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ANALYSIS OF THE INFLUENCE OF INTERNAL FACTORS, EXTERNAL FACTORS AND BANK RISK FACTORS ON RURAL BANKS PERFORMANCE

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Keywords: Bank Internal Factors, Bank External Factors, Risk Factors and Bank Performance

Abstract

This study aims to prove the influence of bank internal factors, bank external factors and bank risk factors on the performance of Rural Banks (BPR). The research was conducted on BPRs that were categorized as BPRKU 3 with a core capital of at least IDR 50 billion at the end of 2021. The total sample of BPRKU 3 tested was 75 BPRs with a data period of 2016-2021. Data were analyzed using a quantitative approach using the SEM-PLS method through the SmartPLS 3 application. The results showed that internal factors had no effect on financial performance. While external factors have a positive and significant effect on financial performance while risk factors have a negative and significant effect on BPR financial performance.

INTRODUCTION

The role of banking through its intermediary function is increasingly being felt in its contribution to supporting the stability and growth of the national economy. The important role of banking makes it important to supervise banking to be carried out by various parties, both from the banking itself and regulatory agencies. Better supervision efforts are expected to encourage banks to be able to mitigate the risks they face so as not to have an impact on banking performance. Similar to the experience of the crisis that has been experienced by Indonesia in recent times, problems in the banking sector have caused an economic downturn and a decline in people's welfare. Banking experienced a significant negative impact during the Asian economic crisis in 1997-1998 and the global financial crisis in 2008. Sudarsono (2009) states that countries affected by the crisis during this period experienced increased inflation, decreased currency exchange rates and its economic growth, even further collapsed the trading index on its stock exchange to the bankruptcy of a number of banks, financial institutions and corporations. For Indonesia, the direct impact resulted in losses for several companies investing in the United States. The indirect impact is that the liquidity of financial institutions decreases so that they have to increase their interest rates significantly, commodity prices drop drastically, currency exchange rates weaken and financial institutions' sources of funds become increasingly limited. Consumer Trust, investors and the market for financial institutions also declined significantly.

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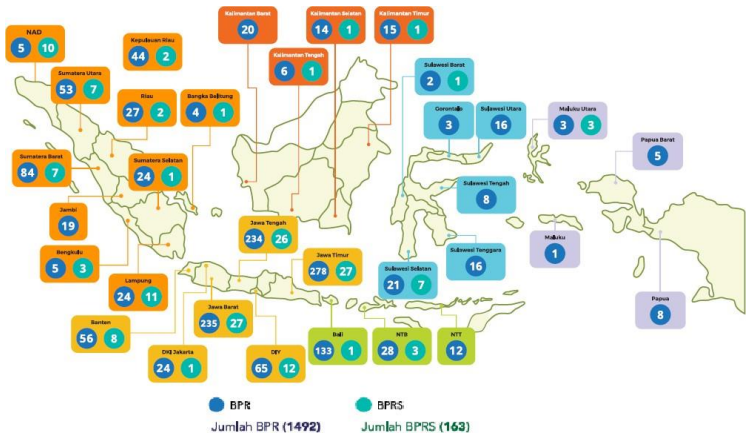
Micro economic turmoil resulted in business difficulties experienced by banking debtors, thus encouraging the inability of those concerned to pay the principal and interest on their loans to the bank. What happened then, the bank had liquidity problems and was forced to increase the cost of funds which actually resulted in the bank not being optimal in fulfilling its obligations related to the management of Third Party Funds (DPK).

In carrying out its intermediary function, the performance of a bank is greatly influenced by internal and external environmental conditions which causes the potential risks to be faced to become increasingly complex. To adapt, banks must implement optimal risk management practices. In this regard, banks in Indonesia are expected to carry out their risk management processes through principles that refer to the recommendations of the Bank for International Settlements according to the Basel Committee on Banking Supervision document (BCBS, 2000). The principles in the BCBS document are recommended standards for banks to carry out their operations in a more prudent manner considering the growing development of banking business activities and the scope of their current operational business. Banks are expected to be able to better measure and control risk through the implementation of optimal risk management. The customer's interests are the main consideration in implementing the recommended risk management apart from of course for the benefit of the bank. The differences between each bank in terms of objectives, policies, financial capacity, business complexity and size, supporting infrastructure and human resource capacity cause the application of risk management to vary among each bank.

Law Number 7 of 1992 as amended by Law Number 10 of 1998 concerning Banking (Republic of Indonesia, 1998), states that the types of banks in the Indonesian banking structure are Commercial Banks and Rural Banks (BPR). In line with this, Law Number 21 of 2008 concerning Islamic Banking also regulates the structure of Islamic banking which includes Islamic Commercial Banks and Islamic People's Financing Banks (BPRS). The fundamental difference relates to the scope of product and service provision as well as the more limited coverage of operational areas for BPRs and BPRS. Based on the Indonesian Banking Development Roadmap (RPPI) for the BPR and BPRS Industry 2021-2025 (OJK, 2021), at position 30 June 2021 the data for the distribution of the number of BPR and BPRS in all Provinces is as shown below.

Figure 1
Map of Distribution of the Number of BPR and BPRS



Source: RPPI 2021-2025 (OJK 2021)

From the data in Figure 1.1, it shows that of the total 1,492 BPR institutions and 163 BPRS institutions, the distribution of the industry is still concentrated in the areas of Java and Bali, namely 1,025 BPRs and 102 BPRS. In the BPR industry, this concentration has led to greater asset concentration in Java and Bali.

The challenges faced by the BPR industry are also more diverse in line with its efforts to continue to grow and optimally serve its customers. Rural Banks are banks with a relatively smaller scale that are expected to continue to carry out their intermediary function by providing banking products and services to the public to reach remote areas, including MSMEs. Rural Banks are expected to be able to serve the community and the business sector in the MSME category with innovative products and services to support regional, community or regional economic development. The BPR industry is required to become a strong, competitive industry capable of empowering various potentials for the welfare of the surrounding community, prioritizing local wisdom, and being able to contribute to the regional economy. In terms of products and services, Most BPRs still provide traditional or basic products and services, although there are also BPRs that have developed IT-based products and services. In addition, BPRs in carrying out their business activities prioritize personal closeness with a direct approach to customers and the surrounding community. This is one of the advantages of BPR in channeling credit to local communities by prioritizing local wisdom. Currently, the BPR industry is not only facing external challenges related to changes in the global ecosystem and the impact of the Covid-19 pandemic, but also structural challenges from the internal BPR side, such as inadequate capital, especially for small-scale BPRs, suboptimal implementation of governance, infrastructure IT and human resources (HR), and limited products and services. In the current conditions, these structural challenges are actually basic matters that should have been resolved since their establishment in order to support BPRs in facing external challenges now and in the future.

Various factors can affect BPR performance that is not optimal, both internal and external sources. Internal factors stem from capital growth as the main source of BPR funds which depends on the commitment and ability of shareholders, relatively lower asset growth compared to other bank groups and operational management, especially in its role as an intermediary institution through collecting DPK and distributing it through credit or financing to the public . External factors that affect BPR performance but are beyond the control of the bank are macroeconomic factors. In this study, the internal factors that are assumed to affect BPR performance are asset growth, credit growth and third party fund growth, while external factors are GDP growth and regional inflation rates in the province where the BPR is domiciled. According to Alper & Anbar (2011), a country's economic activity is reflected in the GDP growth rate which is also influenced by the inflation rate. GDP growth is identified as being closely related to public demand and supply of borrowing money and saving money in the banking sector. Public income affects the level of public consumption and investment which is further correlated with the growth rate of credit and third party funds as the main banking operational activities. Inflation also affects the money supply in society, which occurs when the circulation is greater than the flow of goods, causing the price of goods to increase drastically. Inflation fluctuations that occur continuously can have an impact on national economic conditions through weakening currency values. Dietrich and Wanzenried (2011) stated that bank profitability is significantly influenced by macroeconomic factors. According to Harmono (2012) in his research, he found that the achievement of bank performance was significantly influenced by macro fundamental

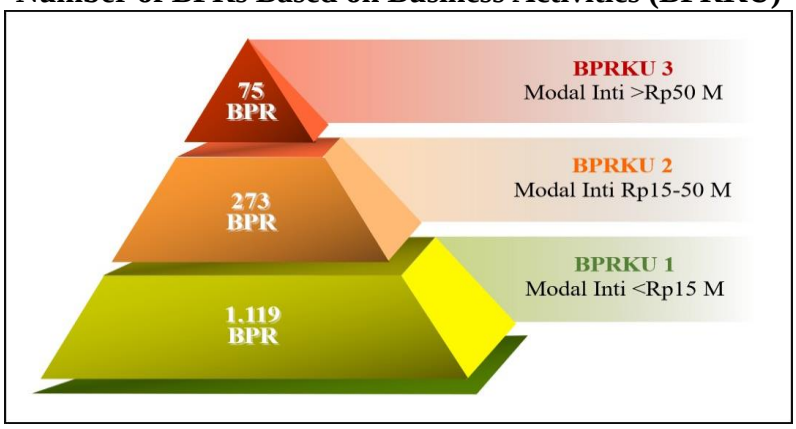
factors in the form of inflation, exchange rates and the BI rate, so that the stability or volatility of macroeconomic variables could support or threaten the achievement of bank performance. For BPRs whose capacity and business activities are more limited than commercial banks, macroeconomic factors that are thought to influence BPR fundraising and channeling activities are GDP growth and inflation which are generally associated with levels of public consumption and investment. In addition to these factors, banks also face business risks that are closely related to their intermediary function. The development of the banking environment will lead to increasingly complex business risks faced by banks, so that more adequate risk management must be implemented by banks so that they can better mitigate risks and improve their performance. Some of the main risks identified could affect BPR performance including credit, liquidity, operational and capital risks. so that the application of more adequate risk management must be carried out by banks so that they can better mitigate risks and improve their performance. Some of the main risks identified could affect BPR performance including credit, liquidity, operational and capital risks. so that the application of more adequate risk management must be carried out by banks so that they can better mitigate risks and improve their performance. Some of the main risks identified could affect BPR performance including credit, liquidity, operational and capital risks.

In order to encourage BPR performance to be more productive and meet the needs and demands of society for the quality of its products and services, it is necessary to strengthen the capital aspect of BPRs. For this reason, OJK issued POJK Number 12/POJK.03/2016 concerning Business Activities and Areas of Rural Bank Office Networks Based on Core Capital. The scope of activities and office network areas that can be carried out by BPRs are regulated according to their core capital, so that the focus of BPRs in carrying out their business activities is more optimal in accordance with capital capabilities and risk management. In accordance with Article 3 of the POJK, based on the amount of core capital, RBs are categorized into 3 (three) sections, namely:

a. BPRKU 1 is a BPR with Core Capital of less than IDR 15,000,000,000.00 (fifteen billion rupiahs);
b. BPRKU 2 is an RB with Core Capital of at least IDR 15,000,000,000.00 (fifteen billion rupiahs) up to less than IDR 50,000,000,000.00 (fifty billion rupiahs); And
c. BPRKU 3 is an RB with Core Capital of at least IDR 50,000,000,000.00 (fifty billion rupiah).

The consequence of the stipulation of this provision is that there is a distinction in the business activities that are permitted to be carried out by BPRs according to their core capital. The existence of this classification is an effort to streamline the OJK supervisory function for each BPR category and provide incentives for BPRs that have strong capital capacity to develop their network and business activities to make them more competitive. Based on data for the position of December 31, 2021, the composition of BPRs based on business activities can be described as follows:

Figure 2
Number of BPRs Based on Business Activities (BPRKU)



Source: Indonesian Banking Statistics Position in December 2021 (OJK 2021)

Research related to the influence of internal, external and risk factors on performance was developed based on research by Kesumayuda et al. (2016), but by taking a different research object, namely BPRKU 3 and selecting several different variables on performance factors, external factors and risk factors. Research related to banking performance uses Commercial Banks more as objects than BPRs considering that the population of BPRs is larger and has relatively large variations in capacity and capital. Considerations for the selection of BPRKU 3, apart from limiting the selection of the population, bearing in mind the number of BPRKU 1 and BPRKU 2 are too many, this also considers the contribution of BPRKU 3 which is the largest of the total assets of the entire BPR industry compared to other BPR categories. BPRKU 3 in terms of capital structure is very adequate, so that the problem of the performance of its portion becomes more important to be considered by BPRKU 3 Shareholders and Management. In terms of network and business activities aspects, BPRKU 3 also has greater opportunities in its development, so that the risks it faces in achieving performance will be broader and visible diversification. This will provide a more comprehensive picture of the impact of risk on BPR performance according to the research objectives to be conducted. so that the risks it faces in achieving performance will be wider and look diversified. This will provide a more comprehensive picture of the impact of risk on BPR performance according to the research objectives to be conducted. so that the risks it faces in achieving performance will be wider and look diversified. This will provide a more comprehensive picture of the impact of risk on BPR performance according to the research objectives to be conducted.

Research related to the influence of internal and external factors as well as risk factors on bank performance has been carried out a lot, including by Dietrich & Wanzenried (2011), Ali et al. (2011), Gul et al. (2011), Alper & Anbar (2011), Naseem & Shah (2012), Octaviyanty (2013), Bilal et al. (2013), Kesumayuda et al. (2016), Kiganda (2017), Khan & Khan (2018), Yusgiantoro (2019) and Supriyono & Herdhayinta (2019). The research that will be carried out adapts research from Kesumayuda et al. (2016) with the similarity of the conceptual framework and data processing methods used, but adjustments will be made to several variables and indicators.

METHOD

Data Type

The type of data used is in the form of secondary data obtained from BPR published financial reports for the period 2016 - 2021 at OJK for data related to internal factors and risk factors as well as BPS and Bank Indonesia data for data related to external factors. In this quantitative study, researchers used primary data, The main data used was obtained through a Google Forms questionnaire which was filled out online byrespondents (OJK employees).

Population & Sample

This research will take the population of this study, namely BPRs registered with the OJK. The data used is based on the processed BPR Annual Published Financial Report submitted to OJK obtained from the OJK Banking Licensing and Information Department. The sample for this study is BPRs that are categorized in the BPRKU 3 group with core capital in the position of December 2021 above IDR 50 billion with a data period of 2016 - 2021. Based on the results of data processing for the December 2021 BPR Publication Report obtained from the Financial Services Authority, the number of BPRs according to category BPRKU 3 as many as 75 banks.

Analysis Techniques

The analysis technique will use Structural Equation Model-Partial Least Square (SEM-PLS) analysis with SmartPLS ver.3.2.9 software.

RESULTS AND DISCUSSION

Descriptive statistics

Descriptive data analysis in this study is presented to provide information about the characteristics of the research variables statistically, including the size of the minimum, maximum, and average values. Descriptive statistics in this study will be explained according to the group of latent variables.

Table 1
Descriptive Statistics of BPR Internal Factors Latent Variables

Indicator	Minimum	Maximum	Average
Total Asset Growth	-49.83	2144,16	21.98
Credit Growth	-47.81	1650.80	19,22
Deposit growth	-40.15	2021.34	22,44

Source: Research Results processed, 2023

The latent variable in the form of BPR internal factors during the period 2016 to 2021 descriptively shows that the total asset growth indicator for BPR has a minimum growth ratio of minus 49.83%, a maximum of 2,144.16% and an average growth of 21.98 %. For BPR credit growth, it has a minimum growth ratio of minus 47.81%, a maximum of 1,650.80% and an average growth of 19.22%. Meanwhile, the growth of BPR DPK has a minimum ratio of minus 40.15%, a maximum of 2,021.34% and an average growth of 22.44%.

Table 2 Descriptive statistics
BPR External Factor Latent Variables

Indicator	Minimum	Maximum	Average
Regional GDP Growth	-15.75	20.86	3.79
Regional Inflation Rate	0.21	6,46	2.63

Source: Research Results processed, 2023

The latent variable in the form of BPR external factors during the period 2016 to 2021 descriptively shows that the regional GDP growth indicator has a minimum growth ratio of minus 15.75%, a maximum of 20.86% and an average growth of 3.79%. . The regional inflation rate has a minimum ratio of 0.21%, a maximum of 6.46% and an average inflation rate of 2.63%.

Table 3 Descriptive statistics
BPR Risk Factor Latent Variables

Indicator	Minimum	Maximum	Average
CAR ratio	10.87	339.45	34.58
NPL ratio	0.05	64.97	5.55
CR ratio	4,42	117.94	20,74
BOPO ratio	40,87	165.35	77,26

Source: Research Results processed, 2023

The latent variable in the form of BPR risk factors during the period 2016 to 2021 descriptively shows that the CAR ratio indicator has a minimum ratio of 10.87%, a maximum of 339.45% and an average ratio of 34.58%. The NPL ratio has a minimum ratio of 0.05%, a maximum of 64.97% and an average ratio of 5.55%. The CR ratio has a minimum ratio of 4.42%, a maximum of 117.94% and an average ratio of 20.74%. Meanwhile, the BOPO ratio has a minimum ratio of 40.87%, a maximum of 165.35% and an average ratio of 77.26%.

Table 4 Descriptive statistics
BPR Performance Latent Variables

Indicator	Minimum	Maximum	Average
ROA ratio	-8.87	19.74	3.86
ROE ratio	-44.48	2550.18	73,20

NIM ratio	1.27	42.39	9.94
LDR ratio	12,11	103,19	77,58

Source: Research Results processed, 2023

The latent variable in the form of BPR performance during the period 2016 to 2021 descriptively shows that the ROA ratio indicator has a minimum ratio of minus 8.87%, a maximum of 19.74% and an average ratio of 3.86%. The ROE ratio has a minimum ratio of minus 44.48%, a maximum of 2,550.18% and an average ratio of 73.20%. The NIM ratio has a minimum ratio of 1.27%, a maximum of 42.39% and an average ratio of 9.94%. Meanwhile, the LDR ratio has a minimum ratio of 12.11%, a maximum of 103.19% and an average ratio of 77.58%.

Outer Model Validity Test

1) Convergent Validity

Convergent validity testing is based on the correlation between the item score/component score estimated by the PLS Software. The individual reflexive measure is said to be high if it correlates more than 0.70 with the construct being measured. However, for research at the initial stage of developing a measurement scale, a loading value of 0.5 to 0.6 is considered sufficient. If the resulting value is not > 0.5 then the indicator is declared invalid and the indicator must be removed from the model so data processing (running data) must be repeated.

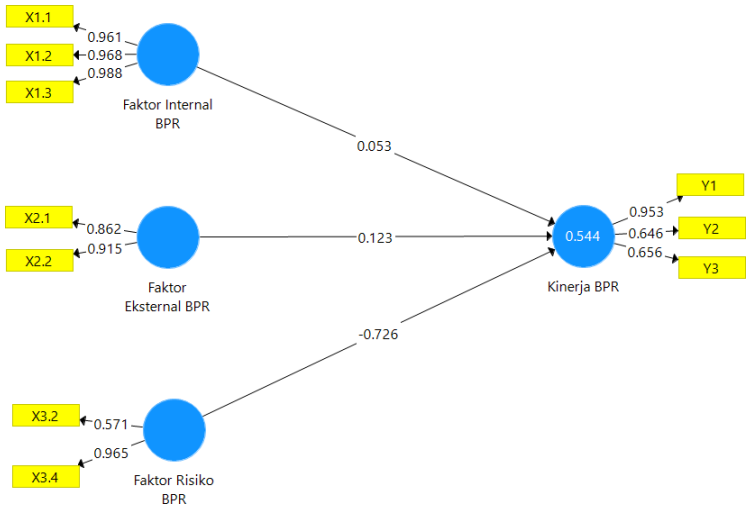
Table 5
Outer Loading Stage 1

Indicator		BPR InternalFactors	BPR External Factors	PR Risk Factors	BPR performance
R InternalFactors	X1.1	0.961			
	X1.2	0968			
	X1.3	0.988			
R ExternalFactors	X2.1		0.862		
	X2.2		0.915		
BPR Risk Factors	X3.1			0.049	
	X3.2			0.612	
	X3.3			-0.117	
	X3.4			0.944	
BPR performance	Y1				0.938
	Y2				0.615
	Y3				0.665
	Y4				0.424

From the results of Stage 1 SEM-PLS data processing in Table 5 above, it was found that there were still indicators that were not valid, namely X3.1 with a loading value of 0.049, X3.3 with a loading value of -0.117 and Y4 with a loading value of 0.424 which shows a contribution small so that the indicator needs to be removed and data processing is carried out again. After several stages of elimination, the model and data are generated as follows:

Figure 4 Final Modeling

Table 6



Final Outer Loading

Indicator		BPR Internal Factors	BPR External Factors	PR Risk Factors	BPR performance
R InternalFactors	X1.1	0.961			
	X1.2	0968			
	X1.3	0.988			
R ExternalFactors	X2.1		0.862		
	X2.2		0.915		
BPR Risk Factors	X3.2			0.571	
	X3.4			0.965	
BPR performance	Y1				0.953
	Y2				0.646
	Y3				0.656

2) Discriminant Validity

Based on the cross loading values of the indicators according to the results of the last stage of processing, it has shown good discriminant validity, where the cross loading in the construct is greater than the other constructs with an overall value above 0.50.

Table 7

Cross Loading Indicators Against Constructs

Indicator		BPR Internal Factors	R External Factors	PR Risk Factors	BPR performance
R InternalFactors	X1.1	0.961	0.097	0.149	-0.043
	X1.2	0968	0.095	0.134	-0.044
	X1.3	0.988	0.081	0.191	-0.072
R ExternalFactors	X2.1	0.053	0.862	-0.051	0.134
	X2.2	0.105	0.915	-0.057	0.168
BPR Risk Factors	X3.2	-0.069	-0.074	0.571	-0.241
	X3.4	0.215	-0.046	0.965	-0.754
BPR performance	Y1	-0.047	0.152	-0.817	0.953
	Y2	-0.038	0.087	-0.345	0.646

	Y3	**-0.069**	**0.194**	**-0.192**	**0.656**

3) Reliability Test

To prove the existence of accuracy, consistency and precision of the instrument in construct measurement, reliability testing was carried out between constructs and their reflexive indicators. In PLS-SEM, reliability testing is carried out based on Cronbach's Alpha and Composite Reliability values.

Table 8
Cross Loading Indicators Against Constructs

	onbach'sAlpha	**rho_A**	**Composite Reliability**	**Average Variance Extracted (AVE)**
BPR Internal Factors	**0.972**	**1,081**	**0.981**	**0.946**
R ExternalFactors	**0.738**	**0.763**	**0.883**	**0.790**
BPR Risk Factors	**0.502**	**0966**	**0.760**	**0.628**
BPR performance	**0.665**	**1080**	**0.803**	**0.585**

Based on the Composite and Average Variance Extracted (AVE) values of each construct, the overall indicators were declared reliable, but from Cronbach's alpha, there were indicators whose value was <0.7. There are different perceptions in several studies regarding the ideal Cronbach's alpha value, but in some studies it is said to be good if $\alpha \geq 0.5$ and sufficient if $\alpha \geq 0.3$. The Cronbach's alpha value produced by PLS is slightly under estimated, so it is recommended to use Composite Reliability (Ghozali, 2011).

Inner Model Validity Test

The structural model or inner model is evaluated by looking at the percentage of variance explained, namely by looking at the R-square for the dependent latent construct using the Stone-Geisser Q Square test and also looking at the structural path coefficients. Estimation stability was tested with t-statistics through the bootstrapping procedure.

Table 9
R-Square value

	R Square	**R Square Adjusted**
BPR performance	0.544	0.541

This study uses 1 variable that is influenced by other variables, namely BPR Performance (Y1) which is influenced by BPR Internal Factors (X1), BPR External Factors (X2) and BPR Risk Factors (X3). The table above shows the R-square value obtained for 0.544. These results indicate that 54.40% of the BPR Performance variable (Y1) is influenced by BPR Internal Factors (X1), BPR External Factors (X2) and BPR Risk Factors (X3), while the remaining 45.60% is influenced by other variables outside the study.

Hypothesis testing

Testing the hypothesis refers to the R-Square value, parameter coefficients, and T-statistics obtained from testing the structural model (inner model). In determining the conclusion of the hypothesis being tested, it is necessary to pay

attention to the significance value between constructs, T-statistics, and P-Values. For the criteria used in testing the hypothesis of this study, namely the T-statistic value> 1.96 with a significance level of P-value 0.05 (5%) and the beta coefficient is positive. The resulting relationship between variables is as follows:

Table 10
Total Effect Value

	Original Sample (O)	Sample Means (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
BPR Internal Factors -> BPRPerformance	0.053	0.039	0.050	1,063	**0.288**
BPR External Factors -> BPRPerformance	0.123	0.124	0.023	5,271	**0.000**
PR Risk Factors -> BPR Performance	-0.726	-0.729	0.026	27,688	**0.000**

After fulfilling the structural model assumption test, each hypothesis was tested in this study. The hypothesis will be accepted if the p-value <0.05 and the critical ratio (CR) > 1.96, which indicates a significant influence between the research variables. The results of the conclusion of the hypothesis are as follows:

The Influence of BPR Internal Factors on BPR Performance

Based on the test results, there is no influence of internal factors on BPR performance with a t-stat of 1.063<1.96 and a p-value of 0.288>0.05 so that hypothesis 1 is rejected.

The Influence of BPR External Factors on BPR Performance

Based on the test results, external factors have a positive and significant effect on BPR performance with a t-stat of 5.271> 1.96 and a p-value of 0.000 <0.05 so that hypothesis 2 is accepted.

The Influence of BPR Risk Factors on BPR Performance

Based on the test results, risk factors have a negative and significant effect on BPR performance with a t-stat of 27.688> 1.96 and a p-value of 0.000 <0.05 so that hypothesis 3 is accepted.

Analysis Results

Based on the results of tests on research data conducted, it turned out that internal factors in the form of total asset growth, credit growth and growth in deposits proved to have no effect on BPR performance, especially in terms of profitability.Even though theoretically with significant growth in assets, especially credit, it shows that the bank has good performance in managing its operational activities, even if it is supported by adequate funding sources in the form of DPK, the bank will be able to optimize its profitability. This result may be a bit of an anomaly with this theory, but the existing data shows that for BPRs, especially in the BPRKU3 category, this growth does not fully affect their profitability performance.

External factors which are macroeconomic indicators in the area where the BPR is

domiciled, namely regional GDP indicators and regional inflation rates have a positive and significant effect on BPR profitability performance. This is in line with the research by Gul et al. (2011) who explained that technically GDP describes an increase or decrease in the business cycle which will have a direct impact on bank profitability. While inflation is described as affecting company policy in setting prices so that under expected inflation conditions the same as actual inflation, banks will not be negatively affected in the form of a decrease in business activity that affects bank performance.

The influence of risk factors on BPR profitability performance is negative and significant. This is in line withthe definition of risk according to ISO 31000 Risk Management-Guidelines as quoted by Sudarmanto et al., (2021) which shows as uncertainty. In accordance with this definition, the existence of risk factors in a bank will affect the achievement of performance which is the goal and target of a bank.

CONCLUSION

It is hoped that this research can add alternative information and better views to banking/RB management when making strategic policies, so that with better management's ability to identify factors that affect their performance, BPRs will be healthier and able to mitigate increased potential risks to increase their contribution. in the regional economy. With this research, it is also hoped that the OJK as the banking supervisory authority will have better judgment in setting policies, evaluating BPR performance and streamlining the steps for coaching carried out through supervision and implementing regulations.

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