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THE EFFECT OF RISK MANAGEMENT ON FINANCIAL PERFORMANCE WITH GOOD CORPORATE GOVERNANCE AS A MODERATION VARIABLE

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ABSTRACT

This study aims to examine the effect of risk management proxied by the Capital Adequacy Ratio (CAR), Operating Efficiency (BOPO), and Non Performing Loan (NPL), to the financial performance projected with Return on Assets (ROA) in Islamic Banking Companies listed on the Indonesia Stock Exchange (BEI) in the period 2011 to 2016. The data used is obtained from the Financial Statements of Sharia Banking Companies Listed on Indonesia Stock Exchange in the period 2011 to 2016. After passing through the stage of purposive sampling, the worthy of used sample is 5 Companies. The results showed that the variable of Capital Adequacy Ratio (CAR), and Non Performing Loan (NPL) had negative and insignificant effect on Return on Asset (ROA), and Operating Efficiency (BOPO) had negative and significant effect on Return on Assets (ROA). Thus, the bank (issuer) is expected to pay more attention to the level of operating efficiency to improve the profitability of the company's financial performance. Meanwhile, the variable Capital Adequacy Ratio (CAR) and Non Performing Loan (NPL) did not significantly affect the Return on Asset (ROA) of the company because during the study period, the bank intermediation function was not as expected.

KEYWORDS: Operation Efficiency, Credit Risk, Liquidity, Financial Performance.

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INTRODUCTION

Conventional banks and sharia banks in Indonesia must improve the quality, both in terms of management and products in order to compete with banks in ASEAN countries. This readiness needs to be conducted by companies considering the size of the Indonesian market that is able to attract the presence of foreign investors who have large capital, high-tech, and have a wide network. Sharia banking in Indonesia has been growing rapidly for a decade. Based on Sharia Banking outlook in 2014, Indonesia have 11 Sharia Commercial Bank (BUS), 23 Sharia Business Unit (UUS) and 160 BPRS, with total assets of Rp. 229.5 trillion (www.bi.go.id). Based on statistical data from the Financial Services Authority (OJK) until March 2015, it shows that the number of Sharia Commercial Banks (BUS) are 12 banks, 22 Sharia Business Unit (UUS), and 162 Sharia Rural Banks (BPRS). Meanwhile, in April 2016, sharia Bank in Indonesia is 199 include te 12 Sharia Commercial Banks (BUS), 22 Sharia Business Units (UUS), and 165 Sharia Rural Banks (BPRS) (www.ojk.go.id). This shows that the development of the sharia sector in Indonesia has a sharia financial sector that is capable in managing financial / public funds. Meanwhile, the financing distribution capacity grew by around 41% per year. The average growth of UUS financing is 45% and BUS is 43% (Rustam, 2013).

Bank risk management, in Bank Indonesia Regulation No. 11/25 / PBI / 2009 concerning Amendment to Bank Indonesia Regulation No. 5/8 / PBI / 2003 concerning Application of Risk Management for Commercial Banks, defined as "A set of methodologies and procedures used to identify, measure, monitor and manage risks arising from all business activities of the bank." Risk management is applied to all banking activities, one of which is credit activities that refers to the activity relied on the trust of the bank to the debtor to use a certain amount of bank funds and returned at the agreed time. But, as a risk debtor does not pay credit which has been given, it is called by credit risk.

Bauer and Ryser (2002) argue that bank applied risk management will provide benefits such as; longer-lasting assets, able to monitor information easily so as to predict possibilities such as credit failures and banks can become more leverage to serve customers with monitoring of possible risks, increase its shareholder value, provide an overview to managers of banks about possible future bank losses, improving systematic decision-making methods and processes based on information availability.

This risk management can be used as the foundation of the bank or financial institution in taking, determining and executing the appropriate action or step. At the beginning of the implementation process, risk management is often perceived as an impediment to progress, prolonging the company's internal processes and imposing corporate finances, and other negatives. But, with the passage of time, especially after facing and experiencing the monetary crisis and the global financial crisis, eventually the economic actors recognize that the implementation of risk management in banks or financial institutions has become a necessity, including in seizing business opportunities, not merely to avoid the danger of loss. The Implementation of a good risk management system can control risk and improve financial performance of banks or financial institutions.

One of the success measures of company financial performance, especially banks, is by measuring the return on assets (ROA) that can be a benchmark in corporate decision-making. Return on assets (ROA) can be used to assess the condition of bank profitability in Indonesia. The higher the ROA, the more effective the bank in the use of assets to generate profits. The increased of ROA can be realized if the bank can work efficiently (Hamidah, 2013).

Banking, to grow in the long run, requires one key to success, Good corporate governance (GCG). Good corporate governance (GCG) is definitively a system that regulates and controls companies that create value added for all stakeholders (Monks, 2003). The World Bank defines GCG as a regulation for business organizations governing the behavior of the management of the company and details and defines the duties and authorities and accountability to the authorities (Siboro, 2007).

There are four main components needed in the concept of good corporate governance, (Kaen, 2003; Shaw, 2003) namely fairness, transparency, accountability, and responsibility. These components are important because the application of the principle of good corporate governance has consistently proven to improve the quality of financial statements and also can be a barrier to performance engineering activities resulting in financial statements that does not describe the fundamental value of the company.

The research problems of this study are: Is the risk management, which consists of capital (CAR), operational efficiency (BOPO) and credit risk (NPL), simultaneously and partially influence the financial performance of sharia banks listed on Indonesia Stock Exchange?

And Does Good corporate governance (GCG) moderate the effect of Risk Management on Sharia bank performance listed on the Indonesia Stock Exchange?

Risk Management

Risk management is a set of procedures and methodologies used to identify, measure, monitor and control risks arising from bank activities. Organizational risk management is a system of risk management faced by the organization comprehensively for the purpose of increasing company value (Hanafi, 2006). Risk management aims to manage risks for the organization to survive, and or to optimize risk. Companies often deliberately take certain risks, seeing the potential returns behind those risks.

In Bank Indonesia Regulation No.11 / 25 / PBI / 2009, Bank Indonesia identifies four basic aspects that are minimal in risk management: first, active supervision of the board of commissioners and directors; Second, policy, procedure, and limit setting; Third, the process of identification, measurement, monitoring, credit risk management information system; and Fourth, Credit Risk Control. One of the risks faced by banks is the risk of non-performing loans when the debtor is unable to fulfill its obligation to pay the installment (principal) of the loan along with the interest agreed by both parties in the credit agreement. This is called credit risk (Dendawijaya, 2005).

Credit risk arises due to the performance of one or more bad debtors. It may be the debtor's inability to fulfill part or all of the contents of the credit agreement that has been agreed previously (Setiawan, 2007). Credit activity itself is one of the main activities of a bank because if the bank does not give credit to the debtor means no money is spinning and no interest can be withdrawn from the creditor. Though the credit interest is the main income of a bank. It can be concluded that the provision of credit is an activity that cannot be avoided from a bank and the existence of credit activity would also be followed the possibility of credit risk arising.

Type of Risks

According to Hanafi (2006), Risk can be grouped into two types of risk, pure risk and speculative risk. Pure risk is the risk that the possibility of loss exists, but the possibility of a gain is absent. The types of pure risk include (Hanafi, 2006): 1) the risk of physical assets is the risk that occurs due to certain events that adversely affect the physical assets of the organization. For example, the fire that hit the warehouse; 2) Employee risk refers to risk because the organization's employees experience adverse events. For example, workplace accidents result in injury to employees, company operational activities are disrupted; 3) Legal risk refers to the risk of contracts that are not in accordance with the expected and incorrect documentation. For example, there was a dispute that other companies demanded significant compensation.

Speculative risk is the risk that we expect loss and profit. Speculative risk types consist of 1) Market risk. Risks that occur from price movements or market price volatility. For example, stock market prices in the company's portfolio have decreased, resulting in losses experienced by the company, 2) Credit risk. Risk because the counter party failed to fulfill its obligations to the company. For example the debtor cannot pay the mortgage and the interest of the debt, so the company suffers losses, 3) Liquidity risk. Risk cannot meet the cash requirement, the risk cannot sell quickly due to unclear and / or market disruption. For example, the company has no cash to pay its obligations, 4) Operational risk. Operational risks are not running smoothly and result in system failure, human error, control and lack of procedures. For example the company's computer is exposed to the virus so that the company's operations are disrupted.

Risk Management Process

The risk management process illustrates that to manage risk there are several stages:

Risk Management Planning

Planning involves deciding how to approach and plan risk management activities for a project. Taking into account project scope, project management plan, corporate environmental factors, and the project team can discuss and analyze risk management activities for specific projects.

To create risk management planning, it requires several things such as; 1) Project Charter, a document issued by senior management that formally declares a project. This document authorizes project managers to use organizational resources to carry out project activities. 2) Risk management policies, 3) Roles and responsibilities 4) Stakeholder tolerance to risk 5) Templates for organizational risk management plans 6) Work Breakdown Structure (WBS).

Risk Identification

As a series of processes, risk identification begins with understanding what exactly risks are. Next is the definition of risk that may affect the success rate of the project and document the characteristics of each risk. The main result of this step is the risk register.

Identifying risk requires risk source analysis and problem analysis. Analysis of risk sources is risk analysis by looking at where the risk originated. There are three well-known sources of risk: Internal risks are risks that come from internal organizations that can be categorized in non-technical risk (human, material, financial) and technical risk (design, construction and operation). Problem analysis is a risk analysis associated with worry.

Qualitative Risk Analysis

Qualitative analysis of risk management is the process of assessing the impact and possible risks that have been identified. This process is conducted by setting risks based on their impact on the project objectives. This analysis is a way of prioritizing risks in order to form a risk picture that must be specifically addressed and how to respond to those risks if they occur.

Quantitative Risk Analysis

Quantitative risk analysis is a method to identify the risk of possible system failure and predict the magnitude of the loss. This analysis applies mathematical formulas associated with financial value. Mathematically, the risk is calculated by multiplying the probability level with the impact generated. Results can be used to take strategic steps in addressing identified risks. Although this quantitative analysis uses a mathematical approach, in principle this analysis is a follow-up to the findings of qualitative analysis. The main difficulty in quantitative risk analysis is when determining probability levels because statistical data are not necessarily available for all events.

Risk Management

Risk handler is defined as the process undertaken to minimize the level of risks encountered to acceptable limits. Quantitatively, minimizing risk is carried out by applying measures directed at the declining rate of returns obtained from risk analysis. Although risk management can be realized in one or more ways simultaneously or simultaneously applied such as reducing risk while transferring risk. However, in general, the techniques used to deal with risk are grouped into categories: 1) Avoiding risk by not taking risky activities and choosing to engage in non-risk activities. 2) Mitigation / Reduction / Reduce risks by reducing the chances of unexpected events. For example by selecting people who are competent to be employed in the project. 3) Accept risks ie keep doing risky work by not making any changes but setting up contingency plan if risk occurs. 4) Risk transfers by transferring risk to other parties such as buying insurance.

Financial performance

Performance is the achievement of the purpose of a particular activity or occupation as measured by the standard. Assessment of bank performance is essential for every stakeholder in competitive financial markets such as bank management, customers, business partners, and government (Sari, 2010). Financial performance is depicted from the profitability of the company where profitability indicates a company's ability to generate profit.

Sari (2010) states performance measurement, generally categorized into non-financial and financial measurement. Non-financial performance is a measure of performance by using information non-financial information that is more focused in terms of quality of service to customers. While the measurement of financial performance is the use of financial information in measuring a company's performance. The commonly used financial information is the income statement and the balance sheet.

Return on Asset

According to Bank Indonesia, Return on Assets (ROA) is the ratio between profit before tax and the average total assets in one period (SE. Intern BI, 2004). In this research, Return on Asset (ROA) is chosen as an indicator of financial performance of banking because Return on Asset is used to measure the effectiveness of companies in generating profit by utilizing own assets. If the Return on Asset increases, the profitability of the company increases. It affects the increase in profitability gained by shareholders (Husnan, 1998).

Factors Affecting Financial Performance

Financial performance as a variable that is often used as research material, influenced by several factors such as good corporate governance (GCG), ownership structure, and credit risk management.

Good Corporate Governance

The World Bank defines good corporate governance as a collection of laws that must be met to promote efficiency performance in order to generate long-term economic value for shareholders and the surrounding community. The governance is realized in a company control system to maintain optimal company performance. Good corporate governance (GCG) in a company can be implemented with several monitoring mechanisms of corporate governance.

Company Size

Dhanis (2012) states that the size of the company is the average total net sales for the year to several years. When the size of the company is determined by the amount of sales a company, the greater the amount of sales made by the company the greater the profit to be obtained and financial performance will increase.

Banking Efficiency

The level of bank efficiency is a measure of how much the bank's ability to perform its operational activities (Ibadil, 2013). The level of bank efficiency is usually proxied by the ratio of BOPO which is the ratio between operational costs divided by operating income. The size of this ratio shows the ability of a company in managing its business. This increase in ratio illustrates the low level of efficiency. Low level of efficiency will impact on the decline in corporate financial performance.

Good Corporate Governance

Doli D. Siregar (2004) describes corporate governance is a relationship between stakeholders used to determine the direction and control of a company's performance. The effective corporate governance is the alignment between the interests of managers and shareholders. in the end, it can produce a competitive advantage for the company.

Based on the General Guidelines of Good Corporate Governance Indonesia presented by the Governance National Policy Committee (ZARKG) (Zarkasyi, 2008: 38) Good Corporate Governance has the following principles:
Transparency, in order to maintain objectivity in business, the company must provide relevant information that is easily accessible and understood by stakeholders. Companies should take the initiative to disclose not only the issues required by legislation, but also important for decision-making by shareholders, creditors, and other stakeholders
Accountability, the company must be able to account for its performance in a transparent and reasonable manner. Companies must be properly managed, measurable and in accordance with the interests of shareholders and other stakeholders. Accountability is a necessary prerequisite for achieving sustainable performance.
Responsibility, companies must comply with laws and regulations as well as carrying out responsibilities to the community and the environment in order to maintain business continuity in the long term and be recognized as Good Corporate Governance. The company's financial liability also needs to be conveyed in the form of honest and reasonable disclosure of the company's financial condition. Based on the information, shareholders and stakeholders can make the right decision. Correct and accurate financial statement will also result in accuracy in Zakat payments.
Independency, to smooth the implementation of Good Corporate Governance, the company must be managed independently so that each unit of the company does not dominate each other and can be intervened.

Conceptual Framework

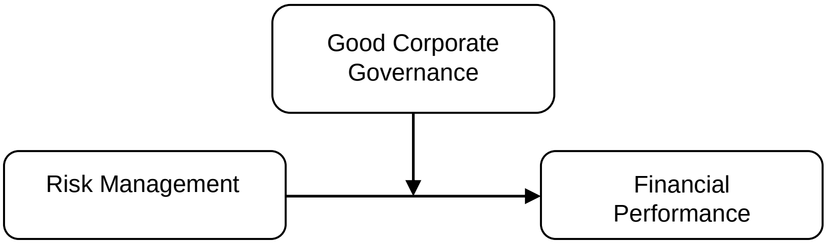

Figure 1. Conceptual Framework

The effect of risk management proxyed by CAR, BOPO and NPL, simultaneously or partially, on financial performance

Purwoko and Sudiyatno (2013) state that risk is a deviation of actual results from expected results or probabilities of a different outcome than expected. Risks can be categorized into market risk, credit risk, operational risk, and reputation risk. Non-current loans will result in bank managers adding operational costs to face the risk of the loan. A risk management succeed implemented when it minimizes these risks to a safe level. Of the several arguments can be hypothesized as follows:
H1.1 = Risk management proxied by capital (CAR), efficiency operation (BOPO), credit risk (NPL), simultaneously affect the performance of Sharia banking.

According to Muljono (1999), Capital Adequacy Ratio is a ratio that shows the extent to which the ability of a bank's capital to be able to absorb the risk of credit failure that may occur. Furthermore, the higher the ratio, the better the bank and vice versa. Meanwhile, according to Bank Indonesia Regulation, CAR is a ratio showing how many of the total assets of the banks contain risks (credit, investments, securities, claims to other banks) are financed from their own capital besides obtaining funds from outside the bank. The defined CAR ratio is at least 8%. If the ratio of CAR below 8%, it means that the bank is unable to absorb any losses that may arise from the business. Furthermore, if the CAR ratio above 8%, it indicates that the bank is getting solvable. By increasing the level of bank solvency, it will indirectly affect the improvement of bank performance. Because the losses borne by the bank can be absorbed by the capital owned by the bank.

Achmad *et, al.* (2003) found that Capital Adequacy Ratio (CAR) is very influential on the bankruptcy of banks. The amount of capital owned by a bank can be used to predict whether the bank will be in bankruptcy or not in the future. Meanwhile, Mawardi (2005) concluded that Capital Adequacy Ratio (CAR) has no effect on Return on Assets (ROA) which is a proxy of bank's financial performance. Thus, it can be proposed the following hypothesis:

H1.2 = Risk management proxied by CAR, positively and significantly influences the performance of sharia banking.

According to Bank Indonesia, operating efficiency is measured by comparing total operating costs with total operating income or often called BOPO. The ratio of BOPO aims to measure the ability of operating income to cover operating costs. Bank Indonesia sets the best figure for BOPO ratio to be below 90%, because if the BOPO ratio exceeds 90%, close to 100%. In addition, the bank can be categorized as inefficient in its operations. It can be formulated a hypothesis as follows:

H1.3 = Risk management proxies with operating efficiency (BOPO), negatively and significantly affect the performance of sharia banking.

Bank Indonesia Regulation Number 13/1 / PBI / 2011 on the Rating of Commercial Banks stated that the higher the NPL value (above 5%) the bank is getting unhealthy. Theoretically, when the NPL value is higher, then the bank is increasingly unhealthy, because of the high credit risk to be borne by the bank. The increasingly unhealthy condition of banks and will greatly influence the investment decisions of stakeholders. It causes the profitability of banks inevitably decrease.

Ariyanti (2010) states that the smaller the ratio of non-performing loan (NPL), the less the risk borne by the bank. In contrast, the greater the non-performing loan (NPL), the greater the risk of credit failure, which may potentially reduce interest income and lower earnings.

Risk management is assumed to be successful, if able to suppress the ratio of non-performing loan (NPL). The hypothesis that can be propose is as follows.

H1.4 = Risk management proxied by credit risk (NPL), negatively and significantly affect the performance of sharia banking.

Good Corporate Governance (GCG) can moderate the influence of Risk Management on Performance

Doli D. Siregar (2004) explains that corporate governance is a relationship between stakeholders used to determine the direction and control of a company's performance. Effective corporate governance is able to align the interests of managers with shareholders in order to generate competitive advantage for the company.

H2 = Good Corporate Governance (GCG) moderates the effect of Risk Management on performance.

METHOD

This study is a quantitative study of the effects of risk management proxied by capital (CAR), operating efficiency (BOPO), credit risk (NPL), on the performance of sharia banking with good corporate governance (GCG) as a moderating variable in registered banking companies in Indonesia Stock Exchange. This research is a hypothesis testing based on secondary data.

Operational Definition and Variable Measurement
Variable consists of independent variable, that is risk management (CAR, BOPO, NPL), moderation variable (GCG), and dependent variable (ROA).

Variable Measurement
Dependent Variables
Dependent variable in this research is financial performance proxies with Return On Asset (ROA) ratio. This ratio is used to measure the ability of bank management in obtaining profit (profit before tax) generated from the average total assets of banks. The greater the ROA, the greater the level of profit achieved by the bank.
Bank Indonesia Letter No. 03 / 30 / DNDP, December 14, 2001, Return On Assets (ROA) is the ratio of the ratio between profit before tax and the average total assets. Return on asset ratio (ROA) is formulated as follows:

$$\mathrm{ROA} = \frac{Earnings\ \ Before\ Tax}{Average\ Assets} X\ 100\%$$

Independent Variables
The independent variable in this research is risk management / Credit risk proxy by using

Assessment of capital aspect (CAR).
CAR is the ratio of bank performance to measure capital adequacy.

$$\mathrm{CAR} = \frac{Capital}{Risk - Weighted\ Assets}\ x\ 100\%$$

Operational Cost of Operating Income (BOPO)
This ratio is often called the efficiency ratio because this ratio is used to measure the bank's management capability in controlling operational costs against operating income.

$$BOPO = \frac{\text{Operating Costs}}{\text{Operating Income}}\ \mathrm{X}\ 100\%$$

Non-performing loan ratio.
The Non-Performing Loan (NPL) ratio is the ratio of nonperforming loans to disbursed loans. This ratio illustrates the risk of non-performing loans experienced by banks. According to Bank Indonesia Letter No.03 / 30 / DNDP December 14, 2001, non-performing loans (NPLs) can be measured as follows.

$$NPL = \frac{\text{Problematic Credit}}{\text{Credit Extented}}\ X\ 100\%$$

RESULTS

The Result of Moderation Regression Test

The result of multiple linear regression calculation is used to predict the relation between independent variable, Capital Adequacy Ratio / CAR (X1), Operational Cost to Operating Income / BOPO (X2), Non-performing loan / NPL (X3), with dependent variable, Financial Performance / ROA (Y), and with moderation variable, Good Corporate Govenance / GCG (Z). The result of multiple linear regression estimation is shown in Table 1 below:

Table 1. The Result of Multiple Linear Regression Estimation

Independent Variable	**Regression Coefisien**	**T Statistic**	**Sig.t**	**Inf.**
Constanta				
CAR (X1)	-0.022	-1.471	0.153	Insignificant
BOPO (X2)	-0.081	-5.406	0.000	Significant
NPL (X3)	-0.062	-0.459	0.650	Insignificant
R	= 0.772			
R-Square	= 0.596			
Adj. R-Square	= 0.549			
F Statistic	=12.782			
Sig. F	= 0.000			
Dependent Variable	**Regression Coefisien**	**T Statistic**	**Sig.t**	**Inf.**
Constanta				
CAR (X1)	-0.016	0.214	0.832	Insignificant
BOPO (X2)	-0.040	-0.557	0.583	Insignificant
NPL (X3)	-0.067	0.323	0.750	Insignificant
GCG	0.025	0.506	0.617	Insignificant
MODERATION	-0.086	-0.609	0.548	Insignificant
R	= 0.793			
R-Square	= 0.628			
Adj. R-Square	= 0.551			
F Statistic	=8.111			
Sig. F	= 0.000			

Simultaneous Significance Test (Test of F-Statistic)

Based on the simultaneous test results in Table 1, it shows that the F statistic is smaller than 0.05 ie 0.000. This means that the risk management proxy with CAR, BOPO, and NPL simultaneously affect the financial performance. Thus, H1.1 is accepted.

Individual Parameter Significance Test (Test of T-Statistics)

This test aims to examine the effect of partial independent variables on the dependent variable. Based on these partial test results, it can be concluded that:

Capital Adequacy Ratio (CAR)

CAR has no significant effect on financial performance. This is because the significance value is 0.153> from 0.05 with a negative beta value. Thus, H1.2 is rejected.

Operational Cost of Operating Income (BOPO)

Based on the test results, it was found that the significance value of 0.000<0, 05 with negative beta value. This means that BOPO affects the financial performance. Thus, H.1.3 is accepted.

Non-Performing Loan (NPL)

Non-Performing Loan (NPL) has no significant effect on financial performance. This is because the significance value is 0.650 <0.05 with a negative beta value. Thus, H1.4 is rejected.

Model Test

Test R2 or Coefficient Determinant

The determinant coefficient essentially measures the extent of the model's ability to explain the variation of the dependent variable. The determinant value is determined by Adjusted R Square value.

Based on the output of SPSS, in table 1, it is known that the value of Adjusted R Square is 0.596 or 59.6%. This shows that the variable of financial performance can be explained by risk management variable proxy with Capital Adequacy Ratio (CAR), Operational Cost to Operating Income (BOPO) and Non-Performing Loan (NPL) that is equal to 59,6% and the rest 41,4% explained by other variables outside the independent variables in the model.

Moderated Regression Analysis (MRA)

An interaction test called Moderate Regression Analysis (MRA) is to see whether the presence of moderating variables in the model can increase or weaken the influence of independent variables on the dependent variable.

Based on the test result, it shows that the value of R square before the Good Corporate Governance (GCG) variable is 59.6%, and after the Good Corporate Governance (GCG) variable, R square is 62.8%. Thus, the value of R square rose by 3.2%. Thus, it can be concluded that Good Corporate Governance (GCG), can moderate the relationship between Risk Management and Financial Performance of sharia banking companies listed on Indonesia Stock Exchange in 2011-2016.

DISCUSSION

This study uses data from financial statements of sharia banking listed on the Stock Exchange in 2011-2016. The objectives of this study are (1) to know the effect of risk management proxy with Capital Adequacy Ratio (CAR), Operational Cost to Operating Income (BOPO) and Non-Performing Loan (NPL), simultaneously and partially on financial performance, and (2) to find out whether Good Corporate Governance (GCG) is able to moderate the relationship between risk management and financial performance.

The effect of risk management on financial performance

The results of this study indicate that, H1.1 which states that simultaneously risk management proxyed with Capital Adequacy Ratio (CAR), Operational Cost to Operating Income (BOPO) and Non-performing Loan (NPL), have positive effect on financial performance, accepted. This confirms the finding of Sudiyatno (2013) and Prastiyaningtyas (2010) which states that risk management proxy with Capital Adequacy Ratio (CAR), Operational Cost to Operating Income (BOPO) and Non-performing Loan (NPL), has a significant influence on ROA simultaneously.

Partially, Capital Adequacy Ratio variable has negative and insignificant effect to the financial performance of sharia banking companies listed on Indonesia Stock Exchange in 2011-2016. Thus, H 1.2 which states that CAR has a positive effect on financial performance, is rejected. This finding supports the finding of Mawardi (2005) and contradicts to the findings of Suyono (2005), Naceur and Kandil (2006). This findings due to Bank Indonesia regulation which requires to keep Capital Adequacy Ratio (CAR) at least 8%. As a result, bank owners increased bank capital in the form of fresh money in order to meet the requirements. Meanwhile, the level of public confidence in banks is low due to the crisis. Thus, CAR does not affect the ROA, because, in that situation, any capital owned by bank will not be able to perform its intermediation function. In addition, this is also due to the decline in average post-tax profit growth caused by the weakening of economic growth and dollar while the average growth of the company's assets increased (Bareksa.com).

BOPO has a negative effect on financial performance indicating that these findings support Kusuma and Suhas (2008), Alkhatib and Harshch (2012) and Sudiyatno (2013). This means the level of bank efficiency in carrying out its operations, affect the income level or "earnings" generated by the bank. If operational activities are carried out efficiently, then the bank's income will increase. The higher the BOPO ratio then it can be assumed that the bank's operational activities are inefficient. Conversely, the lower the BOPO ratio, the banks operational activities more efficient. If all bank activities are efficient, profits will increase, which in turn will improve the bank's financial performance.

Findings on non-performing loans (NPL) negatively impacted financial performance rejected, contradict to the results of Prastiyaningtyas (2010). This finding due macroeconomics in 2013. Syariah banking is very sensitive and affected with the conditions macro economis. Indonesia’s economic growth in 2013 is not as high as the previous year, making the dynamics of the economy less conducive. Inflation increased 8,38 % in 2013 have a negative impact on the performance of sharia banking (Republika.co.id, 2015).

GCG Moderates Relationship between Fundamental Factors and Financial Performance

Good Corporate Governance (GCG), in this study, can strengthen the relationship between risk management and financial performance. This supports the theory of good corporate governance according to the World Bank in Wahyuni (2012) which is declared as a collection of laws that must be met to boost performance efficiently, resulting in long-term economic value for shareholders and the surrounding community. GCG is realized in one company control system in order to maintain optimal company performance.

Djakfar (2012: 226) Islam stresses philanthropic teachings to give Muslims space and opportunity to care about others. Prophet Muhammad SAW said that Muslims should care about the poor. The substance of this doctrine reminds Muslims to have sensitivity to others, because it is the level of faith toward the God. Such philanthropic teachings can be substantially implemented through a business institution in the form of Good Corporate Governance (GCG).

CONCLUSION

This study found that risk management proxies with CAR, BOPO and NPL simultaneously have a positive and significant effect on financial performance. Meanwhile, CAR and NPL partially have no significant effect on financial performance. In addition, BOPO has a partial effect on financial performance. The results of appropriate risk management can improve financial performance.

The moderation variables proxied by GCG demonstrate being able to moderate or strengthen the relationship between risk management (CAR, BOPO, and NPL) and the financial performance of bank companies listed on the Indonesia Stock Exchange in 2011-2016. This shows that high performance efficiency will give positive appreciation on improvement of company performance.

Based on the findings, companies need to improve risk management to obtain expected returns by improving the company's financial performance as reflected in risk management such as CAR, BOPO, and NPL. For the next researcher, it would be better to increase the number of samples and add proxies from each of the financial performance factors to produce more in-depth research.

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