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Geocentric Finance Equity to Improve Financial Institution Performance

Nengah Sukendri[1*]
Faculty of Dharma Duta, Brahma Widya, dan Dharma Sastra,
Institut Agama Hindu Negeri Gde Pudja Mataram, Kota Mataram, Indonesia
** Corresponding author: sukendri@iahn-gdepudja.ac.id*

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ABSTRACT

This study aims to bridge the research gap as a solution to improve the performance of financial institutions by using a qualitative research approach by analyzing and synthesizing established literature and theories. The researcher determined a theme that links equity with financial institutions by examining equity materials, geography and the performance of financial institutions with a locus in West Nusa Tenggara Province. This research succeeded in finding a new concept that is expected to be a bridge to overcome the research gap. The new concept with the name Geocentric Finance Equity is expected to improve the performance of financial institutions The government and the private sector have developed BPRs in each Regency and City with the aim of providing banking services. The government and the private sector have developed BPRs in each Regency and City with the aim of providing banking services.

Keyword:
Geocentric Finance Equity, performance of financial institutions, Proprietary interest

INTRODUCTION

Brealey et al. (2020) that the phenomenon in the business world is to refer to the composition of the company's existing sources of funds, especially the proportion between debt and equity. According to Ross et al. (2021), The concept is related to the capital structure, among others, the long-term funding mix that serves to support the operation and growth of the company. Capital structure can affect the company's performance but the level of influence varies on the company's performance.

Study conducted Vo-Thanh et al. (2020) found a positive relationship with performance, other research has found that equity has a negative effect on performance, reporting a negative effect on performance. From a financial perspective, it can be stated that equity represents the

[1]sukendri@iahn-gdepudja.ac.id

residual ownership of the company's assets after deducting all liabilities (Brigham & Houston, 2013; Gitman et al., 2015).

The main component of equity is financial which includes paid-up capital, retained earnings, and other reserves. Paid-up capital comes from issuing shares to investors, either through an initial public offering (IPO) or a seasoned equity offering (Lawrence & Zutter, 2012).

Meanwhile, retained earnings are accumulated net income that is not distributed as dividends to shareholders. (Leung, 2023). Financial statements will be the main source for the company to make equity-related decisions. Previous research conducted by Shahwan, (2021) found that the moderating role of corporate governance in the relationship with financial equity and financial performance has important implications for companies.

High levels of debt can increase the risk of bankruptcy, but also have the potential to drive growth through the leverage effect. (Hillier et al., 2018). Another opinion was delivered by (Damodaran, 2021) relying on equity as the main source of funding can reduce financial risk, but tends to have a higher cost of capital than debt due to the risk premium demanded by investors.

Financial performance cannot be separated from market performance (Octavia & Fauzia, 2022) In fact, it is an accounting-based performance measure. There are limited studies investigating the impact of financial equity on market performance such as firm value and stock returns. (Sukendri & Putra, 2022).

Further research is needed to explain this difference in findings by considering contingency factors. The study found that companies with higher levels of equity will have better profitability (Yazdanfar & Öhman, 2020; Sukendri and Aryawati 2021).

An explanation Memon et al., (2021) is when the cost of equity funding is lower than debt, so that the company has more funds to spend on the financing. invested in profitable projects. In addition, a high level of equity also reflects investors' confidence in the company's prospects, which may increase management's motivation to perform better.

This study aims to bridge the equity research gap on financial performance (Le & Phan, 2019) There are several other studies that found a negative relationship between equity and profitability.

The argument built (Ramli et al., 2019) There are higher agency costs in companies with large levels of equity. Furthermore, it was explained by (Jensen et al., n.d.) that when share ownership is widely dispersed, managers may have lower incentives to maximize shareholder wealth, thus negatively impacting profitability.

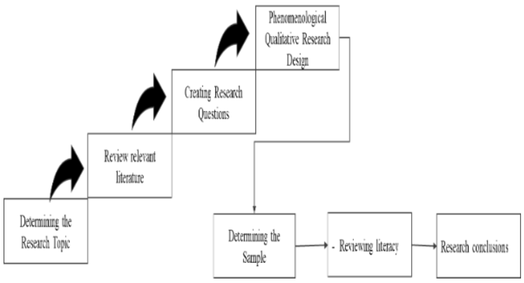
Sakr & Bedeir, (2021) the role of moderating and mediating variables in the relationship between equity and profitability. that good corporate governance can strengthen the positive effect of equity on profitability. Similarly, research conducted by (Nguyen & Nguyen, 2020) shows that investment decision mediates the relationship between capital structure and firm performance.

The problem formulation of this research is how financial equity can improve the company's financial performance in the local area.

RESEARCH METHODS

This research uses a qualitative approach by analyzing and synthesizing established literature and theories.

The following is a qualitative research process quoted from (Nurhayati & Andriyansah, 2024)



Literacy documents were further analyzed to extract information and insights relating to the research questions selected on the basis of relevance, quality and contribution to the understanding of Geocentric Financial Equity.

The first stage was to identify the practical problem of equity or ownership. This was followed by developing a solution through a cycle of planning, action, observation, and reflection to overcome the performance of financial institutions by finding new concepts. The following stage is to review the literature related to the field of financial management related to equity. Researchers determine themes that link equity with financial institutions by reviewing equity material, geography and the performance of financial institutions.

The next process requires a stage because to synthesize, research experts and experts in their fields must be tested so that the theory used is appropriate in providing solutions. Next is to synthesize some of the relevant literature that has been reviewed to get a new concept (novelty) in this research which at the end of the research will be given a conclusion on the position of the research carried out and future research to be carried out.

The research locus is in West Nusa Tenggara Province, which is occupied by several tribes, namely.

- Sasak tribe, this is the indigenous and majority tribe in Lombok.
- Balinese tribe, many in West Lombok.
- Mbojo tribe (Bima), Originally from Sumbawa, many settled in Lombok.
- Tribe from Java
- Bugis tribe, as well as several other tribes from all over Indonesia including from Tionghoa.

RESULTS

Equity reflects the owners' interest in the company and entitles them to the company's profits and assets. Shareholders, as equity holders, have a residual claim on the company's assets after all liabilities have been met. (Damodaran, 2021; Sukendri 2021).

In financial statements, equity is reported on the right-hand side of the balance sheet, indicating the company's sources of funding. The components of equity in the balance sheet generally consist of share capital (common stock and preferred stock), additional paid-in capital, retained earnings, and accumulated other comprehensive income (Kieso et al., 2020).

According to Feng (2023) Equity refers to the value of the owner's ownership or rights in an asset after deducting all liabilities associated with that asset. consists of owner's deposit which is often called capital or principal deposits of members for cooperative legal entities, retained earnings, and other elements. Its components can also be Paid-up capital, Retained earnings, Capital reserves, Share capital, Agio(Al Amin & Hanifuddin, 2021)

Geocentric in finance refers to a perspective or approach that considers global factors in financial decision-making. (Madura, 2021). Companies that adopt a geocentric orientation view the world as a single market and seek to integrate their financial strategies globally. (Eiteman et al., 2020).

In the context of international financial management, the geocentric approach emphasizes optimizing the financial performance of the company as a whole, rather than focusing on the performance of subsidiaries in a particular country. (Shapiro, 2019). Companies that embrace this perspective tend to adopt a global organizational structure, where important financial decisions, such as capital allocation and risk management, are made centrally (Bekaert & Hodrick, 2018).

One of the implications of the geocentric approach is the implementation of a global funding strategy. Companies can utilise various international sources of funds, such as global capital markets, cross-border loans, and international bond issuances, to obtain an optimal capital structure (Eun & Resnick, 2022). In addition, the company may also implement centralized foreign exchange management to manage currency exposure and minimize exchange rate risk (Moffett et al., 2018).

This research offers a new approach, Geocentric Finance Equity, synthesized from various theories. The following shows the synthesis of the concept.

Table 1. Theory and Concept

Theory and Concept	Theory and Concept
Trade-off theory(Campbell & Kelly, 1994)	Agency theory (Jassim et al., 1988)
Equity and Resources(Fernández & Rogerson, 2003)	Financial Globalizations (Kose et al., 2006)
Equity in regional public(Iseki, 2016)	Geocentric Financial behaviors (Pike & Pollard, 2009)

Trade-off theory (Campbell & Kelly, 1994) explains that companies are not fully financed by debt despite the tax benefits, so there will be varying levels of debt among companies. In principle, companies try to balance the benefits and costs of using debt in their capital structure.

This research then adopts Agency theory (Jassim et al., 1988). The theory discusses companies that can manage potential conflicts between owners and managers, and their implications for the company's financial and operational decision making. dynamics and potential conflicts of interest in the relationship between company owners (principal) and managers (agent). Agency costs will arise in an effort to align the interests of managers with owners, including monitoring and incentive costs.

The following presents the synthesis process to derive the concept.

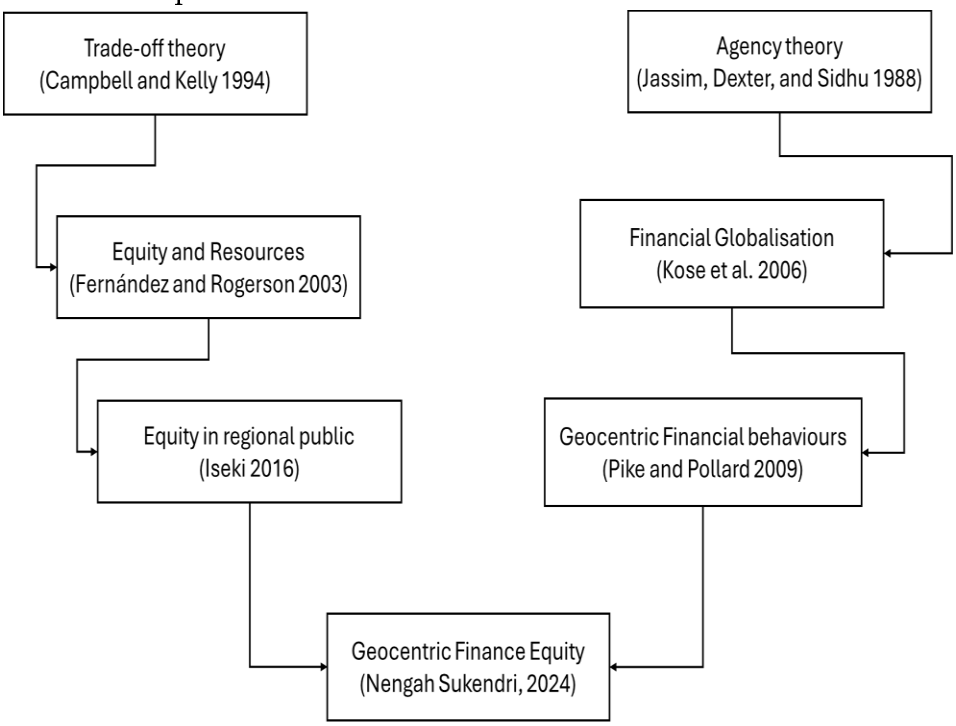


Figure 1. Synthesis of the Geocentric Finance Equity Concept

The two theories can be synthesized with relevant concepts, resulting in a new concept of Geocentric Finance Equity to bridge the research gap. The new concept is Geocentric Equity Finance is a concept in finance that deals with the management and capital structure of the firm. It centers on a region that is associated with controlling the management and capital structure of the company. So, there are interests related to ownership, culture and local community characteristics.

DISCUSSION

Number of Bank Perkreditan Rakyat (BPR) or Financing Rakyat according to statistical data throughout 2023

Table 2. Data on BPRs in Indonesia

Type	Number	
	Bank	Kantor
Bank Perkreditan/Pembiayaan Rakyat - BPR Konvensional	1.402	4.645
Bank Perkreditan/Pembiayaan Rakyat - BPR Syariah	173	520
Total	1.575	5.165

Source: Badan Pusat Statistik (BPS), 2024)

The table above shows that rural banks are growing rapidly in Indonesia, this is shown by the number that reached 1,402 with the number of offices reaching 4,645. This number is certainly not small.

Ten years earlier for West Nusa Tenggara Province, BPRs grew with two types of ownership, namely local government and private. The following presents the growth of BRP at that time.

Table 3. BPR data in West Nusa Tenggara Province

District/city	Ownership	
	Local government	Private
Lombok Barat	7	12
Lombok Tengah	9	2
Lombok Timur	8	13
Sumbawa	9	12
Dompu	4	0
Bima	5	11
Sumbawa Barat	2	1
Lombok Utara	0	4
Mataram	1	10
Kota Bima	1	3

Source: BPS Nusa Ternggara Barat (2014)

The population is not only from the indigenous tribes of Lombok, of course, there are strategies that BPR organizers must adapt in order for their financial institutions to have a positive performance.

The government and the private sector have developed BPRs in each district and city with the aim of providing simpler and more accessible banking services as an alternative to informal financing institutions such as moneylenders. Thus, assisting local economic growth through support for small entrepreneurs, local economic empowerment. For BPR itself, its presence in a region is to participate in government programmers for regional economic development.

The tribes that occupy the province are not only the local indigenous tribes, so the character of the people will be different. People with their respective tribes will feel comfortable if transactions with BPR have cultural values. For example, residents of the Balinese tribe will feel ownership and comfort if they transact at a BRP that has elements or values of Balinese customs and culture.

BPRs should capitalize on these characteristics to improve the performance of their financial institutions in order to achieve their government-mandated objectives of improving community welfare through access to financial services and promoting economic growth at the grassroots level.

CONCLUSION

This research succeeded in finding a new concept that is expected to be a bridge to overcome the research gap. The new concept with the name Geocentric Finance Equity is expected to improve the performance of financial institutions that geographically have different characters from one another. The implication is that government-owned and private BPRs can understand the character or ethnicity of the people who live in the region. Future research is to test the concept of Geocentric Finance Equity with other concepts to determine the effect with a quantitative research approach.

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