The Effect of Organizational Culture on Bank Risk and Profitability of the Rural Bank (BPR) In Bali

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Abstract:
This research examines the profitability associated with organizational culture and operational, credit and liquidity risk. This research can be used as a guide in determining policies in the banking world. This research was conducted on The Rural Banks (BPR) in Bali for the period 2013 to 2017, using primary and secondary data sources. The analytical method used is structural equation modeling minor least square (SEM-PLS). The results obtained in this study are organizational culture has no significant effect on profitability and has a significant negative effect on bank risk. While bank risk has a significant negative effect on profitability.

Keywords: Organizational culture, bank risk, BPR

1. Introduction:
Studies on organizational culture are mostly carried out in developed countries compared to developing countries. Research on 95% organizational culture is carried out in developed countries and 5% in developing countries (Farashahi et al., 2005). Organizational culture is a new understanding of the formation of behavior of members within the company. Until the mid-1980s the organization was understood solely as a rational tool for controlling and coordinating a group of people. Strong culture is one of the company's irreplaceable resources, rare and cannot be replicated (Barney, 1991). A strong culture exudes transformative values, norms, beliefs. Using the concept of organizational culture, this study will explore the influence of Organizational Culture on BPR profitability in Bali as an intangible asset that can increase the profitability of BPR Bali. Research related to organizational culture states that organizational culture can increase profitability through cultural elements such as values, norms, rules and work ethic. Organizational culture is a cognitive framework consisting of: beliefs, norms,
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rules, behavior. The adoption of cultural values in the organization will increase profitability.

Cultural elements are the basis for monitoring behavior, patterns of thinking, cooperation and interaction each individually and together. This opinion is in accordance with the findings of the research conducted by Yildiv, 2014; Ozer, 2012; Tseng, 2009; Rashid, et al., 2002; Astawa, 2013; Zakari et al., 2013; Adewale and Anthonia, 2013; Sharifirad, 2011; Mousavi et al., 2015; Sabri, 2012; Bouwman, 2013; Uzkurt, 2013; Agarwal, 2015). On the other hand different findings are presented by Denison et al., (2004), Ghanawati (2014), and Dadzie et al., (2012) which state that organizational culture has a negative effect on profitability. This finding proves that the application of cultural values in organizations is not able to influence profitability. Controvery of research findings on the influence of Organizational Culture as non-financial variables on profitability is the Research Gap of this study.

Guided by previous research, it can be stated that organizational culture can have a positive or negative effect on profitability. Some studies on the influence of organizational culture state some limitations of organizational culture variables. Hassstede (2010) states that organizational culture is conscious behavior and culture of society is behavior that is not realized. Dadzie et al., (2017) states that the application of organizational culture is out of sync with the culture of society. Some researchers stated that the positive impact of organizational culture is long-term (Kaplan, 2012). This study applies Bank Risk as a mediating variable that is expected to prove that Organizational Culture significantly influences the profitability of BPR in Bali.

Risk is related to the size of potential losses and the possibility of losses that will occur (Mukherji et al., 2008). Fernando (2007) states that micro banks traditionally always identify their risk profile on credit risk and liquidity risk. Recent developments place operational risk as part of the micro bank's risk profile. The study tries to examine the three risk profiles in BPR in Bali in the concept of bank risk management. Credit risk, liquidity risk and operational risk are an integral part of the functions and roles of BPRs as intermediary institutions.

Some research find the effect of credit risk, liquidity risk and operational risk on profitability. The study was conducted by Bahrimi (2011), Kutsienyo (2011), Joseph et al., (2012), Kolapo (2012), Idowu et al., (2014), Buchory (2012), Clifford (2012), Ogboi et al. (2013), Margaretha et al., (2013) and David (2015). Research findings indicate that the higher the credit risk, liquidity risk, and operational risk the lower the profitability. Bank Risk Management is required to carry out accurate analysis of bank risk. Bank Risk Management that is integrated with Organizational Culture is considered to increase the profitability of BPRs in Bali.

II. Literature Review and Hypothesis:

Effect of Organizational Culture on Profitability:

Organizational culture is a pattern of beliefs, symbols, rituals, myths, and practices that have evolved over time in an organization (Pheysey, 1993). This definition of organizational culture is in accordance with superior cultural character. Superior culture intrinsically has the ability to adapt and power transformation. Resource Dependency Theory views adaptability and transformation as abilities that must be possessed by a company to survive (Pfefer, 1977).

Superior culture is one resource that is rare and cannot be replicated. Resources that are scarce and cannot be replicated become the company's strength to be able to achieve success (Barney, 1991). Superior culture is manifested in a way of life based on trust, moral teachings, work ethic. Superior culture can shape the mindset and behavior of individuals in an organization through the process of internalization. Lee and Yu (2004), Uzkurt et al. (2013), Kessapidou and Varsakelis (2002), Murphy et al. (2013), Zakari et al. (2013) found a positive relationship between organizational culture and profitability.

H1: Organizational Culture has a significant positive effect on the profitability of rural banks in Bali.
Effect of Organizational Culture on Bank Risk.

Schein (1992) states that risk is intrinsically a part of culture. Culture is created as a result of human efforts to respond to the risks faced every day. Bank risk arises as a result of its intermediary function and role. The bank cannot avoid these risks but tries to use those risks to become opportunities through risk management. Risk management requires a strategy that depends not only on financial policy but also on non-financial policies.

Resource Based Theory offers a method of internal and external analysis that can be used as a strategy to deal with risk (Barney, 1991). Oswari (2011) conducted a study on commercial banks in Indonesia found that contingency variables consisting of corporate culture, competitive strategies, external environment and organizational structure were able to reduce risk and improve bank performance.

H2: Organizational culture has a significant negative effect on the risk of BPR in Bali.

Effect of Bank Risk on Profitability:

Risk is related to the size of potential losses and the possibility of losses that will occur (Mukherji et al., 2008). Banks are no different from other types of businesses in terms of pursuing profitability. Minimizing bank risk is the main objective of bank risk management activities (Honohan, 1997). Credit risk management helps increase profitability and avoid problem loans.

Gizaw et al. (2015) found no significant relationship between the NPL and loan losses (loan loss). Gholami and Salimi (2014) found that liquidity risk management affects profitability in the banking sector. Afriyie and Akotey (2012) state that there is a relationship between problem loans and the level of bank profitability.

H3: Bank Risk has a significant negative effect on BPR Profitability in Bali.

III. Research methods

The population of this study was all BPRs in the province of Bali which amounted to 137. Determination of sample size based on Slovin formula and obtained as many as 55 BPR which became the study sample. The observation period is between 2013 and 2017. The research variables are defined as follows:

Organizational Culture (X1)

Organizational Culture Organizational culture is orientation, mindset, equality of actions that influence the behavior, attitudes, and effectiveness of all employees (Hostede, 1991). The variable measurement of organizational culture according to Uzkurt (2013) and Mas’ud (2015) as follows:

- a. Managers have the courage to innovate and take risks
- b. Manager's responsibility for all organizational operations.
- c. The lead managers continue to grow innovate.
- d. The organization has a clear vision of achieving the vision and mission

Each is measured by a Likert scale 1 to 5 which shows the opinion of the BPR manager.

Bank Risk (Y1)

Bank Risk (Y1) is formed from three dimensions, namely credit risk, liquidity risk and operational risk. The definition and measurement of the three dimensions of risk are as follows:

(1) Credit risk is measured by using a non-performing loan (NPL) \( Y_{21} \), is a ratio measure the composition of the non-performing loans with the total of loans disbursed (Rotinsulu, et al., 2015) by BPR to the public or third parties with the formula:

\[
NPL = \frac{\text{Non Performing Loan}}{\text{Loan Total}}
\]

(2) Liquidity risk measured by using the Loan to Deposit Ratio (LDR) \( Y_{22} \), is a ratio measure the composition of the total of loan given compared to the total of public funds and own capital used (deposit) (Capraru and Ihnatov, 2014) with the formula:

\[
LDR = \frac{\text{Loan Total}}{\text{Deposit Total}}
\]
(3) Operational risk is measured by using BOPO (Y_{23}), is a ratio measure the composition of the operating costs compared to the operating income with the formula:

\[
\text{LDR} = \frac{\text{Operating Cost}}{\text{Operating Income}}
\]

**Profitability (Y_2)**

Profitability (Y_2) is the ability of BPR in the Province of Bali to earn profits from assets and capital used. Profitability is measured by three indicators, namely:

1. Return On Assets (ROA) (Y_{21}), which is the ratio of earning after tax to total assets owned by the formula:

\[
\text{ROA} = \frac{\text{Earning After Tax}}{\text{Total assets}}
\]

2. Return On Equity (ROE) (Y_{22}), which is a comparison between earning after tax obtained with equity owned by the formula:

\[
\text{ROE} = \frac{\text{Earning After Tax}}{\text{Total assets}}
\]

3. Net Interest Margin (NIM) (Y_{23}), which is the ratio of total net interest income to productive assets average with formula:

\[
\text{NIM} = \frac{\text{Net Interest Income}}{\text{Productive Assets Average}}
\]

**IV. Results of Analysis and Discussion**

The results of data analysis with the Smart-PLS 3.0 program are summarized in Table 1

<table>
<thead>
<tr>
<th>Table 1. Summary of Data Analysis Results</th>
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<tbody>
<tr>
<td>Variable relationship</td>
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<tr>
<td>------------------------</td>
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<tr>
<td>Organizational Culture → Profitability</td>
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<tr>
<td>Organizational Culture → Bank Risk</td>
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<tr>
<td>Bank Risk → Profitability</td>
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Based on Table 1, it can be seen that there is one insignificant path coefficient, namely the influence of organizational culture on profitability. There are two significant path coefficients, namely the influence of organizational culture on bank risk and the effect of bank risk on profitability.

**Figure 1: Estimate Result Path Diagram**

**Effect of Organizational Culture on Profitability:**

Organizational culture has no significant effect on profitability as indicated by \( \rho \) values 0.512 greater than 0.05. Thus the first research hypothesis which states that Organizational Culture has a significant positive effect on profitability is rejected.

This result is not in accordance with the results of Handy (2000) and Hofstede et al. (1981).

**Effect of Organizational Culture on Bank Risk:**

Organizational culture has a significant negative effect on Bank Risk, indicated by the path coefficient of -0.357 and P Values of 0.000 smaller than 0.05. Thus the second research hypothesis which states that Organizational Culture has a significant negative effect on Bank Risk is accepted.

These results are not in accordance with the results of Handy (2000) and Hofstede et al. (1981).
Effect of Bank Risk on Profitability:

Bank risk has a significant negative effect on profitability, indicated by the path coefficient of -0.170 and P Values of 0.008 smaller than 0.05. Thus the third research hypothesis states that bank risk has a significant negative effect on acceptable profitability.


V. Conclusion:

Based on the results of testing, it was found that Organizational Culture had no significant effect on profitability, but was able to reduce bank risk. While the lower the bank's risk, the profitability will increase. These results indicate that organizational culture does not directly impact bank profitability, but has an impact on bank risk. The implication of the results of this study is that BPR managers must heed the bank's risk in achieving this profitability even though the BPR already has a strong organizational culture.

References:

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