

THE INFLUENCE OF THE QUALITY OF GCG, INFORMATION TECHNOLOGY COST, HUMAN RESOURCES DEVELOPMENT COST, COMPETITIVE ADVANTAGE (BOPO) ON COMPANY PERFORMANCE (ROA)

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ABSTRACT

The decline in bank profitability in Indonesia reflects a decrease in net profit after tax in the second semester of 2014 of IDR 53.72 trillion, which was IDR 58.43 trillion in the previous semester. The ROA ratio fell from 3.02% in the first half of 2014 to 2.85%. The unstable condition of performance growth is allegedly related to aspects of competitive advantage, human resource development cost, IT cost and GCG quality. Therefore, this study aims to measure the influence of GCG, IT development cost, human resource development cost, and competitive advantage to bank performance either simultaneously or partially. Unit of analysis is limited to Conventional Commercial Banks that Go Public on Indonesia Stock Exchange. The position until December 2016 amounted to 43 conventional commercial banks that have been listed on the Stock Exchange. However, only 37 Banks with successfully obtained the data completely. The periodization of data is determined for 72 months (early 2011 to 2016), among others, to meet the requirements of data analysis and to represent the population taken. The design of the analysis used in this study is the regression for panel data. The test results show that GCG Quality, Investment of IT/IT Cost and Human Resources Development Cost and BOPO simultaneously and partially have significant effect on ROA.

Keywords : GCG quality, Investment of IT/IT Cost, Human Resources Development Cost, BOPO, ROA.

1. INTRODUCTION

1.1 Research Background

One of the measurements of bank performance activities is profit or profitability. One of the commonly used indicators of profitability is ROA (return on asset) ratio. Citing the Banking Annual Report 2014 published by the Financial Services Authority, stated that in general the performance of conventional banks' profitability in 2014 decreased compared to 2013. This is reflected in the decline in ROA and Net Interest Margin (NIM) Respectively at 2.85% and 4.23%, compared to December 2013 position of 3.08% and 4.89%, respectively.

Furthermore, in the Financial Stability Review volume 24, March 2015, published by Bank Indonesia, mentioned that, amid the economic slowdown, the banking industry is still able to record gains by the end of second half of 2014, although slightly decreased compared to the previous semester. The decline in bank profitability was reflected in the decrease in net profit after tax in the second half of 2014 of IDR 53.72 trillion, which was IDR 58.43 trillion in the previous semester. Accordingly, the ratio of ROA fell from 3.02% in the first half of 2014 to 2.85%.

The unstable condition of the growth of banking performance, allegedly related to the aspect of competitive advantage. Competitive advantages according to Wheelen and Hunger (2012) can be obtained with low cost and product differentiation and customer intimacy strategies, which in turn if the both strategies are combined will be a focus strategy. Tabak et al. (2011) concluded that competition affects risk in a non-linear pattern, the size of the bank explains the competitive advantage, the capital ratio explains the advantage of lower competition. In addition, Gates and Pascal (2010), conducted an analysis of the relationship of HCM, strategies and company performance with HR managers' perceptions. The results of his research indicate that the more advanced a company in the development of HCM, the higher the company's performance; and companies follow differentiation strategies, HR managers are interested in innovation indicators, while they follow cost reduction strategies, HR managers are interested in efficiency indicators.

On the other hand, the condition also allegedly caused by a poor corporate governance. Fahy et al. (2005) argue that simply Corporate Governance (CG) is a system and process designed to direct and control an organization to achieve improved performance and increase shareholder value continuity. Based on the data from the Financial Services Authority for 5 years (2010-2015) showed an average annual GCG quality improvement for 2.67%. The absolute value of GCG quality as of June 2010 is still 2.919 while as of June 2015 it is 2,206.

Bank Indonesia as the supervisory authority of the banking sector in Indonesia is very concern with the improvement of the quality of banking human resources, therefore since 1999 banks are required to set aside 5% of the total cost of human resources for the development of human resources. Financial Services Authority's data shows that during the last 5 years (2010-2015), the

cost of developing of go public banking human resources in Indonesia, increasing. The average annual growth cost of HR development over the 5 years is 39.40%, exceeding the 36.97% average annual IT development cost. Throughout the 5 years the trend of human resource development costs are increasing, which shows the need for human resources development capabilities to support operational activities. Meanwhile, IT banking spending, especially banks with large assets, the amount of IT related to expenditure needs is relatively very large.

Based on the description, the phenomenon of GCG, IT development cost, human resource development cost, and competitive advantage are interesting to be examined in relation to the improvement of bank performance.

1.2 Research Objectives

This research aims to examine the influence of GCG quality, IT development cost, human resource development cost, and competitive advantage to bank performance in Indonesia.

2. LITERATURE REVIEW

2.1 GCG Quality

The World Bank report (2002) defines corporate governance as "the organization and rules that affect expectations about the exercise of control of resources in a firm". Fahy et al. (2005) argue that Corporate Governance (CG) is systems and processes designed to direct and control an organization to achieve improved performance and increase shareholder value continuity. Tariq et al. (2014) investigate the effectiveness of GCG on the financial efficiency of the banking industry in Pakistan. The results of Nur'ainy et al. (2013), show the effect of GCG implementation on company performance as measured by EVA. The GCG quality assessment in this study is measured by GCG value sourced from the compilation of data from DPIP.

2.2 IT Investment/ IT Development Cost

One of the impacts of IT usage in the financial services industry is on the efficiency and effectiveness of staff numbers and career paths. Implementation of IT risk management of banks in terms of application of IT Governance should be a commitment of the management and IT users to the bank. Chae et al. (2014) explain that some research supports a positive relationship between information technology capability and company performance. The dimension of the variable of Information Technology Development Cost in this research consists of two aspects: 1) The amount of IT costs incurred by each issuer of the bank, and 2) The amount of post of IT investment costs taken from LBU.

2.3 Human Resources Development Cost

There is an influence of HR practices and organizational commitment to the operating performance and profitability of business units (Wright et al., 2003). The amount of human resource development costs (excluding infrastructure), at least 5% of the total cost of bank human resources last year. The cost of Human Resource Development in the banking services industry in this study is measured by the size of the Human Resources Development cost taken from the LBU.

2.4 Competitive Advantage (BOPO)

Hunger and Wheelen (2012) state that competitive advantage is a set of strategies to determine the superiority of a company from competitors. Goetsch (2006) discusses the notion of competitive advantage according to Michael E. Porter which remains relevant in the present era, the heart of the company's performance in a competitive market. Treacy and Wiersema (1997) add that three critical disciplines to be market leaders are operational excellence (low cost), product leadership (product differentiation) and customer intimacy. Components of competitive advantage in this study is low cost (BOPO ratio). The ratio of BOPO is one of the aspects used by national and global authorities in the component of bank healthy.

2.5 Company Performance (ROA)

Fabozzi and Drake (2009) explain that in assessing the performance of a company's operations, the main concern is if the company manages its assets in an efficient and profitable way. Hahn and Powers (2010, p.68-69) explain that the measure used to test banking performance is return on assets (ROA) because it is a measure of the performance of the primary banking industry (FDIC, 1995). ROA is one form of ROI, where the use of this measure is consistent with Porter's suggestion (1980, 1985) that ROI is an appropriate performance measure. Based on previous research, ROA is defined as net income divided by total assets. Al-Tamimi and Jabnoun (2010, p.185) explain that bank performance is measured by ROA and ROE. Thus, the company's performance in this study is assessed from the financial aspect with the ratio of ROA.

2.6 Hipotesis

Based on the literature review above, the hypothesis in this research is "GCG quality, IT development cost, human resource development cost, and competitive advantage affect on bank performance either simultaneously or partially".

3. RESEARCH METHODOLOGY

The sources of data in this study are secondary data and as a confirmation for this study, will be used primary data using interview technique / FGD with the competent party (senior management). The unit of analysis is restricted to a Go Public Conventional Bank on Indonesia stock exchange. The position until December 2016 amounted to 43 conventional commercial banks that have been listed on the Indonesian Stock Exchange. However, only 37 Banks with complete data were successfully obtained because of consistency of data series is at least last 6 years that is from 2011 to 2016, while other banks do not have data series of 6 annual, among others, to meet the requirements of data analysis and to represent the population taken.

The design of the analysis to be used in this study is the regression for panel data. Panel data regression is a regression analysis that combines time series data with cross sections, where the same cross section unit is measured at different times.

The model used as follow :

$$Z_{it} = \beta_{0i} + \beta_{21} X_{1it} + \beta_{22} X_{2it} + \beta_{23} X_{3it} + \beta_{24} Y_{1it} + e_{it}$$

Description :

X1 = GCG Quality

X2= IT Development Cost

X3= Human Resources Development Cost

Y = Competitive Advantage of conventional *Go Public banking (BOPO)*

Z = Performance of conventional *Go Public*

β = coefficient of regression

e =error

i = 1,2,3...n

t = time

4. RESULT AND DISCUSSION

Selection of Estimation Model for the best regression model parameters

The test done by *Chow-Test* with hypothesis :

Ho : model uses *Common effect Model*

H₁ : model uses *fixed effect model*

Table 1. Result of Chow Test

Chi-Square	Prob	Kesimpulan
0.000	0.000	Ho rejected; Fixed Effect

The value of prob chi-square is bigger than alpha 0.05, H₀ rejected so that the model is fit to use Fixed Effect Model.

The test done by *Hausman* test with hypothesis:

Ho : model uses *Random Effect Model*

H₁ : model uses *fixed effect model*

Table 2. Result of Hausman Test

Statistics Uji χ^2	Prob	Conclusion
11.857	0.0184	Ho rejected <i>fixed effect model</i>

Based on the above table it is known that p value < α (0.05) so that Ho is rejected, then it can be concluded that the data more fit to use fixed effect model.

The test results of Econometric Model is as follows:

$$ROA_{it} = 9.724 - 0.0783GCG_{it} - 0.0000014IT_{it} + 0.00000376SDM_{it} - 0.0919BOPO_{it} + e_{it}$$

A. Simultaneous hypothesis

$$H_0 : \beta_{11} = \beta_{12} = \beta_{13} = \beta_{14} = 0$$

There is no influence of GCG quality, IT development/investment cost, human resource development cost, and BOPO on ROA.

H₁ : at least there is $\beta_{ij} \neq 0$

There is influence of GCG quality, IT development/investment cost, human resource development cost, and BOPO on ROA.

Table 3
Simultaneous hypothesis

F-statistic	Prob (F-statistic)	Description
3165.262	0.000*	Ho rejected

*significant at $\alpha=0.05$

The test results show that simultaneously there is influence from GCG Quality, IT Development / Investment Cost, Human Resource Development and BOPO on ROA with R^2 value obtained from the model amounted to 84.24%.

B. Partial Hypothesis

Table 4
Partial Hypothesis

Hyphotesis	β_{ij}	Prob
GCG	-0.078245	0.0125
TI	-0.0000014	0.0000
SDM	0.00000375	0.0000
BOPO	-0.091902	0.0000

*significant at $\alpha=0.05$

The regression equation above is in line with the hypothesis that “the increasing of GCG Quality, IT Development / Investment Cost, and BOPO development will decrease financial performance (ROA)”. Meanwhile the Human Resource Development Cost increases financial performance with R^2 of 84.24%. Thus the equation can be interpreted as follows:

1. The constant of regression equation is 9.724; means that if the value of GCG Quality, IT Development / Investment Cost and Human Resources Development Cost as well as competitive advantage measured from BOPO are 0, then it will increase ROA value for around 9.724%.
2. The regression coefficient of GCG Quality variable is -0.0783; it means that with the assumption of other independent variables have fixed value, then any addition of 1% value of GCG Quality, will decrease the ROA for around 0.0783%.
3. Regression coefficient of IT development/investment costs is -0.0000014; means that with the assumption of other independent variables have fixed value, then any addition of 1% value of IT Cost, will decrease the ROA for around -0.0000014%.
4. The regression coefficient of HR cost variable is 0.00000375, means that with assumption of other independent variable have fixed value, then any addition of 1% value of HR cost, will decrease ROA for around 0.00000375%.
5. The regression coefficient of BOPO variable is -0.091902, means that with assumption of other independent variable have fixed value, then any addition of 1% value of BOPO will decrease ROA for around 0.091902%.

Based on the regression equation above, it appears that the greatest coefficient is in the variable BOPO (0.091902), which shows as the most dominant variable affecting ROA or bank performance. Furthermore, the next dominant variable influencing ROA is GCG with regression coefficient 0.0783, while the influence of Human Resource Development Cost and IT Development is much smaller, with each regression coefficient of 0.00000375 and -0.0000014. This is relevant to the practice in the banking industry that the efficiency aspect indicated by the operational cost ratio compared to operating income has a more direct and relatively greater impact on performance (ROA) than the governance aspect, which is a qualitative aspect of corporate governance.

The results of this study support the findings of McKenzie (2013) which describes that through innovation, financial institutions identify cost reduction, efficiency improvements, reach new customers or improve customer experience, and generate profits; and Gates and Pascal (2010) that demonstrate the relationship of differentiation, innovation, and performance strategies.

5. CONCLUSION AND RECOMMENDATION

5.1 Conclusion

GCG Quality, IT Development/Investment cost, Human Resources Development Cost and BOPO simultaneously and partially have significant effect on ROA. The variable tha has the greatest influence on ROA is BOPO.

5.2 Recommendation

The results of this study can be a recommendation for banking management in an effort to increase banking performance particularly ROA ratio, that primarily by developing the efficiency (decreasing BOPO ratio), accompanied by improvements in the management of GCG, the Cost of IT Development/ Investment and the Cost of Human Resource Development. These findings are obtained from the unit of analysis of go public banking, so that further research can be conducted on the banking both go public and who have not go public to know the level of influence.

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