by implementing GCG, which can be used to monitor the management, especially between the interests of managers and the interest shareholder. By reducing the conflicts of interest that occur, it is anticipated that agents can understand the owner's interests, specifically expanding company returns, so that company performance increases.

2.1.2. Good Corporate Governance (GCG)

Good corporate governance (GCG) in a corporate setup leads to maximizing the value of the shareholders legally, ethically, and on a sustainable basis while ensuring equity and transparency to every stakeholder – the company's customers, employees, investors, vendor-partners, the government of the land and the community. GCG has a purpose for making progress toward the company's performance as measured through the performance and growth of shareholders so that it can be used as a basis for analysis in reviewing good corporate governance. According to the Circular Letter of Bank Indonesia No.15/15/DPNP dated April 29, 2013, it is explained that the implementation of GCG must contain five main principles, namely:

1. Transparency, transparency in presenting material and relevant information in carrying out the decision-making process.
2. Accountability, to clarify the functions and implementation of the bank's responsibility so that their management runs effectively.
3. Responsibility, compliance with bank management with applicable laws.

4. Independency, professional bank management without any influence or pressure from any parties.
5. Fairness, justice, and equality in fulfilling the rights of stakeholders that arise based on agreements and applicable laws and regulations.

Share Ownership Structure

1. Managerial ownership

   Agency theory explained that there is a conflict of interest between management (agent) with the principle due to differences in interests between the two, which impact performance, so a method is needed to minimize the conflict. Managerial ownership is the amount of share ownership owned by the owner, executive board, and management in a company (Sujoko, 2007). According to Jensen and Meckling (1976), managers who owned a certain shareholding in the company, they will efficiently use any means to maximize the shareholder value and reduce the agency cost. Thus, increasing the shareholder of directors can be considered a way to align interests and reduce agency problems.

Corporate Structure

1. Board of Directors

   The board of directors is one of the vital organs in conducting corporate governance, who has responsibility for company management and is expected to contribute to increasing the company's financial performance. Thus, several board directors are an important corporate governance structure for the company.

   According to Law No. 40 of 2007 concerning Limited Liability Companies, a board of directors is an organ of the company that is authorized and entirely responsible for the management of the company for the benefit of the company both inside and outside the court by the provisions of the articles of association. Also, the board of directors needs to ensure that company activities align with the applicable regulations.

2. Board of Commissioners.

According to Regulation of Financial Services Authority Number 33/POJK.04/2014 concerning the Board of Directors and The Board of Commissioners of Issuers or Public Companies. The Board of Commissioners is an organ of an Issuer or a Public Company that oversees conducting a general and specific oversight by the Articles of Association and providing advice to the Board of Directors**.** The Board of Commissioners shall at least consist of 2 (two) members.

2.1.3. Financial Performance

Financial performance is a description of the company's success in the form of results achieved from various activities. Financial performance is the achievement of the company's financial performance for a certain period covering the collection and allocation of finance (Fatihudin, 2018). Financial performance is used to measure the economic achievement of the company. Financial performance refers to which financial goals have been achieved. It is a process for measuring the results of a company's policies and operations in monetary terms. Financial performance can also compare similar companies in the same industry or to compare industries or sectors in aggregate.

BPR's financial performance has become attention to how important BPR is for the public. With many liquidated cases of BPR, it has become one of the triggering factors to improve the implementation of good corporate governance. Because of that, Bank Indonesia released regulation to protect BPR hygiene in the law of Bank Indonesia (BI) BI) No. 30/12/KEP/DIR Date of 30 April 1997 on Procedure for Health Assessment of Bank Perkreditan Rakyat. To measure financial performance, one can use a ratio from the financial statement. A financial statement from BPR can be used as a foundation to analyze the financial performance of BPR.

2.2.Previous Studies

Research about the effect of *Good Corporate Governance* on financial performance has been widely conducted, for example Sarafina dan Saifi (2019), Juliansyah (2018), Susilo et al. (2018), Belina (2018), Mandira (2019), Pracinthea (2019), Winanda (2020).

The result of research from Sarafina dan Saifi (2019) showed significant influence from independent commissioners and audit committees to ROA. Also, there was significant influence from independent commissioners and audit committee to Tobin's Q. Audit committee had the most dominant influence on ROA, and independent commissioners had the most dominant influence on Tobins'Q.

Qualitative research from Juliansyah (2018) showed in BPR Lampung in terms transparency already implemented in a good way; it can be seen from how information service is easy to access, straightforward, and on time. In terms of responsibility, BPR already worked according to the regulations; for independence, BPR protected customer information and was always objective in making decisions. Also, in terms of fairness, BPR treated all customers the same. Customer could give critics and suggestions to BPR.

Research conducted by Susilo et al (2018) with results of statistical test (F test) showed that good corporate governance, which is proxied by Independent Board of Directors, Audit Committee, ownership managerial, ownership institution, affects Return on Asset. The effect of independent variable Good Corporate Governance towards Return on Assets on the t-test is significant.

Also, research from Belina (2018) showed that the implementation of Good Corporate Governance (GCG) had a positive effect on Non-Performing Loan (NPL) but was not significant to LDR, GCG implementation has a positive and significant impact on Return on Asset (ROA), NPL has a negative and significant effect on ROA, LDR has a negative impact on ROA but is not significant, NPL is unable to mediate the influence of the implementation of suitable corpora the governance of ROA, and the LDR is not able to negotiate the influence of the implementation of good corporate governance on ROA in banking companies.

Research from Mandira (2019) showed that corporate governance has a positive influence on company, the better the implementation of corporate governance in the company, the higher the company's value. Profitability has a positive effect on company value, the higher the company's profitability, the higher the company value. The result of research from Pracinthea (2019) showed that there's a significant positive relationship between the numbers of directors' member with Return on Asset (ROA), however, there's no significant relationship between managerial ownership and institutional ownership with ROA.

Lastly is the result of research from Winanda (2020). Qualitative research showed that the implementation of Good Corporate Governance in five aspects, transparency, accountability, responsibility, independence, and fairness already implemented in good. However, there is an obstacle from the implementation of GCG there is a difference in decision-making between the headquarters office in Malang and Jember; the decision is not synchronized with each other. Also, there is a conflict of interest in managing the vendor holding and no transparency between auditors in the case of bad debt with the account officer and credit team.

2.3. Research Method and Hypothesis Formulation

The research model in this research explained the influence of the board of directors, board of commissioners, and managerial ownership on the financial performance of BPR. Variables used in this research included independent variables and dependent variables. The independent variables of this research were the board of directors, board of commissioners, and managerial ownership. Therefore, the dependent variable of this research was financial performance (ROA). The relation between independent variables and dependent variables is illustrated in the figure below.

2.3.1. The influence of Board of Director size on financial performance of BPR

The Board of Commissioners influenced the company performance, for example, in decision making. With a board of directors, there is a need good coordination with the board of commissioners. For example, Pfeffer (1973) and Provan (1980) demonstrated that board size was associated with a firm's ability to extract critical resources such as the amount of budget, external funding, and leverage from an environment. Research on board interlocks may also provide a rationale for expecting larger boards to be associated with positive corporate outcomes (e.g., Bazerman & Schoorman, 1983; Burt, 1980).

Research conducted by Pracinthea (2019) showed a positive relationship between board size and financial performance. Using the analysis regression, the result was that the size of the board of directors has a significant positive effect on financial performance of BPR. Therefore, according to this explanation, the hypothesis can be formulated as follows:

Hypothesis 1: Board of director size has a positive influence on financial performance of BPR

2.3.2. The influence of the Board of Commissioners on the financial performance of BPR

The board of Commissioners acted as the highest internal control mechanism, and it is collectively responsible for supervising and providing input to directors and ensuring that the company has implemented good corporate governance based on applicable rules (KNKG, 2006). Research conducted by Utama (2019) found that the size of the board of commissioners increases firm performance up to a certain level. According to Hafidzi (2019), Commissioners Board size influenced Financial Performance there is a positive relationship between commissioners' board size and financial performance, it showed that when Commissioners Board size increases, Financial Performance will increase. Therefore, according to this explanation, the hypothesis can be formulated as follows:

Hypothesis 2: Board of commissioners has a positive influence on the financial performance of BPR

2.3.3. The influence of Managerial Ownership on the financial performance of BPR

Managerial ownership is one aspect of corporate governance, where managers are involved in share ownership or shareholding. The involvement of managers in shareholding aimed to equalize the interests of managers with the interests of shareholders. This involvement will encourage managers to act with caution because managers will bear the consequence of their decisions. Also, managers will be motivated to improve their performance in managing the company.

Jensen and Meckling (1976) suggested that the structure of equity ownership had an essential effect on managerial incentives and firm value argue that managerial share ownership can reduce managerial incentives behavior and thereby helps in aligning the interests between management and shareholders. Research from Irawati et al. (2019) shows that managerial ownership does influence company performance; there is a positive significant influence on financial performance. Therefore, according to this explanation, the hypothesis can be formulated as follows:

Hypothesis 3: Managerial ownership has a positive influence on financial performance of BPR

2.4.Conceptual Framework

This research is conducted to determine whether or not there is effect of good corporate governance on the financial performances. The good corporate governance are proxied by Board of Director Size, Board of Commissioner Size and Managerial ownership. For the financial performance this research use Return on Asset. The following is a conceptual framework that describes the relationship between variables:

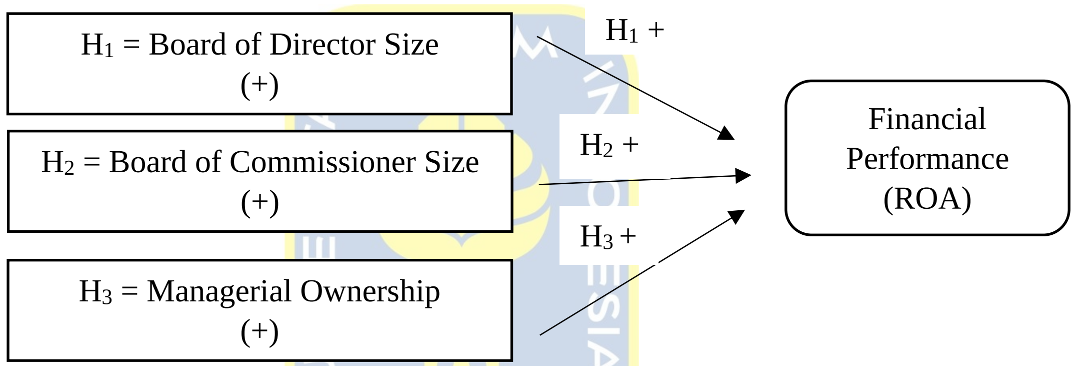

Figure 2.1 Conceptual Framework

CHAPTER III
RESEARCH METHOD

3.1.Population and Sample

The population in this study was BPR in Bali, which are registered on the OJK website during 2018-2021. This research used the purposive sampling method to obtain a representative sample. The criteria for the sample were:

1. BPR that have published financial statements for the period of 31 December 2021 and stated in rupiah (Rp)
2. BPR that has data regarding the disclosure of managerial ownership, number of board of directors, number of board of commissioners and total assets of the company and its annual report for the period of 2018-2021
3. BPR presented data that fully disclosed information regarding the ROA ratio.

3.2.Type and Source of Data

The data used in this study was secondary data that has been compiled and published by existing sources. The data sources for this research were the financial statements published by BPR in Bali, which are registered on the OJK website.

3.3.Data Collection Method

Data collection used the documentation method, namely, the data comes from documents (financial reports) that were already available.

3.4.Research Variable and Operational Definition

Variable is a term frequently used in research projects. It is pertinent to define and identify the variables while designing quantitative research projects (Kaur, 2013). There are three variables used in this research: independent, dependent, and control. Independent variables for this research are the number of board of directors, number of board of commissioners, and managerial ownership. For dependent variable use financial performance measured by Return of Asset (ROA).

3.5.Independent Variable

The independent variable is the antecedent, the independent variable is an active variable and the values of the variable will affect another variable. (Kaur, 2013). The independent variable of this research was number of board of directors, number of commissioners and managerial ownership.

3.5.1. Board of Directors

The Board of Directors meant the organ of the Company that has the authority and full responsibility to manage the Company for the interest of the Company, in accordance with the purposes and objectives of the company as well as to represent the company, either in or out the court in accordance with the provisions of the articles of association. (Law No. 40 of 2007 concerning Limited Liability Companies). So, it can be assumed that the larger the size of board of directors, the more effective the bank's performance.

Formula for board of directors:

Number of board of directors = $\sum$ member of board of directors

3.5.2. Board of Commissioners

The Board of Commissioners and the organ of the company that has the responsibility to conduct a general and/or specific supervision, in accordance with the articles of association, as well as providing a device for Board of Directors (Law No. 40 of 2007 concerning Limited Liability Companies). If the supervision done by the commissioners is not effective agency problem would arise. The bigger the size of board of commissioners, would be easier to control CEO and the supervision would be more effective. The size of board of commissioners is the total of member of board commissioners.

The formula for number of board of commissioners:

Number of Board of Commissioners = $\sum$ member of board of commissioner.

3.5.3. Managerial ownership

Managerial ownership is the number of share ownership owned by the owner, executive board, and management in a company (Sujoko, 2009). Managerial ownership is measured by the percentage of the number of shares owned by the management (board of directors) of the BPR compared to the total shares issued by the BPR.

$$\text{Managerial ownership} = \frac{\text{number of managerial shares}}{\text{number of outstanding}}\ x\ 100\%$$

3.6.Dependent Variable

The dependent variable is the variable that is affected by the independent variable (Kaur, 2013). The dependent variable used in this study is the financial performance of Bank Perkreditan Rakyat (BPR). The measurement for the financial performance of BPR is measured by ROA.

3.6.1. Return of Assets (ROA)

ROA (Return of Assets) is a ratio used to measure the ability of bank management to gain profits by utilizing the total assets owned. ROA can be used to measure the company's effectiveness in generating a profit by using its assets. ROA is important for banks because ROA is used to measure company effectiveness in making a profit by using its assets. The greater the ROA shows that the company's performance is good because the return is getting bigger (Husnan, 1998).

The formula for ROA

$$\text{ROA} = \frac{\text{Net profit before tax}}{\textit{Total Asset}} \times 100\%$$

3.7.Data Analysis Method

This study aimed to obtain empirical data on the effect of good corporate governance on the financial performance of BPR in Bali. This research used a quantitative approach. This study used analytical methods in the form of classical assumption tests and hypothesis testing. The analytical tool used in this study was multiple linear regression analysis using SPSS.

3.7.1. Descriptive Analysis

According to Ghozali (2018), descriptive statistics provided a description of the data seen from the average value (mean), standard deviation, variant, maximum, minimum, sum range, kurtosis, and skewness.

3.7.2. Classical Assumption Tests

The purpose of classical assumption is to provide certainty that the regression equation obtained has accuracy in estimation, is unbiased and consistent. In this study, there were four types of classical assumption tests that would be performed, normality test, heteroscedasticity test, multicollinearity test, and autocorrelation test.

3.7.2.1. Normality Test

A normality test is conducted to test whether, in a regression model, independent variable and dependent variable have normal or abnormal distribution. The study used the One-Sample Kolmogorov Smirnov test. If the value of significant > 5% then the data has a normal distribution. However, if the significant is < 5% then the data does not have a normal distribution.

3.7.2.2. Heteroscedasticity Test

This test aimed to test whether in a regression model there is discomfort variance from the residual in one observation to another. If the variances were different, it is called heteroscedasticity.

3.7.2.3. Multicollinearity Test

The multicollinearity test aimed to determine whether the regression model found a correlation between independent variables or independent variables (Ghozali, 2018). To find the presence or absence of multicollinearity in the regression model, it can be seen from the tolerance value and the value of the variance inflation factor (VIF). The indicator used is for a tolerance value of 0.10 or a VIF value above the number 10.

3.7.2.4. Autocorrelation

According to Ghozali (2018), autocorrelation can arise because consecutive observations over time are related to each other. This problem arose because the residuals were not independent of one observation to another. A good regression model is a regression model that is free from autocorrelation. To detect the presence or absence of autocorrelation is to do a Run Test.

3.7.3. Multiple Linear Regression Test

The data collected were analyzed by a multiple linear regression test. The purpose of multiple linear regression analysis is to determine how much the influence of the independent variable on the dependent variable (Ghozali, 2018). The model in this research is

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Y = Dependent Variable (Return of Assets)

a = Constant

$b_1, b_2, b_3\ldots$ = Regression coefficient

X1 = Independent Variable (Board of director size)

X2 = Independent Variable (Board of commissioner size)

X3 = Independent Variable (Managerial ownership)

e = Error

3.7.3.1. Coefficient Determination

According to Ghozali (2018) coefficient determination (R^2) is a tool to measure the model's ability to explain the influence of the independent variable affects the dependent variable. The value of coefficient determination is between zero/one. A small value of coefficient determination means that the ability of independent variables to explain dependent variables is very limited. However, if the values are close to one, it means that the independent variables could provide all the information needed to predict the dependent variable.

3.7.3.2. F test

F test aimed to find out whether the independent variables simultaneously affect the dependent variable. F test was conducted to see the effect of all independent variables together on the dependent variable (Ghozali, 2018). This test is carried out using a significance level of 0.05. If the significance value is $F < 0.05$ means that the independent variable simultaneously affects the dependent variable, so Ho is rejected, and Ha is accepted. If the significance value is $F > 0.05$ it can be interpreted that independent variables does not have a significant effect on the dependent variable. Thus, Ho is accepted while Ha is rejected.

3.7.3.3. T-test

T-test aimed to test the research hypothesis regarding the effect of each independent variable on the dependent variable. T-test is one of the statistical tests to test the truth/ falsity of the hypothesis. T-test was done by comparing the calculated f value with the value off table. The significance level used is $\alpha = 0.05$. If the significance value of the T-test > 0.05 the Ho is accepted, and Ha is rejected. If the significance value of T-test < 0.05 the Ho is rejected, and Ha is accepted.

CHAPTER IV
RESULT AND DISCUSSION

4.1.Result of Data Collection

This study used BPR financial report data in Bali for the 2018-2021 period obtained from the OJK website. The sample in this study was taken using a purposive sampling technique with criteria that BPR published their financial reports for 2018-2021 including the data used in this study. Using this purposive sampling technique, a sample of 131 was obtained.

4.2.Descriptive Statistics

The first data analysis carried out in this study was descriptive statistics. Descriptive statistics analysis is useful for knowing the data description of each variable consisting of the number N (number of samples used, minimum, maximum, mean, and standard deviation values).

Table 4.1 Descriptive Statistics

	n	Minimum	Maximum	Mean	Std. Deviation
ROA	524	-9.80	9.96	.7524	2.79975
Board of director size	524	.00	4.00	1.8931	.47904
Board of commissioner size	524	.00	4.00	1.9027	.44170
Managerial Ownership	524	.00	98.00	25.3015	28.30405
Valid N (listwise)	524				

The above table showed that relatively BPR in Bali from the period 2018 – 2021 has ROA with average 75%. On the shareholding structure, the average managerial ownership in BPR Bali is 25%. The average ROA from BPR Bali ranked number 1 according to Surat Edaran Bank Indonesia 11/SEOJK.03/2022 about the assessment of the soundness of BPR. Placed in 1st rank showed that BPR in Bali had high and stable operating efficiency hence it had potential to earn high profits when measured by the ratio of ROA. It can be said that the performance of BPR Bali measured by the ratio of ROA showed that BPR Bali had good performance.

For managerial ownership, the average of managerial ownership in BPR Bali is 25%. The number appeared because most of the managerial ownership in BPR Bali was owned by individuals. Meanwhile, for the board structure of BPR Bali, the average number of directors was 2 people and the average number of commissioners is 2 people. Hence the number for the board of directors and board of commissioners in BPR Bali already in line with the regulation from OJK.

4.3.Classical Assumption Test

4.3.1. Normality test

This study used four types of classical assumption tests. The first assumption test is the normality test. A normality test is conducted to test whether, in a regression model, the independent variable and dependent variable have normal or abnormal distribution. If the value of significant > 5% then the data has a normal distribution, and if the significant is < 5% then the data do not have a normal distribution.

In this study, the first normality test showed that the distribution is normal because the significance is more than 0.05. Shown in the table below that the significant is 0.055 > 0.05 hence it can be concluded that the distribution is normal, and this study is passed the normality test.

Table 4.2 Normality Test

		Standardized Residual
N		524
Normal Parameters[a,b]	Mean	.0372007
	Std. Deviation	.84540016
Most Extreme Differences	Absolute	.059
	Positive	.035
	Negative	-.059
Kolmogorov-Smirnov Z		1.341
Asymp. Sig. (2-tailed)		.055

a. Test distribution is Normal.

b. Calculated from data.

4.3.2. Heteroscedasticity test

The second type of classical assumption test is the heteroscedasticity test. The heteroscedasticity test aimed to test whether in a regression model there is a difference variance from the residual in one observation to another (Priyatno, 2012). If the variances from the residual from one to another research are the same, it is considered homoscedastic. The heteroscedasticity test in this research used Glejser. The criteria in heteroscedasticity are if the significant number is more than 0.05 it can be concluded that there is no heteroscedasticity and vice versa.

Table 4.3 Heteroscedasticity test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.026	.445		6.799	.000
	Board of director size	-.286	.182	-.073	-1.572	.117
	Board of commissioner size	-.270	.194	-.064	-1.391	.165
	Managerial Ownership	-.001	.003	-.017	-.388	.698

a. Dependent Variable ABS_RES

The significant number from each independent variable is the Board of Director Size is 0.117, the Board of commissioner size is 0.165 and for Managerial Ownership is 0.698. This heteroscedasticity test showed that the number of significances from three independent variables is more than 0.05 hence it can be concluded that the regression in this study is eligible because there is no heteroscedasticity.

4.3.3. Multicollinearity Test

The multicollinearity test aimed to determine whether the regression model found a correlation between independent variables or independent variables. The criteria of this test are if the variable tolerance >0.10 and VIF < 10 there is no correlation between the independent variable and vice versa.

Table 4.4 Multicollinearity Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-3.370	.641		-5.257	.000		
	Board of director size	.989	.262	.169	3.767	.000	.881	1.135
	Board of commissioner size	1.107	.280	.175	3.954	.000	.910	1.099
	Managerial ownership	.006	.004	.057	1.340	.181	.964	1.037

a. Dependent Variable: ROA

The table showed the tolerance from three variables, Board of Director Size 0.881, Board of Commissioner size 0.910, and Managerial ownership 0/964. It can be seen that the tolerance number from three variables is more than 0.10 and the VIF value is less than 10, which mean that there is no correlation between the independent variable or it can be concluded that there was no multicollinearity between each independent variable in the regression model.

From the overall classic assumption test, the result of the test is passed, and can be concluded that the data is worth to be tested.

4.4.Autocorrelation test

Autocorrelation test is useful for testing whether a correlation is found between the confounding error in period t with the confounding error from previous period (t-1) in the linear regression model (Ghozali, 2018). This research using the Durbin-Watson test. The result of Durbin-Watson can be seen in Table 4.5:

Table 4.5 Autocorrelation test

Model	R	R Squared	Adjusted R Squared	Std. Error of the Estimate	Durbin-Watson
1	.276[a]	.076	.071	2.69844	1.956

a. Predictors: (Constant), Managerial ownership, Board of commissioner size, Board of director size
b. Dependent Variable: ROA

The Durbin-Watson results showed that a Durbin-Watson value at 1.956. This value would be compared to DW table with a sample size is 131, 3 independent variable, and the confidence level is 2%. Durbin-Watson score of 1.956 is between upper bounds of Du (1.799) and 4-DU (2.201). Therefore, it can be concluded that there is no autocorrelation in the data of this study.

4.5.Hypothesis Testing

4.5.1. Coefficient Determination

Coefficient Determination is used to measure how much the impact contribution gives by the independent variable simultaneously to the dependent variable. The score for coefficient determination is between 0 and 1. If the value of Adjusted R Square is close to 1, then it means the capability of the independent variable in explaining the dependent variable is bigger.

Table 4.6 Coefficient Determination

Model	R	R Squared	Adjusted R Squared	Std. Error of the Estimate
1	.276[a]	.076	.071	2.69844

a. Predictors: (Constant), Managerial ownership, Board of commissioner size, Board of director size

Based on the table that showed the adjusted r square is 0.071, it can be known that the structure of good corporate governance as the variable independent which is proxied with the board of director size, board of commissioner size and managerial ownership is only gives contribution or influence for 7.1% toward ROA as the independent variable, meanwhile, the rest 92.9% is explained outside of this research.

4.5.2. Statistic F Test

Statistic F Test is used to measure the influence of the independent variable at the same time towards the dependent variable. In this study, the F test is used to know the influence of variable board of director size, board of commissioner size, and managerial ownership simultaneously towards to variable ROA as the measure of the financial performance of BPR Bali. The following are the results of the F statistical test presented in the table

Table 4.7 Statistic F Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	313.147	3	104.382	14.335	.000[b]
	Residual	3786.432	520	7.282		
	Total	4099.579	523			

a. Dependent Variable: ROA
b. Predictors: (Constant), Managerial ownership, Board of commissioner size, Board of director size

The table showed the result of the statistic F test is that the significance is 0.000 < 0.005 hence can be concluded that the board of director size, board of commissioner size, and managerial ownership simultaneously has a significant influence on the dependent variable, ROA.

4.5.3. Statistic T Test

The statistic T test use to test the influence of each independent variable towards dependent variable individually. The level of significant used in this research is 0.05. if the significant is more than 0.05 then alternative hypothesis is accepted and proved that independent variable has significant influence towards dependent variable. The following are the results of statistics T test presented in the table

Table 4.8 Statistic T Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-3.370	.641		-5.257	.000
	Board of director size	.989	.262	.169	3.767	.000
	Board of commissioner size	1.107	.280	.175	3.954	.000
	Managerial ownership	.006	.004	.057	1.340	.181

a. Dependent Variable: ROA

For influence of Board of Director size toward ROA, the coefficient is 0.989 with t 3.767 and the probability is 0.000 < 00.5, hence, the first research hypothesis is supported by data. This mean the board of director size has positive influence towards ROA. For influence of Board of Commissioner size towards ROA, the coefficient is 1.107 with t 3.954 and the probability is 0.000 < 0.05, hence, the second research hypothesis is supported by data. This mean the board of commissioner size has positive influence towards ROA. Meanwhile, for influence of Managerial ownership towards ROA, the coefficient is 0.006 with 1.340 and a probability 0.181 > 0.05. Therefore, the third research hypothesis is not supported by data. This means the managerial ownership does not have positive influence on ROA.

4.6.The Result of the Hypothesis Test

This research used three hypotheses to understand the influence of good corporate governance on toward the financial performance of BPR Bali which proxies with ROA. Thereby the result of this research:

1. The First hypothesis is that the board of director size has a positive influence on the financial performance of BPR Bali. The result using regression analysis showed that the board of director size has positive influence on the financial performance of BPR Bali, hence the first hypothesis (H1) is accepted.

2. The Second hypothesis is that the board of commissioners has a positive influence on the financial performance of BPR Bali. The result using regression analysis showed that the board of commissioners has positive influence on the financial performance of BPR Bali, hence the second hypothesis (H2) is accepted.

3. The Third hypothesis is that managerial ownership has a positive influence on the financial performance of BPR Bali. The result using regression analysis showed that managerial ownership does not have influence on the financial performance of BPR Bali, hence the third hypothesis (H3) is rejected

4.7.Discussion

4.7.1. The influence of the board of director size on the financial performance of BPR Bali

From the result, the significant number of variable DIR (board of director size) is 0.000 < 0.05 and the Beta value is positive, hence the variable DIR (board of director size) has positive influence on the financial performance of BPR Bali. So, it can be concluded that H1 is accepted. The result of this research are in line with the existing research, such as Pracinthea (2019) who give a conclusion that the influence of the board of director size is strong and that it has a significant influence in managing BPR so it can be interpreted that the influence of the board of director could loosen the agency conflict in BPR that lead to decreasing in BPR performance. Also, Law No. 40 of 2007 concerning Limited Liability Companies who stated that board of directors is responsible for the management of the company for the benefit of the company both inside and outside and ensure that the company activities are follows the existing regulations.

The result of this research are in line with agency theory by Jensen and Meckling (1976) that the higher level of managerial ownership can increase performance because the incentive effect that will motivate agent to act. In accordance with this statement, agents (BPR) are considered capable of carrying out their duties, including their ability to determine policy directions and create short-term and long-term resource strategies owned by the company accompanied by their ability to ensure the balance of interests of all parties, namely agents. and the principal, and are able to ensure that the company's activities are in line with applicable regulations. From the explanation above, it can be understood that the number of BPRs in West Java is able to improve their financial performance, which in this study is measured by the ROA ratio.

The positive result from this regression analysis proved that the increase in BPR financial performance is in line with the increase in the number of directors. This is in accordance with resource dependence which explains that the board in a company has a very important role in managing the company so that the company will depend a lot on its board in terms of resource management.

4.7.2. The influence of the board of commissioners on the financial performance of BPR Bali

From the result, the significant number of variable COM (board of commissioners) is 0.000 < 0.05 and the Beta value is positive, hence the variable COM has positive influence on the financial performance of BPR Bali. So, it can be concluded that H2 is accepted. The result of this research also in line with the existing research such as Utama (2019) who stated that the size of the board of commissioners increases firm performance up to a certain level.

There is an effect of the number of commissioners on financial performance which in this study uses the BPR ROA ratio as a measure, because the average number of commissioners at BPRs in Bali is 2 people in accordance with regulation of Financial Services Authority Number 33/POJK.04/2014 were explained that the task of the board of commissioners is to oversee and provide advice to the board of directors.

If connected with agency theory, in this case the board of commissioners is considered capable of carrying out its duties such as supervising BPR policies and operations as well as providing advice to the directors in accordance with Law no. 40 of 2007 regarding limited liability companies. These results proven that there is a significant influence of the board of directors on the financial performance (ROA) of BPRs in Bali because when Commissioners Board size increases, Financial Performance would increase.

4.7.3. The influence of managerial ownership on the financial performance of BPR Bali

From the result, the significant number of variable MAN (Managerial Ownership) is 0.181 bigger than 0.05, which mean that managerial ownership do not have a significant influence on financial performance measured by ROA. Hence, the H3 is not accepted. Show that managerial ownership do not affect financial performance of a company.

The research results were not in accordance with the agency theory that stated managerial ownership had an essential effect to managerial incentives and can reduce managerial incentives behavior and helped in aligning the interests between management and shareholders (Jensen and Meckling, 1976). The thing that proved that managerial ownership do not affect the financial performance of BPRs in West Java is allegedly because the proportion of managerial ownership is relatively low in this research hence resulting that the management do not feel the influence of managerial decision-making (Nilayanti & Suaryana, 2019).

From the percentage of ownership, most of the ownership owned by managers in BPR Bali are below 25%, this is already in line with authority made by OJK which is Pasal 6 Ayat (2) Peraturan OJK Nomor 4/PJOK 03/2016 managerial member is not allowed to have shares higher than 25%. Hence it made the managers become the minority, thus it made the managers become weak and easy to dismiss by the majority. As the minority in ownership, the managers are not actively included in making decisions hence it does not influence the BPR performance. So, it can be concluded that the implementation of managerial ownership in BPR Bali in order to influence the BPR performance is not effective.

This result is in line with existing research such as research done by Gie (2019) who did similar research that has the same result which is that managerial ownership does not have a significant influence on financial performance. This result is also supported by the research by Nilayanti & Suaryana (2019), Febrianto (2020), and Holly & Lukman (2021) who stated that managerial ownership does not have an influence on financial performance.

CHAPTER V
CONCLUSION

5.1. Conclusion

Based on the result of the study on the influence of good corporate governance on BPR Bali's financial performance from 2018-2021, can be concluded that the GCG structure which is proxied by the size of the board of directors and the size of the board of commissioners has positive influence on ROA which is used to measure the financial performance of BPR Bali. However, managerial ownership do not have a influence on the financial performance of BPR Bali.

The conclusion of this study is that both the board of directors had a powerful role in managing BPR in Bali and board of commissioners had powerful role in oversee the management hence it had a significant influence on BPR's financial performance. It also can mean that the role of directors and commissioners is able to minimize the agency conflict in BPR which can reduce BPR performance.

5.2. Research Implications

This researcher hopes that with this research, BPR are expected to continue implement the Good Corporate Governance in the system especially for the board of directors and the size of the board of commission. This research is also expected to contribute to BPR in continue to implementing Good Corporate Governance to improve the performance of BPR. This researcher also hope that this research can contribute for future researchers who want to research about the structure of Good Corporate Governance in BPR.

5.3. Research Limitations

This study has several limitations that can be used for consideration for future research, including:

1. This research only used one province hence the result depends on the characteristic of BPR in that area.

2. This research only explained the 7.1% influence of good corporate governance on ROA.

5.4. Suggestion

1. Researcher advised the next research to use wider proxy for good corporate governance which has not been used in this research.

2. For the sample for the next research, it is better to use another province that has not been studied because every province has different characteristics

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APPENDIX

Appendix 1

	n	Minimum	Maximum	Mean	Std. Deviation
ROA	524	-9.80	9.96	.7524	2.79975
Board of director size	524	.00	4.00	1.8931	.47904
Board of commissioner size	524	.00	4.00	1.9027	.44170
Managerial Ownership	524	.00	98.00	25.3015	28.30405
Valid N (listwise)	524				

Appendix 2

		Standardized Residual
N		524
Normal Parameters[a,b]	Mean	.0372007
	Std. Deviation	.84540016
Most Extreme Differences	Absolute	.059
	Positive	.035
	Negative	-.059
Kolmogorov-Smirnov Z		1.341
Asymp. Sig. (2-tailed)		.055

a. Test distribution is Normal.

b. Calculated from data.

Appendix 3

Heteroscedasticity test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.026	.445		6.799	.000
	Board of director size	-.286	.182	-.073	-1.572	.117
	Board of commissioner size	-.270	.194	-.064	-1.391	.165
	Managerial Ownership	-.001	.003	-.017	-.388	.698

Appendix 4

Multicollinearity Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-3.370	.641		-5.257	.000		
	Board of director size	.989	.262	.169	3.767	.000	.881	1.135
	Board of commissioner size	1.107	.280	.175	3.954	.000	.910	1.099
	Managerial ownership	.006	.004	.057	1.340	.181	.964	1.037

a. Dependent Variable: ROA

Appendix 5

Autocorrelation test

Model	R	R Squared	Adjusted R Squared	Std. Error of the Estimate	Durbin-Watson
1	.276[a]	.076	.071	2.69844	1.956

a. Predictors: (Constant), Managerial ownership, Board of commissioner size, Board of director size
b. Dependent Variable: ROA

Appendix 6

Coefficient Determination

Model	R	R Squared	Adjusted R Squared	Std. Error of the Estimate
1	.276[a]	.076	.071	2.69844

a. Predictors: (Constant), Managerial ownership, Board of commissioner size, Board of director size

Appendix 7

Statistic F Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	313.147	3	104.382	14.335	.000[b]
	Residual	3786.432	520	7.282		
	Total	4099.579	523			

a. Dependent Variable: ROA

b. Predictors: (Constant), Managerial ownership, Board of commissioner size, Board of director size

Appendix 8

Statistic T Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-3.370	.641		-5.257	.000
	Board of director size	.989	.262	.169	3.767	.000
	Board of commissioner size	1.107	.280	.175	3.954	.000
	Managerial ownership	.006	.004	.057	1.340	.181

a. Dependent Variable: ROA