THE EFFECT OF FINANCIAL PERFORMANCE ON ROA PROJECTED AS PROFITABILITY

Fusthathul Nur Sasongko[1]
Universitas Airlangga, Surabaya, Indonesia
fusthathul.nur.sasongko-2019@feb.unair.ac.id

Elvira Rachma[2]
Institut Pesantren KH. Abdul Chalim, Mojokerto, Indonesia
elvirarachma7176@gmail.com

Abstract

The study aims to determine the effect of financial performance on ROA, in which financial performance is indicated by the variables ROE (X1), NPF Gross (X2), BOPO (X3), and FDR (X4) in BRI Syariah (BRIS) Quarterly 2012-2019. The research data used secondary data and tested by regression test and then tested the classical assumptions consisting of normality test, heteroscedasticity test, multicolinearity test, and autocorrelation test. While the data analysis used multiple linear regression analysis. The results of the study indicate that of the four independent variables, only Gross NPF is not significant with a regression test value on ROA of 0.0929, which means that Gross NPF does not pass the test because the probability value is > 0.05.

Keywords: ROA, ROE, Gross NPF, OEOI, FDR, Profitability

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INTRODUCTION

The ROA level at a bank is a form of bank management's ability to manage the funds they have to channel it to a potential and safe financing sector. According to Setyawati, et al., Profit optimization can be achieved if Islamic banks can meet financing targets while at the same time avoiding problematic financing (Setyawati, Suroso, Rambe, & Susanti, 2017). In addition, the ability of Islamic banks to minimize bank operating expenses is an indication that the bank can maximize expected profits. If profit maximization can be achieved, financial performance will be good, thereby increasing public trust in Islamic banks (Syawal, 2017). The profit earned from the activities carried out is a reflection of the performance of a company in running its business. As one of the references in measuring the amount of profit, it is very important to find out whether the company has run its business efficiently, because new efficiency can be found by comparing the profits obtained with the assets or capital that generate the profit, in other words, calculating profitability (Nusantara & Buyung, 2009). Although there are various indicators of profitability assessment that can be used by banks, and this study uses the Return on Assets (ROA) ratio, on the grounds that ROA takes into account the ability of bank management to obtain profitability and increase overall efficiency. ROA is a profitability ratio that is used to measure the effectiveness of a company in generating profits by utilizing its assets.

It does not rule out the possibility that BRIS as a sharia banking institution must also maintain good management of funding to produce a good ROA. BRIS also wants to provide good financial performance reports to the public, and foster a sense of trust in the community towards BRIS. This is the

form of BRIS in order to improve its financial performance. In addition to improving its financial performance, BRIS has maintained a very good ROA, namely BRIS ROA in June 2018 of 0.92%. The strategy to be used according to the secretary of BRIS that BRIS has prepared, among others, increased financing growth in the consumer segment through several financing schemes such as mortgages and multipurpose financing. In addition, it will also make efforts to increase commercial financing through a synergy with the parent company, PT Bank Rakyat Indonesia (Kontan, 2018).

LITERATURE REVIEW

Financial performance

Financial performance is a formal effort to evaluate the efficiency and effectiveness of the company in generating certain profits and cash positions. By measuring financial performance, it can be seen the prospects for the company's financial growth and development. The company is said to be successful if the company has achieved a certain predetermined performance (Hery, 2015). And also financial performance can be used as an analysis carried out to see the extent to which a company has carried out using financial implementation rules properly and correctly.

Non Performing Financing (NPF) GROSS

Non Performing Financing (NPF) is loans that do not have a good performance and are classified as substandard, doubtful and loss. The duties of Bank Indonesia (BI) include maintaining and maintaining a sound and trustworthy banking system with the aim of safeguarding the economy. For this reason, BI as the central bank and banking supervisor in Indonesia provides

provisions for measuring the assessment of a bank's soundness level. One of BI's provisions regarding NPF is that Banks must have an NPF of less than 5%.

Non-Performing Financing (NPF) Gross is the ratio between total loans with collectability of 3 to 5 (substandard, doubtful, loss) compared to total loans extended by the Bank. The Gross NPF formula is as follows (Maidalena, 2014):

$$\text{NPF Gross} = \frac{\text{Loans granted with a collectability } 3\frac{s}{d}5}{\text{Total credits granted}} \times 100\%$$

Financing to Deposit Ratio (FDR)

Financing to Deposit Ratio (FDR) is used to measure a bank's ability to meet its short-term obligations or obligations that are due. This ratio states how far the bank's ability to repay depositors' withdrawals by relying on the financing provided as a source of liquidity. The greater the financing, the income earned will also increase, because the income increases automatically the profit will also increase. In other words, how far the provision of financing to customers can offset the bank's obligation to immediately fulfill the request of depositors who want to withdraw the money that has been used by the bank to provide financing (Suryanto & Susanti, 2020).

The standard used by Bank Indonesia for the Financing to Deposit Ratio (FDR) is 80% to 110%. If the Financing to Deposit Ratio (FDR) of a bank is below 80% (for example 60%), it can be concluded that the bank can only channel 60% of all the funds raised. Because the main function of a bank is as an intermediary between parties with excess funds and parties who lack funds, the 60% Financing to Deposit Ratio (FDR) means 40% of all funds collected are not channeled to parties in need, so that it can be said that the bank is not functioning properly. Then, if the bank's Financing to Deposit Ratio (FDR)

reaches more than 110%, it means that the total financing provided by the bank exceeds the funds raised. This ratio is formulated as follows (Suryani, 2012):

$$\text{FDR} = \frac{\text{Total Funds Provided}}{\text{Total Third Party Funds}} \times 100\%$$

Profitability

In Suryani's writing, according to Dahlan Siamat (1995), profitability ratios are used to measure the effectiveness of banks in obtaining profits. Besides being able to be used as a measure of financial health, these profitability ratios are very important to be observed considering that adequate profits are needed to maintain the flow of capital sources. This profitability analysis technique involves the relationship between certain items in the income statement to obtain measures that can be used as indicators to assess the efficiency and ability of the bank to earn a profit. Therefore, this analysis technique is also called the income statement analysis (Suryani, 2012).

Profitability shows not only the quantity and trend of earnings, but also the factors that affect the availability and quality of earnings (Agustina, 2020). The success of a bank is based on a quantitative assessment of the profitability of the bank as measured by two ratios with equal weight. Bank Indonesia assesses the condition of bank profitability in Indonesia based on two indicators, namely: a) Ratio of Operating Costs to Operating Income (BOPO); b) Return on Asset (ROA) or rate of return on assets.

However, according to experts, the profitability indicator in a company, especially banking, can also use the Return Of Equity (ROE).

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Operating Costs to Operating Income (BOPO)

BOPO or Operating Costs to Operating Income is a ratio that is often referred to as the efficiency ratio, used to measure the ability of bank management to control operating costs against operating income. Operational costs are expenses incurred by the bank in carrying out its main business activities (such as interest costs, labor costs, marketing costs, and other operating costs). Operating income is the main income of the bank, namely interest income earned from placement of funds in the form of credit and other operating income. Thus, BOPO is a ratio that can show management efficiency in managing the company, in this case Islamic commercial banks. The lower the BOPO value tends to show a good level of efficiency which is expected to increase company profits (Cahyani & Wijayanti, 2017).

$$BOPO = \frac{\text{Operating Expensesl}}{\text{Operating Income}} \ X100$$

ROA

Return on assets (ROA) according to Hanafi and Halim (2004: 83) in Fahrizal (2013) is "the ratio that measures the company's ability to generate profits using the total assets (wealth) owned by the company after adjusting for the costs to finance these assets". Fahrizal (2013) also states that ROA is an indicator of a business unit's ability to earn a profit on a number of assets owned by the business unit. Return on Asset measures the operating performance which shows the extent to which assets are employed. This ratio measures how effective the company is in utilizing existing economic resources to generate profits (Fahrizal, 2013).

Return on Asset (ROA) is a comparison between profit before tax and total assets in a period, the formula used to find Return on Assets (ROA) is as follows (Suryani, 2012):

$$\text{ROA} = \frac{\text{Profit Before Taxes}}{\text{Total Assets}} \text{X } 100$$

ROE

ROE is a ratio showing the company's ability to generate profits or profits by utilizing its own capital. According to Riyadi (2006) in Rinati (2009) Return on Equity (ROE) is a comparison between net income and the company's capital (core capital). This ratio shows the percentage level that can be generated. ROE is very important for shareholders and potential investors, because a high ROE means that shareholders will also receive high dividends and an increase in ROE will cause an increase in shares (Rinati, 2009).

According to Husni (2011), Return on Equity (ROE) is an important indicator for shareholders and potential investors to measure a bank's ability to earn net income. It means that ROE can be used as a measuring tool for shareholders to assess how much the company's ability to generate profits for them. In other words, ROE has an influence on profits that will be distributed to shareholders (Husni, 2011).

To get the ROE value in a company, by means of the formula

$$\text{ROE} = \frac{\text{Net Profit After Tax}}{\text{Equitas}} \text{X } 100$$

Based on the theory and previous descriptions, the researcher proposes a framework of thought in this study as follows:

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Figure 1
Framework
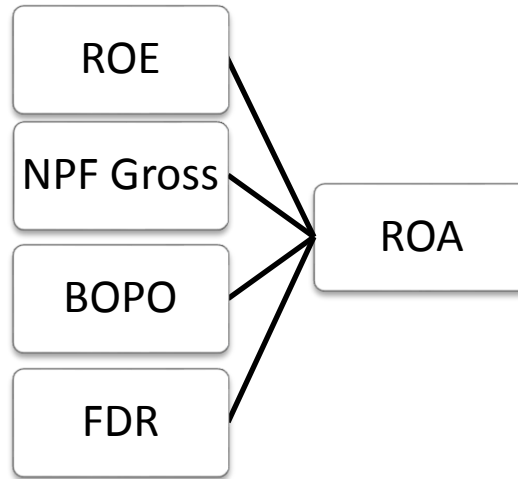
Based on the framework, the following hypotheses are produced:

H1: ROE has a significant effect on ROA

H2: Gross NPF has a significant effect on ROA

H3: BOPO has a significant effect on ROA

H4: FDR has a significant effect on ROA

RESEARCH METHOD

This research is a descriptive quantitative research. The data used in this study are secondary in nature, namely the quarterly financial statements of BRIS for the period 2012-2019 which have been published on the official BRIS website and can be accessed by the public. And the amount of data used is 32 data.

The analytical method used in this study is useful for explaining the basic framework for calculating the relationship between independent and dependent variables based on multiple linear regression analysis with data processing using the e-views program 10. To simplify calculations using the econometric method, the dependent variable is the Return of Assets (ROA) symbolized as the

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variable (Y) and the Independent variable is the ROE (X1), Gross NPF (X2), BOPO (X3) and FDR (X4) variables. Then it will be analyzed with an equation model, as follows: Y = β_ (0) + β_1 X_1 + β_2 X_2 + 〖β_3 X〗_3 + 〖β_4 X〗_4 + e

Where:

β_ (0) = Constant X_1 = ROE

β_1 = ROE coefficient X_2 = NPF Gross

β_2 = Gross NPF Coefficient X_3 = BOPO

β_3 = BOPO coefficient X_4 = FDR

β_4 = FDR coefficient e = Error (Variabel Pengganggu)

Y = ROA

RESULTS AND DISCUSSION

Multiple Linear Regression Analysis

Based on Table 1, the Regression Test shows that the Independent variable simultaneously significantly influences the Dependent variable, which means that ROE, Gross NPF, BOPO, and FDR together significantly affect ROA by showing the R-Square of 95%, then, 95% of the variables studied significantly affect ROA and the remaining 5% is outside the variables examined in this study. Then, from the four independent variables, only Gross NPF did not meet the regression test requirements because the probability result of ROA was 0.0929, which means that Gross NPF was not significant because the probability value generated was> 0.05.

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Table 1
Regression Test

Dependent Variable: ROA
Method: Least Squares
Date: 10/24/20   Time: 18:57
Sample: 2012Q1 2019Q4
Included observations: 32

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.194196	0.717212	3.059342	0.0050
ROE	0.078539	0.007475	10.50653	**0.0000**
NPF	0.035895	0.020607	1.741832	**0.0929**
BOPO	-0.022716	0.007181	-3.163541	**0.0038**
FDR	1.94E-05	9.34E-06	2.074521	**0.0477**

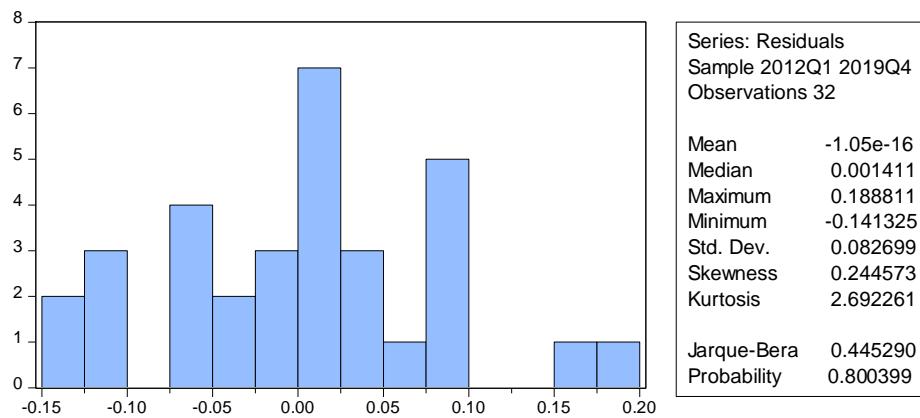|			
R-squared	0.961427	Mean dependent var	0.755625
Adjusted R-squared	**0.955712**	S.D. dependent var	0.421073
S.E. of regression	0.088613	Akaike info criterion	-1.866467
Sum squared resid	0.212013	Schwarz criterion	-1.637446
Log likelihood	34.86347	Hannan-Quinn criter.	-1.790553
F-statistic	168.2422	Durbin-Watson stat	1.936806
Prob(F-statistic)	0.000000		

The ROE and FDR variables show a significant positive effect on ROA and BOPO is significantly negative on ROA, where when the OEOI increases by 1%, the ROA will decrease by 2.2%.

Classic Assumption Test

In table 2, the normality test based on profitability shows the number 0.800399 which is> 0.05 (significant), and the data passes the normality test and can be continued.

Table 2
Normality test

Series: Residuals	
Sample 2012Q1 2019Q4	
Observations 32	
Mean	-1.05e-16
Median	0.001411
Maximum	0.188811
Minimum	-0.141325
Std. Dev.	0.082699
Skewness	0.244573
Kurtosis	2.692261
Jarque-Bera	0.445290
Probability	0.800399

In Table 3, the heteroscedasticity test table shows that the probability value is significant by showing the prob value. Chi-Square 0.0531, which is the value> 0.05. it shows that there is no problem and data analysis can be continued, when the probability value of the variable is <0.05, it includes homocedasticity where the data indicates a problem occurs and cannot be continued.

Table 3
Heteroscedasticity Test

Heteroskedasticity Test: White

F-statistic	3.337676	Prob. F(14,17)	0.0102
Obs*R-squared	23.46365	Prob. Chi-Square(14)	**0.0531**
Scaled explained SS	14.13385	Prob. Chi-Square(14)	0.4398

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In Table 4 the autocorrelation test shows that the autocorrelation value is calculated by prob. Chi-Square is 0.8709 where this value is> 0.05, so it can be said that there is no autocorrelation and the assumption is accepted.

Table 4
Autocorrelation Test

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.108928	Prob. F(2,25)	0.8972
Obs*R-squared	0.276447	Prob. Chi-Square(2)	**0.8709**

The multicollinearity Test shows that each variable <1, where each variable is said to be free of multicollinearity. Thus, it can be concluded that the variable does not have a problem.

Table 5
Multicollinearity Test

	ROA	ROE	NPF	BOPO	FDR
ROA	1.000000	**0.969348**	**-0.527422**	**-0.882532**	**0.198356**
ROE	0.969348	1.000000	**-0.588273**	**-0.846626**	**0.152473**
NPF	-0.527422	-0.588273	1.000000	**0.472743**	**-0.310921**
BOPO	-0.882532	-0.846626	0.472743	1.000000	**-0.077608**
FDR	0.198356	0.152473	-0.310921	-0.077608	1.000000

The analysis table above can be analyzed as follows: 1) ROE has a significant positive effect on ROA, because in theory ROE and ROA are indicators that are interrelated with profitability ratios, Winarno's writing states that ROA and ROE show the company's optimality in managing its assets and capital in make a profit. This is a form of connection between the two. 2) NPF Gross positive does not significantly affect ROA, this is inversely proportional to

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the results of research conducted by Wibisono and Salamah (2017), which shows that Gross NPF significantly affects ROA. However, Suwarno and Ahmad (2018) explain that NPF is also not significant positive for ROA, because the condition of a larger NPF in one period does not directly result in a decrease in profits in the same period because the significant effect of NPF on ROA is related to determining the level of congestion in financing provided by a bank. Financing is the main source of bank income (Muliawati and Khoiruddin, 2015). 3) BOPO significantly negatively affects ROA.

The results of this study are in accordance with the opinion of Nurbaidah (2017) which states that the negative relationship between OEOI and ROA means that the higher the ROA level, the lower the ROA level of a bank. The low level of BOPO shows the ability of good bank management to meet operational costs by generating optimal profits. Therefore, it has an impact on ROA for the better. 4) FDR has a significant positive effect on ROA, according to Yanthiani (2019) which states that FDR is significant positive because the higher the FDR, the more funds will be channeled in the form of financing, it will increase interest income so that the ROA is higher.

CONCLUSION

Based on the results of the data analysis and discussion described above, the conclusions that can be drawn are as follows: 1) ROE, NPF Gross, BOPO, and FDR as independent variables together significantly affect ROA by showing the R-Square of 95%, the variables studied significantly affect ROA and the remaining 5% is outside the variables studied in this study. 2) Then, of the four independent variables, only Gross NPF did not pass the regression test because the probability result of ROA was 0.0929, which means that Gross NPF did not

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pass the test because the resulting probability value was > 0.05. 3) The variables used have undergone a classic assumption test, so it is certain that this data is valid with a normality test value of 0.800399, a heteroscedasticity test of 0.0531 and an autocorrelation test of 0.8709, meaning that all of them pass the test with a value above 0.05. Then, the multicollinearity test shows that each variable <1, then the data is multicollinear free.

By the determination of financial performance variables in this study, it is already 95% affecting the profitability of BRIS, and it can be used in banking or non-banking companies, depending on the use and purpose of the research itself. The researchers hope to add the profitability variable so that the research is more accurate and interesting.

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