**GOVERNANCE, RISK MANAGEMENT AND FINANCIAL PERFORMANCE**

**(Conventional BPR Survey for OJK Region)**

**Cecep Taufiqurrochman**

Sekolah Tinggi Ilmu Ekonomi , Bandung, Indonesia

\*Corresponding Author: author@university.edu

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Abstract:**The application of governance, risk management in improving financial performance at the Rural Bank (BPR) must be supported by rules and management guidelines, so that it can clearly be applied by all elements of the company, which in its implementation must be evaluated periodically.

This study aims to determine and analyze and evaluate data in the field to find clarity on phenomena about governance, risk management, and financial performance of BPR in Bandung Region, and to measure the effect of governance on risk management and its implications for financial performance.

The unit of analysis in this study is a conventional Rural Bank (BPR) in the working area of the Greater Bandung Financial Services Authority (OJK) with a population of 57 BPR, by taking a sample of all members of the population. Data collection was carried out using questionnaire data for the management of each BPR using a Likert scale. Test the instrument using validity, reliability, normality and analysis tools using SPSS 23 with simple linear regression analysis.

Governance consists of dimensions of openness, accountability, responsibility, independence and fairness. Risk management consists of supervisory dimensions, policy procedures and risk limits, risk management processes and internal controls while the dimensions of financial performance are capital aspects, asset quality aspects, profitability aspects and liquidity aspects.

The results showed that governance has a positive and significant effect on risk management, and risk management has a positive and significant influence on financial performance.

#### Keywords: Governance, Risk Management, Financial Performance.

***\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_***

**1. Introduction**

Banking is an institution that functions as a financial intermediary between parties who have excess funds and those who lack of funds. As an intermediary, Banks play an important role in raising funds and channeling them to the real sector in order to encourage economic growth (Agent of Development).

The banking sector also acts as an organizer and provider of financial services and payment system traffic (Agent of Services). With this role, banks have become institutions that have influenced the development of a country's economy. Therefore, banks must be able to maintain their performance in order to become a healthy industry.

Banks as befits a company, have goals, both short-term and long-term goals, in the short term the company aims to obtain maximum profit by using existing resources, while in the long run the company's main goal is to maximize the value of the company (Ikbal et al. 2011). To achieve these objectives, the Bank must be managed by applying the principles of good governance.

In practice in Indonesia according to the Law of the Republic of Indonesia No. 7 of 1992 concerning Banking, as amended by Banking Law No. 10 years bank types consist of: (1) Commercial banks and (2) Rural Credit Banks (BPR).

In order to improve performance, strengthen institutions and enhance the reputation of the BPR industry, OJK as the authority that has the task of regulating and overseeing financial service activities, in 2015 has issued two regulations at once, namely:

1. Financial Services Authority Regulation Number 4 / POJK.03 / 2015 concerning Application of Governance for Rural Credit Banks.
2. Financial Services Authority Regulation Number 13 / POJK.03 / 2015 concerning Application of Risk Management for Rural Credit Banks.

Article 2, POJK No.4 / POJK.03 / 2015 states that: (1) BPR is required to apply Governance in every business activity at all levels or levels of the organization. The governance referred to in the POJK is BPR governance which applies the principles of transparency, accountability, responsibility, independence and fairness. Whereas Agoes (2011: 101) defines Good Corporate Governance (GCG):

"As a system that regulates the relationship between the role of the Board of Commissioners, the roles of Directors, shareholders and other stakeholders. Good corporate governance is also referred to as a transparent process for determining company goals, achieving them and evaluating their performance."

Article 2 POJK No. 13/2015 states that: BPR must implement Risk Management. BPR Risk Management is carried out to ensure that credit risk, operational risk, compliance risk, liquidity risk, reputation risk, and strategic risk faced by BPR businesses can be managed properly. Meanwhile, according to Tjahjadi (2011) risk management is an approach that adopts a consistent system to manage all risks faced by companies.

Performance appraisal in the BPR industry, to date Bank Indonesia / OJK uses assessments based on the soundness of the bank, namely through Bank Indonesia Board of Directors Decree No.30 / 12 / KEP / DIR and Circular Letter No.30 / 3 / UPPB dated April 30, 1997 concerning Procedures for Assessing the Soundness of Rural Banks. The method used in assessing bank performance through measurement of bank soundness is better known as the CAMEL Method with the elements assessed as follows: (1) Capital Factor (C); (2) Asset Quality (A); (3) management factors (General Management & Risk Management); (4) Earnings Factor (E) and (5) Liquidity Factor (L). According to Rudianto (2013: 189) Financial performance is the result or achievement that has been achieved by company management in managing company assets effectively during a certain period. Financial performance is needed by the company to find out and evaluate the level of success of the company based on financial activities that have been carried out.

In improving financial performance, corporate governance needs to be optimized, and through risk management the company must be able to adopt a consistent system to manage all risks faced by the company.

In practice in Indonesia according to the Law of the Republic of Indonesia No. 7 of 1992 concerning Banking, as amended by Banking Law No. 10 years bank types consist of: (1) Commercial banks and (2) Rural Credit Banks (BPR).

In order to improve performance, strengthen institutions and enhance the reputation of the BPR industry, OJK as the authority that has the task of regulating and overseeing financial service activities, in 2015 has issued two regulations at once, namely:

1. Financial Services Authority Regulation Number 4 / POJK.03 / 2015 concerning Application of Governance for Rural Credit Banks.

2. Financial Services Authority Regulation Number 13 / POJK.03 / 2015 concerning Application of Risk Management for Rural Credit Banks.

Article 2, POJK No.4 / POJK.03 / 2015 states that: (1) BPR is required to apply Governance in every business activity at all levels or levels of the organization. The governance referred to in the POJK is BPR governance which applies the principles of transparency, accountability, responsibility, independence and fairness. Whereas Agoes (2011: 101) defines Good Corporate Governance (GCG):

"As a system that regulates the relationship between the role of the Board of Commissioners, the roles of Directors, shareholders and other stakeholders. Good corporate governance is also referred to as a transparent process for determining company goals, achieving them and evaluating their performance."

Article 2 POJK No. 13/2015 states that: BPR must implement Risk Management. BPR Risk Management is carried out to ensure that credit risk, operational risk, compliance risk, liquidity risk, reputation risk, and strategic risk faced by BPR businesses can be managed properly. Meanwhile, according to Tjahjadi (2011) risk management is an approach that adopts a consistent system to manage all risks faced by companies.

Performance appraisal in the BPR industry, to date Bank Indonesia / OJK uses assessments based on the soundness of the bank, namely through Bank Indonesia Board of Directors Decree No.30 / 12 / KEP / DIR and Circular Letter No.30 / 3 / UPPB dated April 30, 1997 concerning Procedures for Assessing the Soundness of Rural Banks. The method used in assessing bank performance through measurement of bank soundness is better known as the CAMEL Method with the elements assessed as follows: (1) Capital Factor (C); (2) Asset Quality (A); (3) management factors (General Management & Risk Management); (4) Earnings Factor (E) and (5) Liquidity Factor (L). According to Rudianto (2013: 189) Financial performance is the result or achievement that has been achieved by company management in managing company assets effectively during a certain period. Financial performance is needed by the company to find out and evaluate the level of success of the company based on financial activities that have been carried out.

In improving financial performance, corporate governance needs to be optimized, and through risk management the company must be able to adopt a consistent system to manage all risks faced by the company.

**RESEARCH METHOD**

The research method is a quantitative method that is descriptive and verification. Descriptive research is research whose purpose is to obtain a description of BPR governance, risk management and financial performance. Data collection by observation and questionnaire, with a simple linear regression research model and a sample of 57 BPR managers in Bandung Raya. The variables studied are:

1. Governance as an independent variable with the dimensions of Openness, Accountability, Accountability, Independence, Justice (POJK No. 4.03 / 2015)
2. Risk management as an intervening variable with the dimensions of Supervision, Policies, procedures and risk limits, the process of risk management and internal control (POJK No.13 / 03/2015)
3. Financial performance as a dependent variable with dimensions of capital aspects, asset quality aspects, profitability aspects, liquidity aspects (SENo.30 / 3 / .1997)
4. **Validity Test**

**1.1 Governance Validity Test**

**Table 1: Governance Validity Test (X)**

| Symbol | Dimension | Question | r count | r critical | Explanation |
| --- | --- | --- | --- | --- | --- |
| X-1 | Opennes | Item 1 | 0,369 | 0,300 | Valid |
| Item 2 | 0,450 | 0,300 | Valid |
| Item 3 | 0,646 | 0,300 | Valid |
| Item 4 | 0,384 | 0,300 | Valid |
| X-2 | Accountability | Item 5 | 0,560 | 0,300 | Valid |
| Item 6 | 0,567 | 0,300 | Valid |
| Item 7 | 0,565 | 0,300 | Valid |
| Item 8 | 0,622 | 0,300 | Valid |
| Item 9 | 0,512 | 0,300 | Valid |
| X-3 | Responsibility | Item 10 | 0,517 | 0,300 | Valid |
| Item 11 | 0,501 | 0,300 | Valid |
| Item 12 | 0,664 | 0,300 | Valid |
| Item 13 | 0,469 | 0,300 | Valid |
| X-5 | Fairness | Item 14 | 0,456 | 0,300 | Valid |
| Item 15 | 0,381 | 0,300 | Valid |

*Source: The result from data processing (2019)*

Based on Table 1 above shows that the highest value on item 12 is 0.644, and the lowest value on item 1 is 0.369.

**1.2 Test the Validity of Risk Management Variables**

**Table 2: Test the Validity of Risk Management Variables**

| Symbol | Dimension | Statement | r count | r critical | Explanation |
| --- | --- | --- | --- | --- | --- |
| Y-1 | Active Supervison FromCommisionaire Director | Item 1 | 0,531 | 0,300 | Valid |
| Item 2 | 0,576 | 0,300 | Valid |
| Item 3 | 0,427 | 0,300 | Valid |
| Item 4 | 0,314 | 0,300 | Valid |
| Y-2 | Risk Management Policy | Item 5 | 0,412 | 0,300 | Valid |
| Item 6 | 0,476 | 0,300 | Valid |
| Item 7 | 0,425 | 0,300 | Valid |
| Item 8 | 0,506 | 0,300 | Valid |
| Y-3 | Risk Management Process | Item 9 | 0,495 | 0,300 | Valid |
| Item 10 | 0,394 | 0,300 | Valid |
| Item 11 | 0,377 | 0,300 | Valid |
| Item 12 | 0,623 | 0,300 | Valid |
| Y-4 | Internal Control System | Item 13 | 0,551 | 0,300 | Valid |
| Item 14 | 0,424 | 0,300 | Valid |
| Item 15 | 0,332 | 0,300 | Valid |

*Source: Data Processing Result*

Based on Table 2 above shows that the highest value on item 12 is 0.623, and the lowest value on item 15 is 0.332

**1.3 Validity of Financial Performance Variables Test (Financial Performance)**

**Table 3: Test the Validity of Financial Performance Variables**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Symbol | Dimension | Statement | r count | r critical | Explanation |
| Z | Fund Performance | Item 1 | 0,729 | 0.30 | Valid |
| Item 2 | 0,657 | 0.30 | Valid |
| Item 3 | 0,701 | 0.30 | Valid |
| Asset Quality Performance | Item 4 | 0,743, | 0.30 | Valid |
| Item 5 | 0,757 | 0.30 | Valid |
| Item 6 | 0,718 | 0.30 | Valid |
| Item 7 | 0,574 | 0.30 | Valid |
| Rentability Performance | Item 8 | 0,617 | 0.30 | Valid |
| Item 9 | 0,446 | 0.30 | Valid |
| Item 10 | 0,617 | 0.30 | Valid |
| Item 11 | 0,433 | 0.30 | Valid |
| Item 12 | 0,428 | 0.30 | Valid |
| Liquidity Performance | Item 13 | 0,323 | 0.30 | Valid |
| Item 14 | 0,309 | 0.30 | Valid |
| Item 15 | 0,333 | 0.30 | Valid |

Source: Data Processing Result

Based on Table 3 above shows that the highest value on item 5 is 0.757, and the lowest value on item 14 is 0.309

1. **Reliability Test**

**Table4: Overall Variable Reliability Test**

|  |  |  |  |
| --- | --- | --- | --- |
| Variabel | r-count | r-table | Explanation |
| Governance | 0,862 | 0.700 | Reliable |
| Risk Management | 0,836 | 0.700 | Reliable |
| Financial Performance | 0,896 | 0.700 | Reliable |

Source : Data Processing Result

Table 4 shows the three variables declared reliable, because the Cronbach, s alpha value is greater than 0.700.

1. **Normality Test**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Table 5: One-Sample Kolmogorov-Smirnov Test** | | | | |
|  | | Governance | Risk Management | Financial Performance |
| N | | 57 | 57 | 57 |
| Normal Parametersa,b | Mean | 58,8070 | 62,2281 | 58,4211 |
| Std. Deviation | 4,66919 | 4,19616 | 4,98909 |
| Most Extreme Differences | Absolute | ,091 | ,079 | ,107 |
| Positive | ,091 | ,071 | ,062 |
| Negative | -,061 | -,079 | -,107 |
| Test Statistic | | ,091 | ,079 | ,107 |
| Asymp. Sig. (2-tailed) | | ,200c,d | ,200c,d | ,157c |
| a. Test distribution is Normal. | | | | |
| b. Calculated from data. | | | | |
| c. Lilliefors Significance Correction. | | | | |
| d. This is a lower bound of the true significance. | | | | |

The data in table 5 above shows that all variable data follow the normal data distribution using the Kolmogorov-Smimov test showing a p-value> 0.05, where Asymp, the significance obtained from the processing results for X = 0,200, Y = 0,200, Z = 0.157, = greater than the level of significance. Then the data to measure the research variables show the results that there are no significant differences or accept Ha, meaning that the sample comes from populations that are normally distributed or there is no significant difference between sample data that are from populations that are normally distributed.

**Table6: Recapitulation of Respondents' Responses on Governance (X)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| NO | Dimension | ∑Score | Number of Questions | Average | Criteria |
| 1 | Openness | 228 | 4 | 4,00 | Good |
| 2 | Accountability | 227 | 5 | 3,98 | Good |
| 3 | Responsibility | 223 | 4 | 3,91 | Good |
| 4 | Fairness | 216 | 2 | 3,79 | Good |
|  | **TOTAL** | **894** | **15** | **3,92** | **Good** |

Source : Data Processing Result

Table 6 above shows that the results of the recapitulation of respondents' responses to Governance with the number of statements 15 indicate good criteria.

**Table 1.7Recapitulation of Respondents' Responses About Risk Management (Y)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| NO | Dimension | ∑Score | Number of Questions | Average | Criteria |
| 1 | Active Supervison From Commisionaire Director | 236 | 4 | 4,14 | Good |
| 2 | Risk Management Policy | 248 | 4 | 4,35 | Very Good |
| 3 | Risk Management Process | 235 | 4 | 4,11 | Good |
| 4 | Internal Control System | 225 | 3 | 3,94 | Good |
|  | **TOTAL** | **889** | **15** | **3,90** | **Good** |

Source : Data Processing Result

The table above shows that the results of the recapitulation of Respondents' responses to Risk Management with the number of statements 15 indicate good criteria.

**Table 1.8: Recapitulation of Respondents' Responses About Financial Performance (Z)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| NO | Dimension | ∑Score | Number of Questions | Average | Criteria |
| 1 | Fund Performance | 219 | 3 | 3,84 | Good |
|  | Asset Quality Performance | 217 | 4 | 3,81 | Good |
| 3 | Rentability Performance | 224 | 5 | 3,94 | Good |
| 4 | Liquidity Performance | 229 | 3 | 4,02 | Good |
|  | **TOTAL** | **889** | **15** | **3,90** | **Good** |

*Source : Data Processing Result*

The table above shows that the results of the recapitulation of Respondents' responses to Financial Performance with the number of statements 15 indicate good criteria.

The results of the analysis of individual characteristics and motivation for the facilitator's performance are as follows:

0,607

0,639

Financial Performance

Risk Management

Governance

R22= 0,409

R21= 0,369

**Picture 1.1**

**The Effect of Governance on Financial Management and Its ImplicationsTowards Financial Performance**

**Table 9: Determination Coefficient**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Hypothesis** | **Coefficient Track** | **F-count** | **Sig.** | **Determination Coefficient** | **Errovar Value** |
| Governance Influences Risk Management | 0,607 | 32,166 | .000 | 0,369 | 0,639 |
| Governance Influences Financial Performance | 0,639 | 38,022 | .000 | 0,409 | 0,591 |

*Source: processed by researchers from SPSS 23*

**3. Discussion and Conclusion**

The results of the descriptive analysis show that governance, risk management and financial performance on the criteria of "Good", and an explanation of each dimension of each variable as follows:

1. BPR governance formed with the dimensions of Openness, Accountability, Responsibility and Fairness (fairness) is in good criteria, the value of the largest dimension of openness dimension with an average value of 4.00 criteria is good, while the smallest dimension value in the fairness dimension with fairness an average of 3.79 with good criteria. All dimensions as a whole are in good criteria but there are still weaknesses, namely that BPRs in Bandung Raya have not fully implemented a reward and sanction system for their employees in supporting better BPR governance.
2. Risk management formed with the dimensions of Active Supervision of Directors and Commissioners, Risk Management Policy, Risk Management Process and Internal Control System are in good criteria, the largest dimension value of Risk Management Policy dimensions with an average value of 4.35 criteria is very good, while the value is the smallest dimension of the Internal Control System with an average value of 3.94 good criteria, but there are still weaknesses, namely to make a better internal control system BPR must implement a comprehensive internal control system that is able to detect weaknesses and deviations that occur, in a timely manner not optimal. The implementation of effective internal control is the responsibility of all operational work units, risk management work units and BPR internal audit work units.
3. Financial Performance formed with the dimensions of Capital Performance, Asset Quality Performance, Rentability Performance and Liquidity Performance are in Good criteria, the largest dimension of liquidity performance dimensions with an average value of 4.02 with good criteria and the lowest average value in Asset Quality performance 3.81 with good criteria, but there are still weaknesses that are less than optimal in obtaining the right liquidity ratio in the sense that it is not excessive, excess liquidity means that the BPR is in a cash idle condition that will reduce the BPR revenue.

The results of the verification study showed that:

1. Governance has a positive and significant impact on risk management, meaning that if governance is carried out properly and optimally, the application of risk management will be good and optimal.
2. Risk management has a positive and significant impact on financial performance, meaning that if the application of management is further enhanced the BPR's financial performance will increase.

**CONCLUSION**

1. The implementation of governance principles at BPR in Greater Bandung in general has been well implemented,
2. The application of risk management to rural banks in Greater Bandung, is generally good,
3. The financial performance of rural banks in Bandung Raya is generally good.
4. Governance has been proven to have a significant effect on Risk Management of Rural Banks in Bandung Raya. This indicates that good governance can encourage the implementation of good risk management.
5. The application of risk management has been proven to have a significant effect on financial performance of rural banks in Greater Bandung. This indicates that the application of good risk management will result in good financial performance.

**References**

Ikbal, M., Sutrisno, dan A. Djamhuri. 2011. *Pengaruh Profitabilitas dan Kepemilikan Insider Terhadap Nilai Perusahaan dengan Kebijakan Utang dan Kebijakan Dividen sebagai Variabel Intervening*.KumpulanMakalah, Simposium Nasional Akuntansi (SNA) XIV, Aceh, 21-22Juli, h 1-36.

Peraturan Otoritas Jasa Keuangan Nomor4/POJK.03/2015tentang Penerapan Tata Kelola bagi Bank Perkreditan Rakyat.

Peraturan Otoritas Jasa Keuangan Nomor 13/POJK.03/2015 tentang Penerapan Manajemen Risiko bagi Bank Perkreditan Rakyat.

Rudianto. 2013. *Akuntansi Manajemen Informasi untuk Pengambilan Keputusan Strategis.* Jakarta: Erlangga.

Tjahjadi. Bambang. 2011. Hubungan Sistem Manajemen Risiko Dengan Ketidakpastian Lingkungan Dan Strategi Serta Dampak Terhadap Kinerja Organisasi*. Majalah Ekonomi,* XXI (2).

Undang Undang Republik Indonesia No. 7 tahun 1992 tentang Perbankan.

Undang-Undang Perbankan No. 10 tahun jenis bank terdiri: (1) Bank umum dan (2) Bank Perkreditan Rakyat (BPR).