



THE INFLUENCE OF COMPANY WEALTH ON THE ABILITY TO GENERATE PROFITS IN THE BANKING INDUSTRY IN INDONESIA 2015-2019

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Ignatius Oki Dewa Brata, Sendi Gusnandar Arnan, Mohd Haizam Saudi. The Influence Of Company Wealth On The Ability To Generate Profits In The Banking Industry In Indonesia 2015-2019-- Palarch's Journal Of Archaeology Of Egypt/Egyptology 17(10), 1411-1415. ISSN 1567-214x

Keywords: Assets, Banking Industry, Profit, Performance.

ABSTRACT

This study aims to determine how ability to generate profits is influenced by company assets in the banking sector during the period 2015-2019. The data analysis used is multiple regression by first performing a classical assumption test, where all banks in the banking sector listed on the Indonesia Stock Exchange are all sampled. The results showed that one off Asset indicator has a significant effect in a with ability to generate profits, while the other has no significant effect in a positive direction with ability to generate profits, the model test shows that both Indicator together have an effect on ability to generate profits.

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1. INTRODUCTION

The purpose of a bank is as an intermediary institution for parties who have excess funds with those who need funds. Banks also have a role as institutions that implement monetary policy and achieve financial stability. Therefore, the activities of banking are regulated by the government so that banks and the government can jointly improve the economy (Nasser & Aryati, 2000). With this strategic function, it is not surprising that banks receive great attention from the government because banking is a business that is full of risks and failures that occur in the banking system can have a fatal impact on the economy as a whole (known as systemic risk). This is because banking is an institution that has the main function of being a financial intermediary for parties who have funds (surplus funds) with those who are short of funds (deficit funds), and also banks as institutions that function to smooth the flow

of payment traffic (Jaya, 2008). Loyalty of fund owners and trust in the bank are factors that greatly support and facilitate bank management to develop a good business strategy.

In addition, customers who do not trust the bank and lack of loyalty will be very detrimental to the bank because these customers can at any time withdraw their funds and transfer their funds to other banks (Azwir, 2006). Bank financial performance can be assessed from several indicators, one of which is the bank's financial statements. The financial reports produced by the bank are expected to provide information on financial performance and the accountability of bank managers to all stakeholders (Achmad and Kusuno, 2003).

The Indonesian Financial Services Authority (OJK) stated that until the end of 2017, the banking capital ratio was still thick enough to expand this year. The bank's capital adequacy ratio appears to be at the level of 23.36%. (<https://keuangan.kontan.co.id>). Even in March 2018 it reached 22.67%. throughout 2018, the trend of increasing capital will continue. Because, at the end of 2017, most banks had improved their credit quality. This can be seen from the ratio of non performing loans (NPL) to the banking industry which fell to a position of 2.59%.

Based on the above introduction, the problems examined formulated as follows:

1. How is the effect of the Capital Adequacy Ratio and Return on Assets?
2. How is the effect of Non-Performing Loans with Return on Assets?
3. How is the influence of Capital Adequacy Ratio and Non-Performing Loans Toward Return on Assets in the banking companies listed on the Indonesia Stock Exchange for the period 2015-2019?

2. LITERATURE REVIEW

2.1 Capital Adequacy Ratio (CAR)

The CAR ratio is used to measure the capital adequacy of the bank to support assets that contain or generate risk, for example, loans. If the CAR is high, the bank's ability to bear credit risk. If the CAR value is high (accordance to the provisions of Bank Indonesia at 8%), it means, that the bank is able to finance bank operations, and this favorable situation can contribute significantly to the profitability of the bank (ROA) concerned (Dendawijaya, 2003). According to Kasmir (2013: 301) states that: "Capital Adequacy Ratio is the ratio of capital to risk-weighted assets and according to government regulations".

2.2 Non Performing Loan (NPL)

According to Ali Mahsud (2004: 146) states that "Non-Performing Loans are a ratio used to measure a bank's ability to cover the risk of credit failure by debtors". Loans that experience repayment difficulties due to deliberate factors and / or external factors beyond the control of the debtor. Siamat (2005: 358). According to Circular BI No. 3/30 / DPNP on December 14th, 2001,

2.3 Return On Asset (ROA)

According to Kasmir (2012), the measurement of financial performance is invested in all assets owned to generate profits. Based on Circular of Bank of Indonesia No.13/24/DPNP on October 25th.

2.4 Hypothesis

- H1: Capital Adequacy Ratio has a negative effect on Return on assets.
- H2: Non-Performing Loans have a positive effect on Return on assets.
- H3: Capital Adequacy Ratio and Non-Performing Loans have an effect on Return on Assets.

3. RESEARCH METHOD

Based on the research objectives, the type of this research is causal explanatory. Causal is a variable that affects other variables (Cooper & Schindler, 2011). Explanatory research aims to explain the relationship between variables and research phenomena (Cooper & Schindler, 2011). This is to determine the influence of capital adequacy rates and NPL on return on assets. Researchers use a quantitative approach. Data analysis in this research will be carried out using multiple regression analysis (MRA). In addition, hypothesis testing was carried out by using the F test) t test.

4. RESULTS AND DISCUSSION

After the classical assumption test is carried out, to answer the hypothesis that has been previously stated, the hypothesis is tested as follows:

Table 1. Partial Test Results

Model	Coefficients ^a					Collinearity Statistics	
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Tolerance	VIF
B	Std. Error	Beta					
1							
(Constant)	.027	.004		6.772	.000		
x1	-.040	.020	-.214	-2.006	.047	.657	1.523
x2	-.009	.018	-.054	-.507	.613	.657	1.523

a. Dependent Variable: y

Based on the output above:

$$Y = 0.027 - 0.04CAR - 0.009NPL + e$$

With the following information:

1. The constant value is 0.027, this indicates that ROA increases by 0.027 if it is not affected by CAR and NPL.
2. The CAR value is -0.040, this shows a negative direction, therefore if the CAR increases, the ROA variable will decrease by 0.040.
3. The NPL value is -0.009, this indicates a negative direction, therefore if the NPL variable increases, ROA variable decrease by -0.009.

Thus, if there is an increase or decrease in CAR (X1) NPL (X2) will affect the ROA of the company. Based on the table above, it can be seen that the tcount for each variable which includes CAR and NPL is - 2.006 and -0.507, when compared with the t table which is 1.97882 in this case the direction is negative, the CAR variable shows that tcount <-table (-2.006 < -1.97882) this

shows that H_0 is rejected and H_a is accepted, meaning that the CAR has a partially significant effect on the Return on Assets (ROA). However, NPL variable shows that $-t_{count} (-1.97882 < -0.507)$, this shows that H_0 is accepted, meaning that the NPL does not have a partially effect on the Return on Assets (ROA).

Table 2. Model Test Results
 ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Significance
1	Regression	.001	2	.001	4.169	.018 ^b
	Residual	.020	126	.000		
	Total	.022	128			

With the help of computer processing based on SPSS calculations, the F_{count} is obtained for 4.169. F_{table} value with numerator 2 degrees of freedom and 126 denominators at α (0.05) is 3.07. Thus $F_{count} (4.169) > F_{table} (3.07)$, so it is clear that H_0 is rejected and H_1 is accepted. This shows that CAR and NPL have an effect together on the dependent variable (ROA).

The analysis of coefficient determination can be used as follows:

Table 3. Coefficient of Determination

Model Summary ^b											
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson	
					R Square Change	F Change	df1	df2	Sig. F Change		
1	.249 ^a	.062	.047	.012712	.062	4.169	2	126	.018	1.320	

a. Predictors: (Constant), x2, x1
 b. Dependent Variable: y

Thus, jointly CAR and NPL ROA is 4.7%, while 95.3% influenced by other factors.

CONCLUSION

1. The Capital Adequacy Ratio has a significant negative effect on the Return on Assets of the Banking sector listed on the IDX 2015-2019 period. This shows that the greater the Capital Adequacy Ratio (CAR), the smaller the company's Return on Assets.
2. Non-Performing Loans have no effect on the Return on Assets of the banking sector listed on the IDX for the period 2015-2019. This shows that the increase in Non-Performing Loans does not affect the amount of Return on Assets (ROA). This means that the level of this ratio does not affect the level of profit earned by the bank.
3. CAR and NPL together have a significant effect on ROA in the banking industry on the IDX for period 2015-2019.

Based on research limitations, there are several suggestions for future researchers and investors:

1. Further researchers, the selection of variables that affect the ROA value, there are only two aspects, namely the Capital Adequacy Ratio (CAR) and Non Performing Loans (NPL). It is hoped that further researchers can add variables, because there are still many factors that can affect the level of ROA in banking companies such as LDR, NIM, OEOI, cash turnover and others.
2. For investors, it can be an input for investors to consider the Capital Adequacy Ratio (CAR) and Non-Performing Loan (NPL) factors as relevant information for the level of Return on Assets (ROA) in banking companies. When the CAR is high, it indicates that the company's capital is good and when the NPL is high, it can be concluded that the capital channeled for operational activities is ineffective and inefficient because the company experiences losses due to loans not returned by debtors.

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