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Liquidity on Banks Performance with Corporate Governance as a Moderating Variable (Indonesia Pandemic Covid-19 Evidence)

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Abstract: - The Covid-19 pandemic requires prudence, especially in the ratio of credit or liquidity in the banking sector and the role and supervision through the implementation of good corporate governance is required intensively to go through dynamic policy changes. This study aims to examine the effect of liquidity on bank performance and examine the effect of liquidity on bank performance after being moderated by good corporate governance. The research methodology uses multiple linear regression techniques using SPSS 25 software, with the research sample being the conventional banking sector listed on the Indonesia Stock Exchange in 2019-2021 totaling 111 research samples. The results showed that liquidity had no effect on bank performance with the significant value 0.491>0.05. Corporate governance moderated the negative effect of liquidity on bank performance with the significant value 0.028< 0,05 and coefficient -0.786.

Key-Words: pandemic; liquidity, performance, good corporate governance
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1 Introduction

The Covid-19 pandemic that hit Indonesia in March 2020 had an impact on the economy, especially in the banking sector. One of the indicators that the Bank and the Financial Services Authority (OJK) pay attention to is the ratio of non-performing loans (NPL), OJK data noted that as of August 2020 the NPL industry had increased year on year (yoy) to 3.2%, [1]. This phenomenon is also a concern not only for private banks but also for government banks, Bank DKI is very concerned about credit risk which is a challenge for banks considering that until now they are still covered by the Covid-19 Pandemic, [2]

These credit quality indicators can be measured using the non-performing loan (NPL) ratio approach. NPL can be used as an early indicator of financial distress, the value is expected to always be at a low value, while the higher the value indicates special attention or going concern of a bank. A further impact is that it can eliminate potential revenue because of the opportunity cost of some lost investments and slowly a liquidity crisis begins and ends in bankruptcy, [3].

Based on the NPL indicator as a reflection of credit quality, this can affect the achievement of banking performance, several previous studies measured banking performance using the profitability ratio as measured by return on assets (ROA), [4], [5]. ROA is a measurement used by analysts to measure the company's profitability by using a comparison of net income to total assets, [6]. Good performance in addition to being built in an adequate financial system also requires a supervisory mechanism or in this case good corporate governance, [7], [8]. Good corporate governance is considered necessary because it can help to build an environment of trust, transparency and accountability necessary for fostering financial stability and business integrity, [9]. Good corporate governance is a set of supervisory mechanisms that will provide suggestions and supervision to the board of directors (BOD) related to strategic decisions and operational decisions that are considered to require input from the Board of Commissioners. During this pandemic period, intense communication needs to be built between BOD's operational and strategic decisions while still considering input from the BOC. This good communication during the pandemic also needs to be increased in frequency due to the impact of changes in Government policies and the unpredictable movement of the impact of Covid-19.

Based on the background of the urgency, this study will examine the effect of liquidity on banking performance with the moderating variable of Good Corporate Governance implementation. Good GCG will have a good impact on liquidity policy on banking performance and vice versa if the implementation of GCG is weak enough it will weaken the influence of liquidity on company performance.

Several previous studies as the formation of hypotheses as follows. The better liquidity indicates the management of cash inflows and outflows that are more optimal, so that they can finance banking operations and the circulation of money to be reinvested in a timely manner to obtain maximum

returns so as to increase company revenue or overall company performance, [10], [11], [12], [13]. Based on previous research, the first hypothesis (H1) in this study is that liquidity has a positive effect on banking performance.

Good Corporate Governance based on previous research has an effect on banking performance, a good BOC role and supervision mechanism will strengthen the influence of liquidity policy so that it is expected to be able to further improve the quality of decision results and improve company performance, [14], [15], [16], [17]. Based on previous research, the second hypothesis (H2) in this study is that Good Corporate Governance moderates the positive effect of liquidity on company performance.

2 Research Method

The methodology in this study uses quantitative data in the form of financial reports and annual reports of banking companies listed on the Indonesia Stock Exchange in 2019, 2020 and 2021. Quantitative data is obtained by downloading via [18]. The population in this study is the entire conventional banking sector registered on the Indonesia stock exchange as many as 123 firm years or 41 companies and each company consists of 3 years, 2019, 2020 and 2021. After the data is obtained, the next process is to process raw data which will be processed using SPSS 25 software. Operationalization of research variables is as follows:

2.1. Bank Performance

Banking performance in this study will use the measurement of Return on Assets (ROA) with the following formula [6] :

$$ROA = \frac{NET\ INCOME}{TOTAL\ ASSETS} \quad (1)$$

2.2. Liquidity

Banking liquidity in this study will use the measurement of Non-Performing Loans (NPL) with the following formula [3] :

$$NPL = \frac{NON\ PERFORMING\ LOAN}{TOTAL\ LOAN} \quad (2)$$

2.3. Good Corporate Governance

Good corporate governance is a system designed to direct the management of the company in a professional manner based on the principles of transparency, accountability, responsibility, independence, fairness and equality. This variable is measured by using content analysis of 23 indicators of corporate governance disclosure contained in the National Committee on Governance Policy in 2006. If there are indicators that are disclosed, a value of 1 will be given and a value of 0 for the others. The calculation of the score is done by calculating the ratio as follows: :

$$Disclosure\ Ratio = \frac{n}{x}\ x\ 100\% \quad (3)$$

Furthermore, after the raw data is inputted using the operationalization of variables, it will continue with data processing, specifically multiple linear regression with the cross section method is used in this study. The research model is as follows:

$$ROA = \alpha 0 + \alpha 1NPL + \alpha 2GCG + \alpha 3NPL * GCG + e \quad (4)$$

3 Result and Discussion

3.1. Result

The results in this study will begin by discussing the results of descriptive statistics that are useful for knowing the distribution of sample data that is the object of this study. Some of the information that will be conveyed is the minimum, maximum, standard deviation and average values. The sample in this study amounted to 111 firm years or there was a sample reduction of 12 firm years from a total of 123 this is because there are outlier data

Table 1. Descriptive Statistics

	Observation	Min	Max	Std.Dev
GCG	111	87.00	100.00	2.596
NPL	111	0.05	15.75	2.161
ROA	111	-15.89	4.19	2.441

Source: SPSS

The results of descriptive statistics show that the implementation of good corporate governance is at a maximum value of 100%, which means that the total disclosure of corporate governance consists of 23 indicators and a minimum value of 87% with an average of 98.90%, which means that the disclosure of the implementation of corporate governance is on average. the sample of this study is quite high by looking at the closeness of the maximum and average values.

NPL as a proxy for liquidity shows a maximum value of 15.75%, a minimum value of 0.05% with an average NPL of 3.43%, this shows that the NPL of the companies that are the sample of this study

tend to be small with reference to the proximity of the minimum and average values.
ROA as a proxy for banking performance shows a performance with a maximum value of 4.19% and a minimum of -15.89%, with an average of 0.89%. By looking at the proximity of the minimum and average values, it can be concluded that the banking performance of the sample companies tends to be small.

Table 2. Hyphothesis Testing

Variable	Coefficients	Sig *(<0.05)
(Constant)	3.767	0.290
LNGCG	-0.493	0.491
LNNPL	0.053	0.860
LNNPL*GCG	-0.786	0.028*
ANNOVA	0.001	
Adjusted R Square	0.113	

Source: SPSS

Classical assumption test that consists of normality test, multicollinearity, heteroscedasticity and autocorrelation showing that there's no issues regarding classical assumption test. The F-test result is a form of model fit test, the model is said to be good or accepted if the significance value is less than (<0.05), meaning that the independent variables consisting of NPL and GCG have a simultaneous effect on banking performance. The results of hypothesis testing indicate that H1 which is suspected of having a positive effect on banking performance is not proven, this is indicated by a significance value of 0.860 > 0.05 so that H1 is Rejected. The results of the second hypothesis test which are suspected that the GCG variable strengthens the influence of liquidity on banking performance are accepted with a significance value of 0.028 <0.05 so that H2 is accepted as having a negative effect.

3.2. Discussion

The first hypothesis which suspects that liquidity has a positive effect on banking performance is not proven, this result is not consistent with previous research [10], [11]. The analysis of this insignificant result is possible because the characteristics of the NPL are relatively small if we look at the minimum value at 0.05% with the average NPL being at 3.4% which is so far from the maximum value at 15.75% that it does not have a statistical impact on banking performance. . Liquidity, which is proxied by a relatively small NPL, reflects good quality, because banks get a relaxation policy from the financial services authority so that the Bank can implement a relaxation policy for its customers. Non-significant results are also possible because there is negative banking growth, further research can issue growth as a sample reduction criterion so that the data deviation has a smaller range.
The second hypothesis that predicts the role of good corporate governance will strengthen the influence of liquidity on bank performance is proven to be significant, but it actually indicates a negative direction or means that the role of good corporate governance actually weakens the influence of liquidity on bank performance. The results that are reversed with this hypothesis are an interesting finding because according to previous research, it is hoped that the presence of supervision in the governance mechanism will strengthen liquidity policy so that bank performance will be even better. These results are not consistent with previous research [14], [15], [16]. Analysis of the negative direction of this coefficient can be made possible because the role of good corporate governance can not give effect because the proxy measurement variables using dummy 1 and 0, this measurement may not measure the depth of an application of corporate governance. Another method that is considered more powerful in the content analysis approach can use the sentences count or word count method so that the variability of disclosure between companies can be seen compared to only 1 if it discloses and 0 otherwise.

4 Conclusion

This study provides added value because it coincides with the Covid-19 pandemic, and banks with products in the form of lending require caution so as not to have the potential to become systemic failures. This study also uses moderating variables as variables that can strengthen the influence of liquidity policy on bank performance which is still very rarely done. The results of the research show that liquidity policy has no effect on banking performance, but when moderated by the presence of good corporate governance, the results show significant. This result at the same time emphasizes the supervisory role of the board of commissioners as a good corporate governance mechanism that is very necessary, especially in this dynamic pandemic period, policies and regulations can quickly change. Intensive communication and timely decision making are the keys to successful collaboration between the board of directors from the operational

side and the board of commissioners from the strategic side.

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