

THE INFLUENCE OF THE RATIO BANK'S PERFORMANCE TO PROFIT GROWTH ON BANKING COMPANIES IN INDONESIA

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ABSTRACT

This research is aimed at identifying the influence of performance bank ratio which consist of Capital ratio, Asset quality ratio, Earnings ratio, and Liquidity ratio to Profit Growth either simultaneously and partially, on banking companies in Indonesia. Secondary data is used and collected based on time series and cross section from 2010 -2012, among 32 banking companies in Indonesia. This study uses panel data regression model with Generalized Least Square (GLS).

Hausman test uses in this study show fixed effect model as data estimate technique and come to the conclusion that simulatneously, dependent variable (Capital, Asset Quality, Earnings, and Liquidity Ratio) have significant influence toward dependent variable (Profit Growth). Partially, only Liquidity ratio have significant positive influence toward Profit Growth.

Keywords: Bank, Perfomance, Liquidity and Profit Growth.

1.1 INTRODUCTION

Indonesia's economy continued to increase, supported by macroeconomic conditions remain stable, stronger banking infrastructure, and a large domestic market. The performance of the banking sector increased in line with the global trend of shifting from developed countries to developing countries (emerging markets). It is supported by 15 by the best banks in the world that most of the profits come from developing countries.

Based on the Forbes Global 2000 list, which is a list of 2000 biggest companies in the world that is published annually by Forbes magazine, said 10 Indonesian companies to the list of the most successful companies in the world in the year 2011. From 10 companies, 5 of them are companies from sectors banking, and 3 of them are State-Owned Enterprise (SOEs) and there are four State-Owned Banks listed on the Indonesia Stock Exchange (Prihatiningtyas, 2012).

Bank is a financial institution that becomes a place for the community and its customers to save money so it must keep and maintain the health of the bank in accordance with the provisions on capital adequacy, asset quality, management quality, liquidity, profitability, solvency and other aspects related to the business of the bank. This provision is written in the Law No. 10 in 1998 concerning Banking of Article 29 paragraph 2. Furthermore banks are also required to conduct business activities in accordance with the principles of prudence (prudential regulation).

According to the Financial Accounting Standards No. 31, explained that the Bank is an industry in its business activities rely on public trust so that the level of health need to be maintained. Therefore the strategic steps that can be done is to improve the bank's performance sustainably. The good performance of a bank is expected to achieve public confidence in the bank itself or the banking system as a whole. On the other side of the bank's performance can also be used as a benchmark for the health of the bank. Intuitively it can be said that healthy banks will have the support and trust of the community and be able to obtain the optimal profit.

To assess the performance of banking requires a benchmark. A benchmark that is often used is the ratio or index. Analysis and interpretation of various ratios can provide a better view of the condition of the banking performance. In general, banks used to assess the performance of the six aspects of assessment, namely Capital, Asset quality, Management, Earnings, Liquidity, and Sensitivity (CAMELS). CAMELS' six aspects are assessed by using financial ratios (Veitzhal, 2007: 698).

In Indonesia the use of *CAMELS* as an indicator of the health of the banks contained in the Regulation of Bank Indonesia No. 26/11/KEP/DIR dated 29 May 1993 concerning the procedures for the assessment of the level of health of the Bank. For the business activities of commercial banks performance assessment of banks with ratios of *CAMELS* stated in the regulations of Bank Indonesia number 6/10/PBI/2004 dated 12 April 2004 about the Health level of Assessment System of public Bank. Measuring results based on *CAMELS*, it is applied to determine the predicate banks, which are categorized as follows: healthy, reasonably healthy, less healthy and unhealthy.

Research of Ni Ketut Leli Merkusiwati Aryani (2003) states that the assessment of the performance of banks with ratio analysis Capital, Assets, Management, Earning, and Liquidity useful to predict the return on assets acquired bank in the next period. Research on 17 commercial banks Government as well as Private commercial banks obtained the conclusion that *CAMEL* influential ratio significantly to *Return On Assets (ROA)* of the bank proved to be for the year 1997, 1999, and 2000 while for 1998 is not proved that the ratio of *CAMEL* effect on *ROA* in the following year (1999).

Sri Isworo Ediningsih (2004) conducted a study with financial ratio analysis and predicting profit growth at a manufacturing company in Indonesia stock exchange listings. The

results of statistical tests show that the financial ratios used in the model simultaneously influential profit growth predictions significantly to one year and two years. Altman (1968) conducted a study with the topic benefits of financial ratios to predict the bankruptcy of a business. The analysis was performed with *Multivariate Discriminant* and the results showed that the ratio of *Profitability, Liquidity, Solvency and* useful in predicting bankruptcy.

Whalen and Thomson (1998) conducted a study about the benefits of financial ratios to predict profit some period in the future by using the ratio of banking that is *Capital, Assets, Management, Earnings, and Liquidity*. Research using a sample of banks in the United States in the 1990s by using logit regression statistics tool. The results showed that the ratio of the financial *CAMEL* accurate enough in drawing up the bank and influential rating significantly to earnings predictions in the future.

Yuniasih (2001) examines the Company's financial performance BPR Bank Regional Market Bangli regency year period from 1996 to 2000 by means of CAMEL ratio analysis shows that PD BPR Market Bank Bangli district with a combined assessment of healthy predicated in terms of the health of the banks but there are factors that considered less healthy and necessary improvements, mainly related to the allowance for uncollectible accounts is still too small, and implementation of management that is too excessive. Luciana Spica Almilia (2005) conducted a study to analyze the ratio of CAMEL and its influence on the troubled conditions in the banking period 2000-2002. This study uses a variable CAR, APB, NPL, PPAPAP, ROA, NIM and ROA. The statistical method used is logistic regression results show that CAMEL financial ratio had classification power or predictive power for state banks that are experiencing financial difficulties (loss) and bank bankruptcies.

Many previous studies that had been put forward to explain why companies need to do performance analysis through financial ratio i.e. in order to develop businesses with one charge indicators will is increasing profits or profit. With the development of the venture are expected every company can better survive in running its business activities.

In relation to the profit growth, according to Veithzal (2007:697) as befits a company, any time or periodically need to perform an analysis of the performance of the company. So it is with bank performance analysis is intended for the benefit of management, owners or the Government (Bank Indonesia). In addition the bank performance analysis in an effort to find out the current business conditions, determination of business policy at once can predict the advantages that will accrue in the future.

The results of performance assessment against a bank as measured by using *CAMELS* analysis tool, can be used directly by the owners of capital, the Manager or the community. The results of the assessment can be used as consideration for owners of capital in instilling its capital and can be used as important information for managers in drawing up the measures of operational development efforts. For the community, information about the performance of the bank can be a reference in choosing the banking company will be selected to meet the needs for

financial services. Conversely, if the bank's performance is judged by the society for less good than the community is reluctant to invest in the bank so that the bank would lose the opportunity to earn a profit.

This research seeks to reveal some of the issues related to the assessment of the performance of the bank, which is seen from the level of profit by analyzing empirically data about the performance of the bank through their financial ratios. The banking sector is one of the economic indicators in General, where the balance of current banking reflect that most people in developed countries have a tendency to borrow and conversely most of the people in Asia had a tendency to save. Then support the fact that most banks in developing countries (which are generally STATE-OWNED ENTERPRISES) has an extensive branch, then the bank has a fund raising capabilities of individuals or companies that are much larger than on a bank in the developed world today. Therefore, a *loan to deposits rate* (LDR) in banks in developing countries is relatively much lower than at banks in developed countries and even has a tendency of the opposite relationship. Indonesia's banking sector is also experiencing this trend, in which LDR public bank in last 7 years shows an average was about 69.85%, still below the LDR target BI of 78%⁹. With numbers low enough the LDR can be seen that third party funds into commercial banks nationwide are still greater than the loans disbursed (Prihatiningtyas, 2012).

In spite of the liquidity factor this is something good to have national banking sector means liquidity is high enough to cover the needs of the disbursement of the funds not previously thought, but the implementation of the bank's intermediation function it is quite the opposite. The low LDR means there is excess funds in the banking and the bank can not optimize the funds that have been collected to get the earnings that should be received from the utilization of excess funds. Furthermore, this also means that the performance of the national banking sector credit disbursements are still not efficient when credit from banking is expected to be able to encourage the development of the real sector and thus accelerate the growth nationwide. Performance improvement of banking credit channeling of such course is inseparable from the performance improvement of banking as a whole as well as improving the stability and improvement of national economic growth.

Based on phenomena that occur and based on the results of previous research on financial ratios that may impact the company's profit, the author is interested in research regarding the analysis of financial ratios that may affect the profit growth, then the author tried poured it in the form of writings under the title: "The Influence Of The Ratio Bank's Performance To Profit Growth On Banking Companies In Indonesia "

This research seeks to reveal some of the issues related to the assessment of the performance of the banks seen from profit growth by analyzing empirically data about the performance of the banking company in Indonesia through their financial ratios.

Based on phenomena that occur and based on the results of previous research, this study was

limited to analyze the effect of the ratio of the performance of the bank, namely *Capital, Asset Quality, Earnings, and Liquidity* simultaneously and partially to profit growth on corporate banking in Indonesia.

1.2 LITERATURE REVIEW

Financial ratios help us in identifying the strengths and weaknesses of the finances of a company. According to Van Horne and Wachowicz, Jr (2005:202) "financial ratio Index that links the two figures accounting and obtained by dividing one number by another number".

The accounting figures contained in the financial statements presented by the company. Financial statements in the form of a balance sheet, income statement, cash flow statement, Owner Equity statement and notes of financial statements. To be able to interpret and understand financial statements through the analysis of financial ratios can be calculated based on the accounting numbers that are in the balance sheet or income statement.

Performance analysis the bank conducted include all aspects of both operational and non-operational activities of the bank. Many methods can be used to measure the performance of a bank that is also customarily held by banks in the world, in addition to the general prevailing in Indonesia in accordance with the provisions of Bank Indonesia, known as "the assessment of the level of health of the Bank". Assessment of the level of health of the bank include *the financial aspect* as well as *a non-financial aspect*. The method or manner of performance assessment or health level of the bank later known in methods of *CAMELS*. Madura (2006:544).

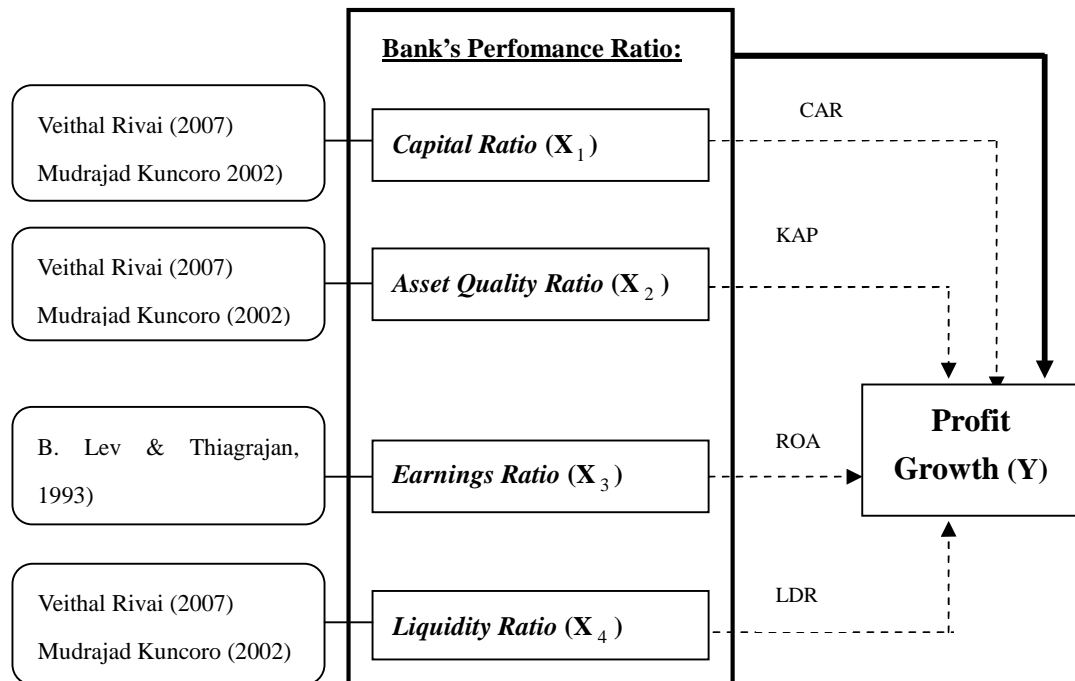
Financial ratios *CAMELS* is banking financial ratios are used as a measure of the health of a bank, where *CAMELS* financial ratios based on *Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity*. Sofyan Safri (2001:167). In Indonesia itself, the Board of Directors of Bank Indonesia has issued regulation of Bank Indonesia No. 6/110/PBI/2004 dated 12 April 2004 about the Health level of Assessment System of public Bank, known as the method of financial ratios *CAMELS (Capital, Assets, Management, Earning, Liquidity, and Sensitivity)*.

For the company oriented on *profit oriented*, of course profit is a goal to be achieved. Therefore the amount of profit that is produced can be used as one tool to measure the performance of the company.

Profit is the profit that earned the company, because the company has done a sacrifice for the benefit of another party. Profit growth in accounting is a comparison that has a two-stage process of measurement i.e. fundamentally the revenue recognition in accordance with the principle of realization and recognition of costs as well as the proper comparison of revenues and costs conducted in the income statement. Presentation of information through such reports profit is the focus of the company's performance. From the standpoint of investors, profit is one of the important indicators to assess the company's prospects in the future whereas for

customers, profit is one of the basic beliefs to keep working with bank (Mudrajad Kuncoro, 2004:553).

1.2.1 Model Research



Description:

- = The influence of variables simultaneously
- - - - -→ = Partially variable Influence

1.2.2 The Influence of Bank's Performance Ratio to Profit Growth

Ni Ketut Leli Aryani Merkusiwati (2003) States that the assessment of the performance of the bank with the analysis of the ratio of *Capital, Assets, Management, Earning, and the Liquidity* is useful for predict *Return On assets* acquired the bank in the next period. Research on 17 commercial banks Government as well as Private commercial banks obtained the conclusion that *CAMEL* influential ratio significantly to *Return On Assets (ROA)* of the bank proved to be for the year 1997, 1999, and 2000 while for 1998 is not proved that the ratio of *CAMEL* effect on *ROA* in the following year (1999).

Sri Isworo Ediningsih (2004) conducted a study with financial ratio analysis and predicting profit growth at a manufacturing company in Indonesia stock exchange listings. Results of the statistical tests show that the financial ratios used in the model simultaneously influential profit growth predictions significantly to one year and two years. While partially only a few influential financial ratios significantly to earnings growth one year and two years, while the other financial ratios not proven influential significantly to profit growth one year

and two years.

Zainudin and Hartono (2000) conducted a study about the benefits of financial ratios to predict profit growth. This research was conducted with a sample of banking companies listed on the Indonesia stock exchange. The results showed that with the analysis of financial ratios, business banking can estimate the profit to be gained in the days to come.

Engrossed and Soelistyo (2000) in his research also use financial ratios to predict future earnings. For it used financial ratios 21 with technical analysis method using *Discriminant Analysis*. As for the research sample is a manufacturing company with a research period in 1995-1996. The results of his research are five financial ratios (DIV/NI, S/TA, LTD./NA, NI/S and INPPE/TU) is the *discriminator* is significant in predicting profit growth in the future.

Whalen and Thomson (1998) conducted a study about the benefits of financial ratios to predict profit some period in the future by using the ratio of banking that is *Capital, Assets, Management, Earnings, and Liquidity*. Research using a sample of banks in the United States in the 1990s by using logit regression statistics tool. The results showed that the ratio of the financial *CAMEL* accurate enough in drawing up the bank and influential rating significantly to earnings predictions in the future.

Luciana Spica Almilia (2005) conducted a study by analyzing the ratio of *CAMEL* and its influence on the troubled conditions on banking institutions from 2000-2002. This research uses a variable research CAR, APB, NPL, PPAPAP, NIM, BOPO and ROA. Statistical methods used were the logistic regression results showed that with financial ratios *CAMEL* has a power classification or power prediction for the condition of banks experiencing financial difficulty (loss) and the bank into bankruptcy.

Many previous studies that had been put forward to explain why companies need to do performance analysis through financial ratio i.e. in order to develop businesses with one charge indicators will is profit growth. With the development of the venture are expected every company can better survive in running its business activities.

1.2.3 The hypothesis in this study are:

H_0 : means there is no significant positive influence of variable ratio of financial Capital, Asset Quality, Earnings, and Liquidity to the profit growth.

H_1 : means there are significant positive influence of variable ratio of financial Capital, Asset Quality, Earnings, and Liquidity to the profit growth.

1.3 RESEARCH METHODS

Types of data used in this research is quantitative data. While the source of the data in this study is secondary data obtained from Bank Indonesia year period 2010-2012 and other

sources relevant to this research.

The population of the research was the banking companies listed on the Indonesia stock exchange (IDX) consists of 32 banks. As for the samples specified in *purposive sampling* with the following criteria:

1. The listed Banking companies (*listed*) in the BEI
2. The listed Banking companies (listed) in successive research during the period of BEI in 2010-2012.
3. The Bank presents financial statements and have complete data on the ratio of *Capital, Asset Quality, Earnings, Liquidity* and profit growth.

This research uses data panel (*pooled data*) that is the combined data *time series* and *cross section*. In this case the data captured includes *n* company/bank for *t* periods.

Methods of analysis to be used in this research is the regression model of panel data. As for the formulation of the model is as follows:

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + e_{it}$$

Y_{it} = Profit Growth (PLABA)

X_1 = *Capital Ratio (CAR)*

X_2 = *Asset Quality Ratio (AQ)*

X_3 = *Earnings Ratio (ROA)*

X_4 = *Liquidity Ratio (LDR)*

β_0 = Constant

β_i = Coefficient of each variable (i = 1, 2, 3, 4)

e = *error term*

For regression models with data estimated the panel used the approach *fixed effects* or *random effects* approach through the Hausman test (Gujarati, 2003:649). The regression hypothesis test panel before the data is used, then do the test the assumptions underlying the use of the regression equation.

1.4 RESULTS AND DISCUSSION

This section will be revealed about the influence of the ratio of *capital, asset quality, earnings, and liquidity* analysis using panel data for national commercial banks in the period of 2010-2012. Results of testing the *Hausman test* shows that *fixxed effect* is the right choice for the model, because $X^2_{-female} \text{ models} > X^2_{-table}$. Used for data processing tools in the form of *software Eviews 6*.

Regresinya equation model:

$$Y = 0.641 - CAR - QA 0.081 0.206 + 0.037 ROA + 1,063 LDR$$

The value of the constant 0.641 shows that if there is no CAR, QA, and LDR then only profit value of 0.641.

Table 1.

Model Summary^b

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .927 ^a | .859 | .833 | .22447 |

a. Predictors: (Constant), LDR, QA, CAR, ROA

b. Dependent Variable: PRF

The value of the correlation (R) of the fifth relations variables of 0.927, where it indicates that there is a strong correlation between CAR, QA, ROA, and LDR against Profit.

Whereas, in the determination coefficient (R square) amounted to 0.859. This suggests that the ability of the variable CAR, QA, ROA, and LDR affect downs value profit of 86.29% and 14.1% still there are other variables in addition to the four variables that affect the variable profit.

1.3.1 Hypothesis Testing

1.3.1.1 The Regression Model to Simultaneously Test

The regression model to simultaneously test is analyzed with F-Test, this test is done to find out whether there are significant effects simultaneously or together between independent variables and the dependent variable.

Test results show the value of ANOVA F/F count of 33.387. This value is greater than the value of F (or $F > 33.387$ table), so also with the Sig smaller than 5% Alpha ($0000 < 0.05$). These results indicate that the free variables of the fourth tested (CAR, QA, ROA, and LDR), there is at least 1 independent variables that affect profits (Y). The fourth variable, or CAR, QA, ROA, and LDR collectively affect profit. The larger the value of R Square that is a comparison between the *Explained Sum of Squares* up to the *Total Sum of Squares*, then it means the larger the variation of dependent variables can be explained by variation in the independent variable.

1.3.1.2 The Regression Models to Partially Test

To infer more about model Performance Ratios of banks (ratio, the ratio of *Capital Asse*ratio, *Earnings*, *Liquidity*ratio) of profit growth in the banking company in Indonesia next do hypothesis testing meaningfulness of each free variable with t test. The t-test statistics are meant to test the significance of each independent variable in determining the direction of movement of the dependent variable.

Table 2.
Coefficients^a

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig |
|--------------|-----------------------------|------------|---------------------------|-------|------|
| | B | Std. Error | Beta | | |
| 1 (Constant) | .641 | .270 | | 2.368 | .027 |
| CAR | -.206 | .146 | -.198 | 1.414 | .171 |
| QA | -.081 | .109 | -.098 | -.744 | .465 |
| ROA | .037 | .135 | .040 | .277 | .784 |
| LDR | 1.063 | .169 | 1.075 | 6.307 | .000 |

T test results in the above table shows that 4 of the variables tested, it turned out that only the LDR (X 4) that affect the profit (Y). This conclusion is derived from the value t calculate larger than t table. Where t is the variable to calculate the LDR of 6.307 value SIG < 5% alpha (0000 < 0.05).

The opposite happened to variable CAR, QA, and ROA, where the value of t hitungnya (1,381,-0.744, and 0.277) smaller than the t table with sig > alpha 5% (0.171, 0.465, and 0.784 > 0.05). This indicates that the variable CAR, QA, and ROA did not affect profits. That is, CAR, QA, and ROA is not effective to improve the bottom line.

CONCLUSION

Based on the results of the statistical analysis that have been state before, then this study concludes as follows.

- Test results showed that the value of F statistic (33.387) is greater than the value of F table (or F statistic $33.387 > F$ table), with the significance smaller than 5% alpha (0000 < 0.05). These results indicate that the independent variables of the four tested consist of CAR, QA, ROA, and LDR, there is at least one independent variables that affect Profits Growth (Y). Variable or fourth CAR, QA, ROA, and LDR simultaneously affect Profit Growth.
- The t-Test Results showed that only the LDR (X₄) that affect the Profit Growth (Y), because the value t statistic larger than t table of 6.307 with significance value < 5% alpha (0000 < 0.05).

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