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THE INFLUENCE OF CAPITAL ADEQUACY AND GOVERNANCE ON FINANCIAL PERFORMANCE WITH LIQUIDITY AS A MEDIATOR IN BPR IN EAST JAVA

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ABSTRACT

This research aims to determine the relationship between capital adequacy and the implementation of governance on BPR performance with liquidity as a mediating variable. In scientific research, quantitative research is applied, with the resulting numerical data being analyzed statistically. The data used are regional data, namely the Capital Adelqulacy Ratio (CAR), the results of assessments of governance implementation, Loan to Delposit Ratio (LDR) and Ratio on Assets (ROA) of BPRs in East Java in the time period from January 2017 to December 2023. This research is carried out Inferential statistical analysis method. The ultimate data analysis process uses techniquesSEM (Structural Equation Modelling) PLS (Partial Last Squularel) and carried out through 2 (dula) models, namely the pengukuran model (outer model) and the struktural model (inner model). The research results show that capital abundance has a significant effect on BPR financial performance and BPR liquidity. The implementation of governance has had a significant positive impact on the company's financial performance but has not had a significant impact on BPR liquidity. The results of the research show that liquidity does not play a significant role as a mediator between governance and financial performance in the BPR context.

Keywords: ***Good Corporate Governance, Liquidity, Capital Adequacy, Implementation of Governance, Financial Performance***

INTRODUCTION

In 2020, one of the causes of the cumulative decline in economic performance was due to the spread of Covid-19 in various economic sectors. The Covid-19 pandemic is a serious problem for the banking world because it can add to problems in the business world which can give rise to various problems in the banking sector (Ilhami & Thamrin, 2021). These restrictions had an impact on reducing banking activities and operations, especially at Bank Perkreditan Rakyat (BPR). The decline was mainly felt in the decline in debtors' ability to pay installments, which had an impact on the decline in BPR's financial performance. Apart from the decreasing ability to pay debtor installments, another consequence of the restrictions on business and business activities is that the withdrawal of third party funds is increasing. Apart from the Covid-19 pandemic, another challenge faced by BPRs and BPRSs is the existence of Commercial Banks and Foreign Banks, where with stronger financial strength, they can provide credit continuously in the micro sector which initially constituted the market share of BPRs and BPRSs. (Sofyan, 2019). The development of the peer to peer lending fintech industry with various more attractive offers and easier credit granting processes is also a serious challenge for BPR and BPRS.

In the period between January and October 2020, the Financial Services Authority (OJK) revoked the business permits of 6 (six) BPRs, resulting in the possibility of funds collected by BPRs and BPRS being transferred to banks of a larger size (Lidyana, 2020) . The revocation of the BPR business license was carried out due to fraud committed by the BPR management. This happens because BPR does not implement optimal corporate governance. Therefore, the application and knowledge of good corporate governance is really needed in dealing with various situations and conditions, especially during the Covid-19 pandemic and during the current economic recovery period. The impact of the Covid-19 pandemic has had a significant impact on BPR performance, resulting in a decline in asset growth and public funds in the form of savings and deposits. This ultimately resulted in a decrease in credit disbursement and an increase in the Non-Performing Loan (NPL) ratio, thus affecting credit income and ultimately causing a decline in BPR performance in generating profits before tax (Supeno & Hendarsih, 2020).

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The Covid 19 pandemic is a difficult period for the banking industry, especially BPR. The development of BPR's financial performance, both in terms of total credit and third party funds (DPK), is still recorded as growing, although slower when compared to the same period in 2019.

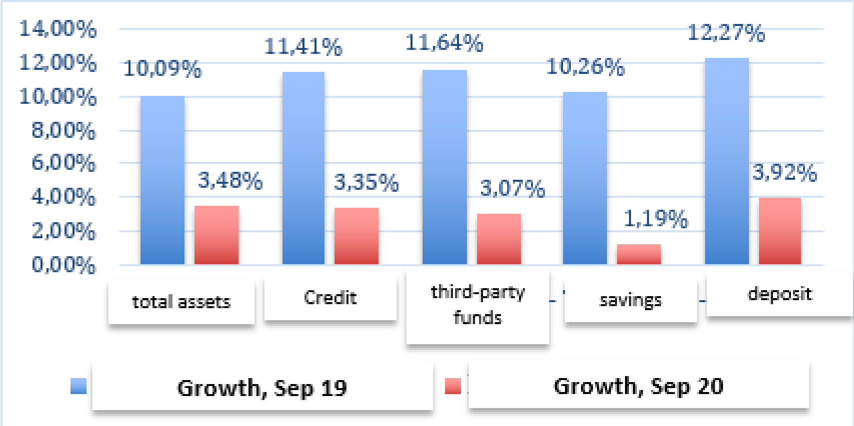

Figure 1. Development of BPR Performance
Source: OJK (2020)

Pandemic conditions increase banking credit risk due to a decrease in the company's ability to pay debts and this increased risk must be covered with sufficient bank capital. The capital factor is one of the important things for the development of a healthy, resilient, inclusive and productive BPR industry.

Based on the picture above, it shows that there is a gap phenomenon that; (a) The amount of BPR credit and third party funds (DPK) is still recorded as growing. However, growth was slower than the same period in 2019 before the pandemic. (b) Pandemic conditions increase banking credit risk. This is caused by a decrease in the company's ability to pay debts. (c) Increased credit risk must be covered or closed with sufficient bank capital. This is then reinforced by the inconsistency of several previous studies, the influence of capital adequacy and the quality of governance implementation on financial performance shows various results which give rise to gaps in research results or research gaps. The following table shows the differences in research results (research gaps) from previous studies.

Table 1. Research Gap

Author	Title	Research result
Suwarno and Muthohar (2018)	Analysis of the Influence of NPF, FDR, BOPO, CAR, and GCG on the Financial Performance of Sharia Commercial Banks in Indonesia for the Period 2013 - 2017.	The decline in BPR financial efficiency shows that capital adequacy and the quality of administrative arrangements significantly influence financial efficiency. Conclude that the Capital Adequacy Ratio (CAR) has a positive impact on the financial performance of sharia banking.
Iskandar and Laila (2016)	The Influence of the RiskBased Bank Rating Component on the Profitability of Sharia Commercial Banks in Indonesia (Period 2011-2014).	The research results show that CAR has an influence on the financial performance of Sharia Commercial Banks.
Lena Erdawati et al (2020)	Influence of Perception of Perpetrators Micro, Small and Medium Enterprises About Accounting, Accounting Knowledge, and Business Scale on the Use of Accounting Information	The results of the research conducted found that CAR had no effect on financial performance.
Evi Dwi Jayanti and Farahiyah Sartika (2021)	The effect of capital adequacy and credit distribution on profitability with credit risk as a moderating variable	It was found that the Capital Adequacy Ratio (CAR) did not significantly influence the company's financial performance. Even though banks have a high CAR level, this does not necessarily improve overall financial performance.
Zagorcheva and Gao (2015)	CPA Quality: Many Governmental Audits Do Not Comply with Professional Standards (AFMD 86-33): Government Printing Office, Washington, DC.	The research results show that financial performance is significantly influenced by governance. Corporate governance has a positive impact on financial performance as measured by Return on Assets (ROA)
Efva et al. (2022)	Covid 19 Pandemic: The Role of Good Corporate Governance on Performance	The research results prove that governance does not affect the financial performance of Prasnanugraha Ankan.

Based on the background above, it shows thatSeveral phenomena have been explained previously and there are gaps in the results of previous research, so this research is aimed at analyzing the role of liquidity intermediation on the influence of capital adequacy and the quality of governance implementation on the financial performance of Bank Perkreditan Rakyat.

The novelty of this research is by referring to existing literature,show thatFinancial performance is significantly influenced by governance. Corporate governance has a positive impact on financial performance. However, in previous research there has been no research that specifically tested the influence of capital adequacy and the quality of governance implementation on financial performance with liquidity as a mediating variable in rural credit banks. mSo this research will complement several previous studies, and expand the research time span and specialize in the Rural Bank banking industry.

FORMULATION OF THE PROBLEM

Based on the background and problem formulation above, the questions that need to be answered from this research are:

1. Does capital adequacy have a positive effect on BPR financial performance?
2. Does the quality of governance implementation have a positive effect on BPR financial performance?
3. Does capital adequacy have a positive effect on BPR liquidity?
4. Does the quality of governance implementation have a positive effect on BPR liquidity?
5. Does liquidity have a positive effect on BPR financial performance?
6. Does liquidity mediate the effect of capital adequacy on BPR financial performance?
7. Does liquidity mediate the influence of the quality of governance implementation on BPR financial performance?

LITERATURE REVIEW

Banking Financial Performance

Bastian (2001) defines performance as a description of the level of success in carrying out tasks in an organization as an effort to realize the goals, objectives, mission and vision of the organization. Zarkasyi (2008) defines financial performance as something that is obtained or achieved by the work of a company. Meanwhile, Fahmi (2018) believes that financial performance is used to find out that all financial implementation regulations have been implemented properly and correctly (Fahmi, 2018).

In this research, the calculation of bank financial performance indicators uses Return on Assets (ROA). According to Riahi-Belkaou (2005) Return on Assets (ROA) is used in calculating the financial performance results of multinational companies, especially in terms of financial performance and investment opportunities. ROA uses financial performance as a method for evaluating the efficiency of using company assets in generating profits. ROA is calculated by comparing profit before tax and average total assets.

$$\mathrm{ROA} = \frac{\text{profit before tax}}{\text{Total assets}} x 100\%$$

Capital Adequacy

Capital is a very important aspect for a bank's business unit. This determines whether a bank is functioning or not, one of which affects its ability to pay. The purpose of capital assessment is to determine the adequacy of bank capital in risk hedging positions and to prevent the possibility of other risks arising.

In this research, capital adequacy is measured by the Capital Adequacy Ratio (CAR). The capital adequacy ratio (CAR) is the comparison between bank capital and Risk Weighted Assets (RWA). Capital Adequacy Ratio (CAR) is the basis for banks to develop the credit sector. This relationship is formulated as follows:

$$\mathrm{CAR} = \frac{\text{Capital}}{\text{Risk Weighted Assets (ATMR)}} x 100\%$$

Corporate Governance (Corporate Governance)

Muhi (2009:2) states that Good Corporate Governance can be called a system that regulates and focuses a company on increasing added value for the benefit of a company. Because, good governance can encourage the development of a clean, transparent and professional management work model. Good corporate governance practices can be defined as the structures, systems and processes used by corporate institutions to produce sustainable added value for the company in the long term. However, it still pays attention to the interests of other stakeholders based on applicable laws and regulations (Corporate Governance Perception Index, 2008).

The final result of the self-assessment of the implementation of Good Corporate Governance for BPR is a Composite Rating with the following value criteria:

Table 2. Composite Ranking Matrix

Composite Value	Composite Rating
1.0≤Composite Value < 1.8	Very good
1.8≤Composite value < 2.6	Good
2.6≤Composite Value < 3.4	Pretty good
3,4≤Composite Value < 4.2	Not good
4.2≤Composite Value≤5.0	Not good

Source: OJK Circular Letter Number 5/SEOJK.03/2016 concerning Implementation of Governance for Bank Perkreditan Rakyat

Liquidity

Simorangkir (2004) defines liquidity as the bank's ability to pay obligations that are due. Liquidity refers to a bank's ability to provide the means to pay deposits that are due and distribute credit to debtors who need it.

In the following study, liquidity is measured using the Loan to Deposit Ratio (LDR). This relationship is formulated as follows:

$$\text{LDR} = \frac{Total\ Credit}{Total\ Third\ Party\ Funds} x\ 100\%$$

RELATION BETWEEN VARIABLES

The Effect of Capital Adequacy on Return On Assets (ROA)

Bank capital is a banking machine. If the machine's power is limited, the bank will have difficulty increasing its business capacity, especially in lending.Banks that have strong capital will have strong growth (Aymen, 2013). If the CAR value is met or the requirements are adequate, the bank can operate in a way that generates profits. Optimal credit distribution, in this case the amount of bad debt is very small or even non-existent, will increase profits and ultimately ROA will also increase (Mawardi, 2005). A high CAR value indicates that the bank's performance is getting better. Based on this, the following research hypothesis is:

H1: capital adequacy has a positive effect on BPR financial performance

The Influence of the Quality of Implementation of Corporate Governance on Return On Assets (ROA)

The managerial relationship between a company's ROA and financial performance according to Like (2012) is that the company's financial performance is determined by the implementation of good management. According to Djatmiko (2002), implementing good corporate management practices is very useful in improving a company's financial performance. Implementing good corporate governance is the core of corporate governance so that companies can continue their business financially, and improve financial performance and growth. This is expected so that the company obtains high financial performance and investors receive the income (return) as expected (According to Djatmiko.,2002).

H2: The quality of governance implementation has a positive effect on BPR financial performance

The Effect of Capital Adequacy on Liquidity

The liquidity assessment is aimed at determining the bank's ability to maintain an adequate level of liquidity, including anticipating the possibility of liquidity risks emerging. Liquidity shows the availability of funding sources for banks both now and in the future (Dendawijaya in Ahmad Yazid, 2009). The research findings of Basran Desfian (2005) as well as research by Astohar (2009) and Puspitasar (2009) concluded that the LDR variable had a partial positive effect on ROA. This means that the higher the LDR level, the greater the funds that can be used for lending, so that interest income will increase (Yunanto Adi Kusumo, 2008: 126).

H3: Capital adequacy has a positive effect on BPR liquidity

The Influence of Corporate Governance on Liquidity

Better governance mechanisms will improve the quality and frequency of governance disclosures, thereby reducing the emergence of information asymmetry. Having an independent auditor (independence board) reduces fraud in financial reports.In research by Luo and Hachiya (2005) and Patelli, L., & Prencipe, A. (20017) and concluded that institutional ownership has a negative effect on liquidity policy. This is different from the study by Bokpin et al. (2011) which proves that the size of the board of commissioners is positively correlated with the company's liquidity policy.

H4: The quality of capital governance implementation has a positive effect on BPR liquidity

The Mediating Role of Liquidity

According to Kasmir (2011), companies use financial performance to measure the efficiency of business operations in generating profits. In the following research, Return on Assets (RoA) is used to measure financial performance. Factors that influence financial performance are CAR, BOPO, NPL and LDR. In the research of Agostini et al. (2017); and Maulana et al., (2023) show that CAR, BOPO, LDR and NPL can mediate the effect of CAR and NPL ratios and BOPO on ROA.

H5: liquidity has a positive effect on BPR financial performance

H6: liquidity mediates the effect of capital adequacy on BPR financial performance

H7: liquidity mediates the effect of the quality of governance implementation on BPR financial performance

Research Framework

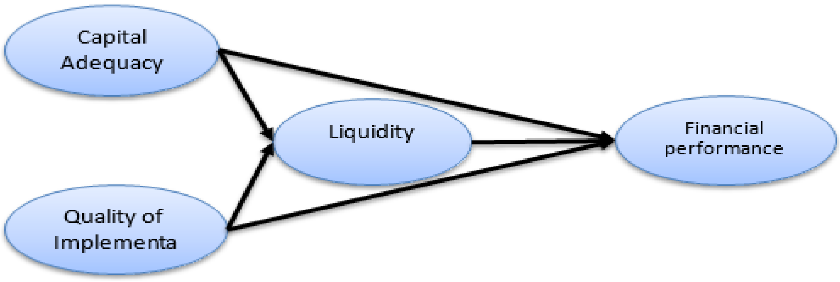

Figure 2. Research Framework Concept

RESEARCH METHODS

Research design

This research design is quantitative and aims to analyze the influence of capital adequacy and the quality of governance implementation on financial performance with liquidity as a mediating variable in rural credit banks.

Types and Sources of Research Data

The following research applies a quantitative methodology, with numerical data obtained and analyzed statistically. The data used is secondary data, namely the Capital Adequacy Ratio (CAR), the results of the assessment of the implementation of governance, Loan to Deposit Ratio (LDR) and Return on Assets (ROA) of BPRs in Indonesia in the period January 2017 to June 2023. The data source is in the form of a report Rural Bank Publications obtained via www.ojk.go.id and OJK internal supervision data.

Population and Sample

The population in this research is all Bank Perkreditan Rakyat (BPR) located in Indonesia. A sample is defined as a part or entire population using certain methods as a representative of the population. Purposive sampling is used as a sampling technique which aims to obtain samples that are in accordance with the research objectives. Purposive sampling is a sampling method according to certain categories. The bank used as the object of the following research is the Rural Bank in the East Java region with complete data for the period.

Method of collecting data

This research uses two data collection methods, namely documentation and literature study. Through the documentation method, data is collected from files relevant to the research topic. The library study method involves using books and other reading sources to understand literature related to the research topic.

RESEARCH RESULTS

General Description of Research Objects and Descriptive Data

The research object in this study is Bank Perkreditan Rakyat in the East Java region with complete data for the period 2017-2023. In that period there were 261 BPRs, but after purposive sampling was carried out, a sample that met the criteria in this study was 252 BPRs.

The data used is secondary data, namely the Capital Adequacy Ratio (CAR), the results of the assessment of the implementation of governance, Loan to Deposit Ratio (LDR) and Return on Assets (ROA) of BPRs in East Java in the period December 2017 to December 2023. The data source is Rural Bank Publication Report obtained via www.ojk.go.id and OJK internal supervision data.

Test the Outer Model/Measurement Model

Outer Loading

Validity testing results by looking at the outer loading valueon the variables in this study which were analyzed using WarpPLS 8.0:

Table 3. Validity Testing Based on Outer Loading Measures

	Modal	NK	Likuidit	Kinerja	Type (as defined)	SE	P value
CAR	-1.000	0.000	0.000	0.000	Reflective	0.093	<0.001
NK	0.000	-1.000	0.000	0.000	Reflective	0.093	<0.001
LDR	0.000	0.000	-1.000	0.000	Reflective	0.093	<0.001
ROA	0.000	0.000	0.000	-1.000	Reflective	0.093	<0.001

Source: WarpPLS 8.0 output, 2024

The outer loading value for the variables capital adequacy, quality of governance, liquidity and financial performance is more than 0.7. Hair et al., 2014 stated that if the outer loading on each variable/indicator exceeds the value of 0.7 then the variable/indicator can be maintained in the subsequent analysis process. This is reinforced by the p-value which is less than the alpha value of 0.5.

Validity Test Based on AVE Size

The second outer model analysis in this research is to assess the size of the AVE based on the WarpPLS 8.0 output results.The following are the results of the validity test based on the AVE value:

Table 4. AVE value

	Modal	NK	Likuidit	Kinerja
R-squared			0,5819	0,155555556
Adj. R-squared			0,5778	0,124305556
Composite reliab.	1.000	1.000	1.000	1.000
Cronbach's alpha	1.000	1.000	1.000	1.000
Avg. var. extrac.	1.000	1.000	1.000	1.000

Source: WarpPLS output results, 2024

It is known that the AVE value for all variables including capital adequacy, quality of governance, liquidity and financial performance is more than 0.5, which means that the latent variables of capital adequacy, quality of governance, liquidity and financial performance have absorbed the variance of each indicator > 50%.

Reliability test based on Composite Reliability

The following are the results of the reliability test for each variable:

Table 5. Composite Reliability Values

	Modal	NK	Likuidit	Kinerja
R-squared			0,5819	0,155555556
Adj. R-squared			0,5778	0,124305556
Composite reliab.	1.000	1.000	1.000	1.000
Cronbach's alpha	1.000	1.000	1.000	1.000

Source: WarpPLS output results, 2024

Based on the composite reliability results in the output table above, it is known that the composite reliability value of the capital adequacy, quality of governance, liquidity and financial performance variables is more than 0.7. This means that all the variables used meet the requirements and are declared reliable.

Inner Model or Structural Model Testing
Hypothesis Testings

The direct influence hypothesis is declared accepted if it meets the significant criteria, namely if the p-value is less than 0.05. However, if the p-value is greater than 0.05 then it is not significant. The following are the results of hypothesis testing analysis using the WarpPLS version 8.0 software application.

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Table 6. Path Coefficient and P-Value Values

Path Coefficients

	Modal	**NK**	**Likuidit**	**Kinerja**
Modal				
NK				
Likuidit	-0.895	-0.041		
Kinerja	0,419	-0.616	0.072	

P Values

	Modal	**NK**	**Likuidit**	**Kinerja**
Modal				
NK				
Likuidit	<0.001	<0.001		
Kinerja	<0.001	<0.001	0,29	

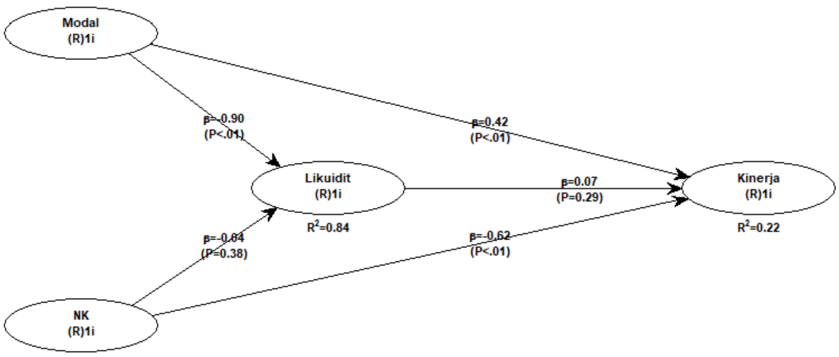

Figure 3. Structural Model Path Diagram in PLS

Based on the output table above, the path coefficient value of capital adequacy on liquidity is -0.895, which is negative, which means that capital adequacy has a unidirectional effect on liquidity. It is known that the P-Values value is <0.001, which means <0.05, so it can be concluded that if capital adequacy is higher it will have a significant effect on reducing the liquidity of the BPR group in East Java.

The path coefficient value of capital adequacy on financial performance is 0.895, which is positive, which means that capital adequacy has a direct and direct influence on financial performance. It is known that the P-Values value is <0.001, which means <0.05, so it can be concluded that if capital adequacy is higher it will have a significant effect on improving the financial performance of the BPR group in East Java. The next result is that the path coefficient value for the quality of governance on liquidity is -0.041, which is negative, which means that the quality of governance has an insignificant and unidirectional effect on liquidity. It is known that the P-Values value is < 0.379, which means > 0.05, so it can be concluded that if the quality of governance is higher it will not have a significant effect on reducing the liquidity of the BPR group in East Java.

Furthermore, the path coefficient value of the quality of governance on financial performance is -0.616, which is negative, which means that the quality of governance has a significant and unidirectional effect on financial performance. It is known that the P-Values value is <0.001, which means <0.05, so it can be concluded that if the quality of governance is higher it will have a significant effect on decreasing the financial performance of the BPR group in East Java.

Indirect effect and p-value of mediation variables

Mediation test results show valuep-value is 0.243, based on the value obtained, it shows that the liquidity mediation test on the influence of capital adequacy on financial performance is rejected because the p-value is above 0.05. So it can be concluded that the sixth hypothesis is rejected or in other words, liquidity does not play a mediating role in the influence of capital adequacy on financial performance.

Mediation test results show valuep-value 0.488, based on the value obtained, it shows that the liquidity mediation test on the influence of the quality of governance implementation on financial performance is rejected because the p-value is above 0.05. So it can be concluded that the seventh hypothesis is rejected or in other words, liquidity does not play a mediating role in the influence of the quality of governance implementation on financial performance.

Coefficient of Determination

From the results of the APC indicator, it is known that the APC value is 0.409, with a P-Value value of <0.001, which means <0.05, which means that for the variables, the model suitability test is fulfilled. Based on the ARS indicator, it is known that the ARS value is 0.531, with a P-Value value of <0.001, which means <0.05, which means that from the ARS indicator, the model suitability test is fit. Based on the AFVIF indicator, it is known that the AFVIF value is 1.629 <= 5, which means that the model suitability test is fit. Based on the GoF indicator, it is known that the GoF value is 0.729 >= 0.36, which means that the model fit is included in the large (strong) group.

DISCUSSION

The Effect of Capital Adequacy on Financial Performance

The research results show that capital adequacy has a significant positive influence on ROA, this has several relationship perspectives. First, the finding that capital adequacy contributes positively to ROA shows that having sufficient capital can increase the financial stability and efficiency of BPRs in the East Java region. Adequate capital provides protection against financial risks and allows companies to make better-paying investments. Meanwhile, what are the implications for ROA, of courseThe right capital structure can provide an additional boost to financial performance. This does not happen to Commercial Banks on the IDX banking according to the results of research presented by Widyastuti and Aini, 2021.

The results of this research can provide guidance for financial managers in designing effective capital management strategies. Companies can consider the optimal capital structure to maximize ROA by taking into account the need for capital adequacy. The results of this research are supported by previous research conducted by Sa'adah and Wahyuni, 2023. In the context of the discussion, the research results show that capital adequacy has a significant positive effect on ROA provides valuable insight into financial management. This is an example of how sound financial decisions, including selecting an appropriate capital structure, can have a positive impact on a company's overall financial performance.

The Effect of Implementing Quality of Governance on Financial Performance

In this study different results were shown by the significant and unidirectional influence between the quality of governance on financial performance. There are several things that can cause this to happen, such as improving the quality of governance often requires significant resource allocation, both in terms of costs and workforce. If BPRs have limited resources to implement better governance practices, this may reduce their concentration on core activities that support financial performance.

Improving the quality of governance often involves changing the organizational structure, establishing new committees, or changing operational processes. If not implemented properly, these changes could disrupt BPR efficiency and productivity in the short term. When adopting better governance practices, BPRs may experience an adjustment period where employees and management must learn and adapt to the new system. During this period, BPR operational performance may be disrupted. In facing this situation, it is important to carry out an in-depth evaluation to understand the dynamics underlying the relationship between the quality of governance and BPR financial performance. Appropriate and measurable steps need to be taken to ensure that improving the quality of governance is not only beneficial in the long term but also does not come at the expense of more immediate and strategic financial performance. Synergistic efforts between implementing good governance and effective business strategies can help BPR achieve an optimal balance between stability and growth.

The Effect of Capital Adequacy on Liquidity

The research results show that the quality of corporate governance has a significant negative influence on liquidity, which is interesting and has important implications in financial management. The concept that capital adequacy has a negative effect on the liquidity of a company may sound counter-intuitive because capital adequacy is supposed to provide protection against financial risks and increase the stability of the Company. This condition may occur, perhaps indicating that BPRs in East Java have too much capital or too few assets that can be easily converted into cash to meet short-term obligations. This situation can be referred to as overcapitalization, where too much capital is tied up in illiquid assets. Another side can also be seen from the less efficient capital structure of BPRs in East Java. If a BPR has an inefficient capital structure, where too much capital is tied up in the form of equity or own capital, this can reduce the company's financial flexibility in dealing with short-term obligations or urgent cash needs.

The Effect of Implementing Governance Quality on Liquidity

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This research states that there is no significant influence between the quality of governance at BPRs in East Java on their liquidity. The considerations that can be drawn from these results can be seen from various aspects. People's credit banks (BPR) often operate on a smaller scale and serve different market segments compared to large commercial banks. Factors such as market structure, regulatory policies, and customer characteristics can influence the relationship between governance quality and liquidity in the context of BPR in East Java. The quality of governance may not directly or significantly influence BPR liquidity due to other factors that are more dominant in influencing liquidity, such as credit portfolio characteristics, risk management policies, or local market conditions.

The results of this research are also supported by previous research by Budiyanto, 2014 which stated that good governance does not have a significant influence. This answers part of what has become empirical evidence regarding the relationship between governance and liquidity because it is only carried out at Bank Perkreditan Rakyat. Liquidity in a banking context can be measured in various ways, including liquidity ratios, capital adequacy ratios, or cash flow. The use of different metrics may produce different results regarding the relationship between governance quality and liquidity. Banking liquidity is influenced by various risk factors, including credit risk, market risk and operational risk. These factors may have a greater impact on BPR liquidity than the quality of governance directly. Although, results in accordance with the GCG concept were also carried out by Dharul, 2022, who stated that good governance will have a significant effect on liquidity in companies on the JII index (Jakarta Islamic Index). This shows that good governance practices can have a positive impact on the stability and liquidity performance of Bank Perkreditan Rakyat. High quality governance can help mitigate risks and maintain the availability of sufficient funds to meet short-term obligations.

The Effect of Liquidity on Financial Performance

Other results are also shown in this research in terms of liquidity, which is quite surprising if there is an insignificant influence between liquidity and financial performance in BPRs in East Java. BPRs are generally smaller financial institutions with a different business model than large commercial banks. Liquidity in BPRs may not have the same significant influence on financial performance as occurs in large banks. BPR often serves local market segments with simpler and more stable funding needs. Therefore, adequate levels of liquidity may already be the expected norm, thereby not having a significant impact on financial performance in the short term.

BPRs often focus on micro and small-scale financing which may have a different risk and liquidity profile compared to large banks with more diverse portfolios. This can affect the relationship between liquidity and financial performance. Similar conditions occur when economic conditions in certain areas change. Economic conditions, financial market situations, or changes in regulations can affect the relationship between liquidity and BPR financial performance. If economic conditions are stable or if there are easily accessible alternative sources of funding, liquidity may not be a factor limiting the financial performance of BPRs.

The Mediating Effect of Liquidity on Capital Adequacy and Governance Quality on Financial Performance

The next result in this research is that the mediating role of the liquidity variable in the influence of capital adequacy on financial performance is not significant. Statistically, there are several possibilities for this to happen. The presence of other variables that are not considered or confounding variables that are not properly controlled can cause a decrease in the significance of the mediation role. It is important to consider and control other variables that may influence the relationship between capital adequacy, liquidity, and financial performance. The relationship between capital adequacy, liquidity and financial performance can be very complex and depends on many contextual factors. An insignificant mediating role may indicate that the relationship between variables is indirect or that there are other factors that are more dominant in influencing financial performance.

The mediating role of liquidity variables in the influence of governance quality on financial performance which is not significant also shows several things that need attention. Results showing an insignificant mediating role of liquidity may indicate that there are other factors that are more dominant or have a greater influence on the relationship between governance quality and financial performance. For example, it is possible that other factors such as operational efficiency, business strategy, or external factors influence financial performance more than liquidity.

The research results showing the insignificant mediating role of liquidity in the relationship between governance quality and financial performance can be interpreted by considering several theories related to financial management and corporate governance. highlights the importance of good governance in reducing agency conflicts between managers and shareholders. Theoretically, high governance quality should contribute positively to financial performance by reducing agency costs. However, if the mediating role of liquidity is not significant, this may indicate that liquidity factors do not directly moderate the relationship between governance and performance, or that there are other factors that are more influential.

CONCLUSION

Based on the research results, it can be concluded that capital adequacy has a significant positive effect on BPR financial performance, indicating that adequate capital can support BPR financial growth and performance. Although the quality of governance does not have a significant effect on liquidity, the results show that the quality of governance has a significant influence on the financial performance of BPRs, indicating the importance of good governance practices in supporting the financial performance and stability of BPRs. Capital adequacy has a significant influence on BPR liquidity, showing the importance of adequate capital in ensuring smooth operations and availability of funds. The quality of governance implementation does not have a significant influence on BPR liquidity, perhaps because certain aspects of governance do not directly influence the level of liquidity. Liquidity does not have a significant influence on BPR financial performance, other factors such as operational efficiency may be more dominant. Liquidity also does not play a significant role as a mediator between governance and financial performance, indicating that the relationship is more complex.

Policy Implications

This research shows that capital adequacy has a significant influence on BPR liquidity and financial performance. Although the quality of governance implementation does not directly affect liquidity, investment in improving good governance will support long-term financial performance. In addition, it is necessary to pay attention to other factors that can influence BPR financial performance, such as operational efficiency, risk management strategies, and adaptation to market changes. Although liquidity is not significantly related to financial performance, it is recommended to carry out further analysis to understand the specific factors that influence BPR liquidity. This can help in designing more effective liquidity management strategies. Decision makers need to consider the unique context of BPR and develop long-term strategies that include improvements in financial, operational and management aspects to ensure sustainability and stable growth.

RESEARCH LIMITATIONS

There are several limitations to this research. First, the scope of the research is only limited to BPRs in the East Java region, so it is possible that there would be different results if carried out in BPRs in other regions or wider areas. Second, this research only focuses on capital adequacy, quality of governance implementation, and liquidity to measure their influence on profitability, but it is possible that there are other variables that have a greater influence on the level of BPR profitability. Third, this research uses secondary data on a ratio scale without considering the perceptions of each BPR regarding capital adequacy, quality of governance implementation and liquidity. To expand the discussion with this concept, more time is needed, especially for collecting data and carrying out analysis.

UPCOMING RESEARCH AGENDA

Future research is advised to use other variable measurement indicators besides capital adequacy, quality of governance implementation, financial performance and liquidity. This can broaden the research perspective and identify other factors that influence BPR financial performance. Furthermore, it is recommended that future researchers conduct research on other research objects that have a wider scope, not just limited to BPR in certain areas. Expanding the scope of research objects can provide different results and increase the generalization of findings. By considering these limitations, it is hoped that further research can provide more comprehensive insight into the factors that influence BPR financial performance.

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