

Detect Determinants of Profitability Performance of Sharia Bank

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ARTICLES INFORMATION

RELEVANCE

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ABSTRACT

Abstract : This study is to examine: (1) Effect of Capital Adequacy Ratio (CAR) on Return On Assets (ROA). (2) Non Performing Financing (NPF) is it able to strengthen the relationship between Capital Adequacy Ratio (CAR) to Return On Assets (ROA). The sampling method used in this study is a census that is all Islamic banks registered at Bank Indonesia consistently in the 2013-2018 period that numbered 72 Islamic Banks. The results of this study show that: (1) Capital Adequacy Ratio (CAR) has a positive and significant effect on Return On Assets (ROA). (2) Non Performing Financing (NPF) significantly strengthens the positive relationship between Capital Adequacy Ratio (CAR) and Return on Assets (ROA).

INTRODUCTION

The Financial Services Authority (OJK) data, the total assets of sharia banks only reached 5.18% of the total value of banking assets nationally. The current development of national Islamic banks is still far from expectations. Islamic banks have two functions, namely as commercial banks and investment banks. Several factors causing the delay in the development of Islamic banks including adequate human resources are inadequate, this is caused by factors in the discipline of Islamic economics. Basically, most academics now prefer conventional economics because it is considered better, which causes the slow development of Islamic banks. The following is the lack of socialization of the bank to the public about the existence of Islamic banks. The company's financial performance is closely related to performance measurement and assessment.

Srimindarti et al., (2015), performing measurement is the qualification and efficiency and effectiveness of the company in operating a business during the accounting period. According to Munawir (2012), that the purpose of measuring the company's financial performance uses Return On Assets (ROA), among others, knowing the level of liquidity. solvency, profitability and stability..

Profitability in relation to investment connects profit with investment. One measurement is the rate of return on investment (return on investment-ROI), or the rate of return on assets (return on asset-ROA).

Capital Adequacy Ratio (CAR), one of the tools to measure the fulfillment of capital obligations, can be calculated using a CAR (Capital Adequacy Ratio) ratio in which Bank Indonesia sets a CAR of 8% (Ali, 2006). The previous studies gave contradictory results so as to make a study of the factors that influence Return On Asset (ROA), especially important Capital Adequacy Ratio (CAR) is done again. Pravasanti (2018) in the research concluded that Capital adequacy ratio (CAR) has a positive and significant effect on profitability (Return on Assets/ROA) of sharia bank. The results of different and conflicting studies there is a need for moderating (Anthony and Govindarajan, 2007). Taufik (2013) research was explained that Capital Adequacy Ratio (CAR) had an effect on Return on Assets (ROA) with Non Performing Financing (NPF) as a moderating variable and Negara and Sujan (2014) produced research that financing risks can moderate banking capital and profits. From the inconsistency of the results of previous studies, that Non Performing Financing (NPF) needs to be resolved which is thought to be able to strengthen or weaken the relationship (moderation) between Capital adequacy ratio (CAR) and profitability (Return on Assets/ROA). So, the study was examine effect of Capital Adequacy Ratio (CAR) on Return On Asset (ROA) with Non Performing Financing (NPF) as moderating variables

Capital Adequacy Ratio (CAR) is a capital ratio that explains the ability of banks to prepare funds for business development purposes and anticipate the risk of loss of funds due to bank operations (Ali, 2006). In other words, the capital adequacy ratio is the bank's performance ratio to assess the level of bank capital adequacy to support assets that contain or produce risks. Bank Indonesia, ROA > 1.22% was considered healthy, 0.99 - 1.22% (quite healthy), and < 0.77% (less healthy). The high CAR causes the bank's ability to bear the risk of any credit or productive assets that are at risk and are able to fund the bank's operations. This will result in giving a large contribution to the profitability of banks (Kuncoro and Suhardjono, 2012). Widati (2012) dan Wibisono & Wahyuni (2017) concluded that capital adequacy has a positive effect on the profitability. Adequacy of capital adequacy will certainly give effect to the increasing profitability of the company because the company can carry out its business operations without worrying about the risks that might arise. The low level of CAR will of course reduce public confidence in banks, because of the low guarantee of trust in the community. The lower the bank CAR value, the more unhealthy the bank will be. In addition, the lower capital of the bank will result in the lower ability of the bank's capital to maintain the risk of possible loss of business activities so that the bank's performance also decreases.

Ratio that assesses the level of risk of bank financing that is not smooth / not smooth is Non Performing Financing (NPF). The small ratio of NPF will result in a small level of risk of financing borne by the bank, and vice versa. Based on Bank Indonesia regulation No.13 / 23 / PBI / 2011

concerning the Implementation of Risk Management for Sharia Commercial Banks and Sharia Business Units, there are 10 types of risks: (1) Return risk; (2) Compliance risk; (3) Investment risk Credit risk; (4) Reputational risk; (5) Strategic risk; (6) Operational risk; (7) Legal risk; (8) Market risk Compliance risk; (9) Liquidity risk; and (10) Credit risk. All of these risks lead to non-performing financing (NPF). The problematic financing in large numbers results in a decrease in the bank's operating level. Low Non Performing Financing (NPF) means profitability will be high. According to the Financial Services Authority Circular Letter No. 5 of 2015, non-performing financing can be calculated from: (1) Doubtful; (2) Loss (loss); and (3) substandard. Non-performing financing shows the ability of bank management to manage problem financing provided by banks, so the higher this ratio, the worse the quality of Islamic commercial bank loans, which causes a greater number of problem financing. so the possibility of a bank in a problematic condition is even greater. . This results in decreased bank revenue and bank profitability will decline, so that it will have an impact on bank capital which will decrease and the capital adequacy ratio will be lower. Taufik (2013) research was explained that Capital Adequacy Ratio (CAR) had an effect on Return on Assets (ROA) with Non Performing Financing (NPF) as a moderating variable and Negara and Sujana (2014) produced research that financing risks can moderate banking capital and profits.

The probability of the extent to which a company generates profits from sales and investment of the firm (Weston and Copeland, 2010). If the profitability of the firm is good, the stakeholders consisting of creditors, suppliers and investors will see the extent to which the company can generate profits from sales and investment of the company. Profitability in relation to investment connects profit with investment. One measurement is the return on investment (ROI), or the rate of return on assets (return on assets/ROA). One performance analysis is the Return on Assets (ROA). The description of the size of the net profit to be obtained is the result of this ratio. A decrease in the value of this ratio results in a decrease in net income. This analysis is used by many researchers to proxy for profitability ROA is a tool that measures the ability of bank management to obtain profits generated by the average total assets of the Bank (Almilia & Winny, 2005). Profitability assesses a company's ability to get profit in its trading with sales, total assets, and own capital. This ratio is the efficiency of the company because of the profits generated on sales and investment income. Profitability will assess income according to the income statement with the investment book value. The profitability ratio can be compared with a ratio that is equal to the ratio of other corporations in the previous year or often referred to as the industry average ratio (Tampubolon, 2005). According to Sutrisno (2007), the measurement tool used in profitability is Return on Assets (ROA) through a comparison of net income after tax and total assets. Return on Assets (ROA) is used because this ratio is believed to be useful to assess the effectiveness of a company in generating profits by utilizing company-owned assets.

Capital Adequacy Ratio (CAR) as one of the indicators assesses a bank's ability to cover a decrease in assets due to bank losses due to risky assets. This high ratio means that the bank's capital

position will be better. The Bank of International Settlement Standard (BIS) provides minimum capital of 8% of risk-weighted assets (Kuncoro & Suhardjono, 2012). In a banking business, ROA is used to measure the ability of bank management to obtain profits (profit before tax) generated from the total assets of the bank concerned (SE BI No.6 / 23 / DPNP Jakarta, 31 Mei 2004). The results of the study from Widati (2012), Wibisono & Wahyuni (2017), Ahmad et. al (2012), state that the higher the CAR, the better the bank's ability to bear the risk of each risky productive asset or vice versa, so that CAR has a positive and significant effect on profitability (Return on Assets / ROA).Based on the foregoing, the researcher formulated hypothesis as follows:

Non Performing Financing (NPF) illustrates the ability of bank management to manage financing problems. The worse the quality of a bank's credit as a result of the higher number of NPF. Malayu (2007) states that credit risk received by the bank is caused by the uncertainty of the return of credit that has been given. The financing risk received by the bank is one of the bank's business risks that results from the repayment of loans or investments that are being made by the bank. financing management is very much needed by banks considering the financing function as the biggest revenue contributor for Islamic banks. Bank capital is one of the important factors for banks in developing their business and accommodating the risk of loss and bankruptcy. Variable nonperforming financing can affect the level of profitability of Islamic banks (Pravasanti, 2018). The higher the non-performing financing, the worse the bank's ability to bear the risk of any risky productive assets. Taufik (2013) research was explained that Capital Adequacy Ratio (CAR) had an effect on Return on Assets (ROA) with Non Performing Financing (NPF) as a moderating variable and Negara and Sujana (2014) produced research that financing risks can moderate banking capital and profits. Based on the foregoing, the researcher formulated hypothesis as follows:

Conceptual Framework

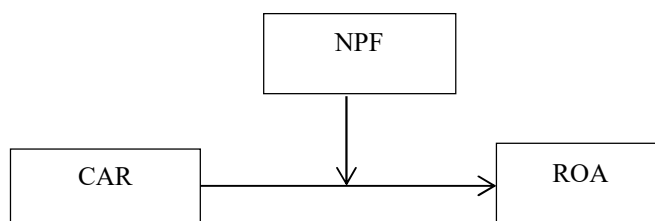


Figure 1. The effect of CAR on ROA moderated by NPF

METHOD

The sampling method used in this study is a census that is all Islamic banks registered at Bank Indonesia consistently in the 2013-2018 period that numbered 72 Islamic Banks. The type of data used is a type of quantitative data. Quantitative data includes: Capital Adequacy Ratio (CAR), Non

Performing Financing (NPF) and Return On Assets (ROA). The method of collecting data uses secondary data (secondary data).

Descriptive Statistics Analysis

The collection of data obtained can be neatly and concisely illustrated and can provide core information from existing data sets due to the results of descriptive statistical analysis. The information includes the size of the data distribution, the size of the data center and the tendency of a data group.

Coefficient of determination (R^2)

The essence of this analysis tool is to assess the extent to which the model is able to explain the variation of the dependent variable. The range of the coefficient of determination is from zero to one. The larger R^2 contains the ability of the independent variables to be very large to explain the dependent variables. If the value of the coefficient of determination is close to zero, it means that the independent variables do not provide all the information needed to predict the variation of the dependent variable. Generally the coefficient of determination for cross data is relatively small because there is a small variation between each observation, whereas if the data is a time series it usually has a low coefficient of determination.

There is a weakness in using the coefficient of determination which is a bias towards the number of independent variables in the model. If when tested empirically, the adjusted R^2 value is not positive, then the adjusted R^2 value is considered to be zero.

Test Statistics t

To illustrate how much the influence of one explanatory variable individually in explaining the dependent variable statistical tests are used t. This t test can be used to analyze the influence between independent variables and dependent variables partially. If $\text{Sig } t > 0.05$ then H_0 is accepted, this means there is no significant effect between the independent variable and the dependent variable. Conversely, if $\text{Sig } t < 0.05$, then H_0 is rejected, this means that there is a significant influence between the independent variables on the dependent variable.

Interaction Test or MRA (Moderated Regression Analysis)

The moderating variable is a variable that has a strong contingent effect with the relationship between the independent variable and the dependent variable. Interaction testing used to test regression using moderating variables. Interaction Test (Moderated Regression Analysis) is an application of multiple linear regression where the equation contains an interaction element (multiplying two / more independent variables). The MRA (Moderated Regression Analysis) test is used because of the moderation variable.

RESULTS AND DISCUSSION

Descriptive statistics

Table 1 Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Statistic
RAO	72	6.23	11.38	7.27	6.150
CAR	72	1.47	5.24	2.47	1.774
NPF	72	1.01	5.32	2.54	1.309
Valid N (listwise)	72				

Source: Secondary data which is processed

The table 1, which summarises the results from descriptive statistic data, average value (mean) ROA of 7.27 with a minimum value of 6.23, maximum value of 11.38, and standard deviation value of 6.150. Based on these data shows a large difference between the lowest and highest ROA values, which are between 7.27 to 11.38. This value indicates that ROA has increased. Based on data from table 1, it can be seen that the value of the standard deviation is still below the average value (mean) of ROA (Mean > Std.Deviation). The data shows that data deviations are small or there are no outlier data. In this study ROA is used as a measure of the level of gross profit, which is calculated by dividing the level of profit before tax on the total assets held.

The average value (mean) of CAR is 2.47 with a minimum value of 1.47, the maximum value is 5.24, and the standard deviation value is 1.774. Based on these data indicate a large difference between the lowest and highest CAR values between 1.47 to 5.24. This value indicates that CAR has increased. Based on data from table 1, it can be seen that the standard deviation value is still below the mean (mean) CAR (Mean > Std.Deviation). The data shows that data deviations are small or there are no outlier data. In this study CAR is used as a measure of the level of capital adequacy.

The average value (mean) of NPF is 2.54 with a minimum value of 1.01, the maximum value is 5.32, and the standard deviation value is 1,305. Based on these data shows a large difference between the lowest and highest NPF values, which are between 1.01 and 5.32. This value indicates that the NPF has increased. Based on data from table 1, it can be seen that the value of the standard deviation is still below the average (mean) value of NPF (Mean > Std.Deviation). The data shows that data deviations are small or there are no outlier data. In this study NPF is used as a measure of the level of non-performing financing, which is calculated by dividing the problematic or non-performing financing of the total financing issued by the Sharia Bank.

Normality Test

Coefficient of Determination (R²)

Table 3 Test Result R²

Model	R	R Square	Adjusted R	
			Square	Std. Error of the Estimate
1	.466 ^a	.276	.263	8.05157

Source: Secondary data which is processed

The result of test was 0.276. It means that independent variables such as CAR, CAR*ROA, CAR*NPF were able to explain 27,6 % variation from dependent variable of ROA, meanwhile the rest 72,4 % can be explained by the other factor which not include on model.

Hypothesis Test Results and Discussion

Table 5 Coefficients Test Results

Model		Unstandardized Coefficients			
		B	Std. Error	T	Sig.
1	(Constant)	7.927	.563	9.773	.000
	ROA	44.357	25.273	3.563	.000
	MODERAT	13.655	2.314	6.842	.000

Source: Secondary data which is processed

Hypothesis Test:

The Effect of Capital Adequacy Ratio (CAR) on Profitability (Return on Assets/ROA)

The multiple linear regression test, it indicated $\alpha = 0.05$ Capital Adequacy Ratio (CAR) with Return on Assets (ROA) significancy level of 0.000. Capital Adequacy Ratio (CAR) gave significant positive effect on Return on Assets (ROA) by $t = 3.563$. This proves that the higher the CAR, the better the bank's ability to bear the risk of each risky productive asset or vice versa, so that Capital Adequacy Ratio (CAR) has a positive and significant effect on profitability (Return on Assets / ROA). As a result, hypothesis 1 is accepted. Capital is very important, because all bank operational activities will run smoothly, there are no obstacles if the capital is quite large.

Therefore, during critical periods the bank will remain secure in control because it has capital reserves. Banks that have a low level of capital are considered not going to be able to maintain the possibility of the emergence of the risk of loss of business operations as a result of the bank's performance will decline, and vice versa. The high capital owned by the bank will also be considered capable in terms of the smooth operation of its business and at the same time will increase customer confidence in its deposit funds and use services from banking companies, because of that trust the bank's income will increase, resulting in increased profitability. Then the higher the capital owned will

have an impact on increasing profitability.

In theory banks that have CAR above 8 percent are very good because banks are able to bear the risks that arise. The results of the study support the research conducted by Wibisono & Wahyuni (2017) dan Widati (2012) who explained that CAR has a positive and significant effect on profitability (Return on Assets / ROA). Different things are shown from the results of Negara & Sujana (2014) which are reinforced by Taufik (2013) which show that CAR does not affect profitability (Return on Assets / ROA).

The Effect of Non Performing Financing on the Relationship Between Capital Adequacy Ratio(CAR) and Return on Assets (ROA)

The hypothesis test results show that Non Performing Financing (NPF) significant positive effect on the relationship between Capital Adequacy Ratio (CAR) and Return on Assets (ROA). Non Performing Financing (NPF) had coefficient value of 6.842 with significancy level of 0.000 less than 0.05. So, Non Performing Financing (NPF) could moderate Capital Adequacy Ratio (CAR) and Return on Assets (ROA). Non Performing Financing (NPF) signifikan dalam mempengaruhi hubungan pengaruh Capital Adequacy Ratio (CAR) and Return on Assets (ROA).

The influence of these variables, allegedly caused by the Non Performing Financing (NPF) that applies is the level of Non Performing Financing (NPF) that is not targeted by bank management. So that even though Non Performing Financing (NPF) continues to decline, Return on Assets (ROA) also increases. The results of this study support the research of Taufik (2013) which says that the Capital Adequacy Ratio (CAR) has an influence on Return on Assets (ROA) with Non Performing Financing (NPF) as a moderating variable and the State and Sujana's research (2014) which says that funding risks can moderate banking capital and profits. Therefore, Non Performing Financing (NPF) can moderate the effect of Capital Adequacy Ratio (CAR) on profitability (Return on Assets / ROA). This means that Non Performing Financing (NPF) significantly strengthens the relationship between Capital Adequacy Ratio (CAR) with profitability (Return on Assets / ROA) so that hypothesis 2 in this study can be accepted

Conclusion

Capital adequacy ratio has a positive and significant effect on return on assets. This shows that the capital adequacy ratio is a factor that influences the high and low return on the company's assets. The higher the capital adequacy ratio of a bank, the higher the rate of return on the bank's assets. Bank capital adequacy ratio information can be used as a tool to find out information on earnings and as a measure of company performance. Non-performing financing moderates the capital adequacy ratio and return on assets. This means that non-performing financing is moderating variables that weaken the relationship between capital adequacy ratio with return on assets. The smaller the non-performing financing owned by the company, the company has a potential return on assets high the following year if the company also has capital High adequacy ratio

Limitations

Variables used in this study are limited to Capital Adequacy Ratio, Non Performing Financing and Return on assets. The sample used in this study only focused on Sharia Commercial Banks registered at Bank Indonesia for the period 2013-2018. Therefore, further research is recommended to increase the number of samples and extend the study period

Further Research

The next researcher should extend the time period of the study and add other independent variables such as: financing deposit ratio, operational efficiency ratio, and others. The addition of longer time research spaned.

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