The Influence of the Bank's Performance Ratio to Profit Growth on Banking Companies in Indonesia

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ABSTRACT

The objective of this study is identifying the influence of bank's performance ratio that consist of Capital Ratio, Asset Ratio, Earnings Ratio, and Liquidity Ratio on Profit Growth, either simultaneously and partially, of banking companies in Indonesia. This study uses secondary data sourced from the Indonesian banking companies listed on IDX during the 2009-2011 period. The method used to analyze the data is multiple linear regression method. The purpose of using this method is to determine the influence of Capital, Asset, Earnings, and Liquidity Ratio on Profit Growth. The result of this study shows that independent variables including Capital, Asset, Earnings, and Liquidity Ratio have significant and simultaneous influence toward the dependent variable, which is Profit Growth. Liquidity Ratio only has partially significant positive influence on Profit Growth.

Keywords: Bank, Performance, Liquidity and Profit Growth

INTRODUCTION

Indonesia's economy is increasing, supported by macroeconomic conditions remain stable, strong banking infrastructure, and a large domestic market. Banking companies' performance about the increase in line with the global trend in which there is a shift in the balance of developed countries to developing countries, as shown by the 15 best banks in the world today, 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 firms 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 by the provisions on capital adequacy, asset quality, management quality, liquidity, profitability, solvency and other aspects related to the business of the bank. This provision was written in the Law No. 10 in 1998 concerning Banking of Article 29 paragraph 2. Furthermore, banks are also required to conduct business activities by the 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 health of bank should maintain. Therefore, the strategic steps that can 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).

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.

The research of Ni Ketut Leli 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. The population of this research are 17 Government commercial banks and Private commercial banks. The conclusion of this study are 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 on the topic benefits of financial ratios to predict the bankruptcy of a business. The conclusion that the ratio of Profitability, Liquidity, Solvency and useful in predicting bankruptcy.

Whalen and Thomson (1998) conducted a study on 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 Bank Regional Market Bangli regency year period from 1996 to 2000, shows that Bank Regional Market Bangli regency has good performance regarding the health of the banks. But some factors considered 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 unsettled 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 predictive power for banks that are experiencing financial difficulties and bank bankruptcies.

Many previous studies have been advanced to explain why companies need to analyze performance through financial ratios, which are to develop business with increased profits or earnings. Development of business in the company will be able to survive in business.

Relation to the profit growth, according to Veithzal (2007) as befits a company, at any time or periodically need to conduct an analysis of the company's performance. Similarly, bank performance analysis is intended for management purposes, the owner or the government (Bank Indonesia). Moreover this bank performance analysis in an attempt to determine the current business conditions, the determination of business policy as well as to predict the profits to be earned in the future

Results of the assessment of a bank's performance measured using CAMELS analysis tools, can be used directly either by capital owners, managers, and the public. Results of the assessment can be considered for the owners of capital to invest and can be important information for managers in preparing the operational steps business development. For the public, information on the bank's performance can be a reference in choosing a banking company for financial services. Conversely, if the bank's performance is not good then the public is reluctant to invest in the bank and the bank will lose the opportunity to earn a profit.

This research sought to reveal some of the issues related to the assessment of the bank's performance, which it is seen from the level of profit by analyzing empirical data about the bank's performance through 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. The fact that most banks in developing countries (which are STATE-OWNED ENTERPRISES) has an extensive branch, and then the bank has a fundraising capability 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 different relationship. Indonesia's banking sector is also experiencing this trend, in which LDR public bank in last seven 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). The banking sector has a high liquidity to cover disbursement needs that are not expected, but regarding the implementation of bank intermediation function it is just the opposite. The low LDR means there are excess funds in the bank, and the bank can not optimize the funds to get the earnings that should be received from the utilization of excess funds. Furthermore, this also means that the performance of the banking sector in lending is still not efficient. Whereas loans from banks are expected to encourage the development of the real sector and can accelerate the growth of the national economy.

This study sought to reveal some of the problems associated with the assessment of the performance of the banks seen from profit growth by analyzing empirical data about the performance of the banking company in Indonesia through their financial ratios. Based on the phenomena and the results of previous studies, this study is limited only to analyze the influence of the bank's performance ratio consists of Capital, Assets, Earnings, and Liquidity in simultaneously and partially on profit growth in the Banking Companies in Indonesia.

LITERATURE REVIEW
Financial Ratio

Financial ratios help us in identifying the strengths and weaknesses of the finances of a company. According to Van Horne and Wachowicz, Jr (2005) "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. The ability to interpret and understand financial statements through the analysis of financial ratios can be calculated based on the accounting numbers that are on the balance sheet or income statement.

Bank's Performance

Performance analysis the bank conducted to include all aspects of both operational and non-operational activities of the bank. There are methods can be used to measure the performance of a bank that is also customarily held by banks in the world. Additional to the general prevailing in Indonesia by the provisions of Bank Indonesia, known as "the assessment of the level of health of the Bank." Assessment of the health of the bank includes the financial

aspect as well as a non-financial aspect. The method or manner of performance assessment or health level of the bank known in CAMELS (Madura 2006).

Financial ratios CAMELS is banking financial ratios were the 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). 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 national Bank, known as the method of financial ratios CAMELS (Capital, Assets, Management, Earning, Liquidity, and Sensitivity).

For the company oriented on profit oriented, profit is a goal. Therefore, the amount of profit can measure the business's performance. 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 following 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 fundamental beliefs to keep working with the bank (Mudrajad Kuncoro 2004).

Capital, Asset Quality, Earning, and Liquidity Ratio

The capital adequacy of banks can reduce the risks faced, the policy on capital adequacy known through the capital ratio. If the bank has a lot of capital, the bank could easily anticipate the risk of loss and can survive. Banks with high capital would rank high capital adequacy (Madura 2006).

According to Veithzal (2007), assessment of asset quality is to ensure the quality of earning assets compared to the number of credits owned by banks and the real value of these assets. While Madura (2006) states that each bank can make its policies in allocating funds collected and make policy level of credit risk. Therefore, this policy can assess the quality of the assets owned banks, including credit quality and securities.

Earnings assessment is an assessment of the conditions and the bank's ability to generate profits. Earnings are the result of the acquisition of the investment represented by a percentage of the amount of investment. Bank failures occurred when the bank's revenue always generated negative (loss) (Madura 2006).

Assessment of liquidity is the rating of the bank's ability to maintain and meet the needs of adequate liquidity and adequacy of liquidity risk management. Bank if the liquid is said to have

a means of payment in the form of current assets greater than liabilities. Assessment of bank liquidity measured by the Loan to Deposit Ratio (LDR) (Veitzhal 2007).

The Influence of Bank's Performance Ratio to Profit Growth

The assessment of the bank's performance 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. The CAMEL influential ratio significantly to Return On Assets (ROA) for the Government commercial banks and Private commercial banks had proved for the year 1997, 1999, and 2000. While for 1998 did not prove that the ratio of CAMEL effect on ROA in the following year. (Ni Ketut Leli Aryani 2003).

Sri Isworo Ediningsih (2004) states that the financial ratios simultaneously significant effect on earnings growth forecast for the manufacturing companies listed on IDX one year and two years. While partially just a few financial ratios significant effect on earnings growth one year and two years. Based on the research results Zainudin and Hartono (2000) showed that the analysis of financial ratios in the banking company to estimate the profits to be earned in the future. Whalen and Thomson (1998) conducted a study on the benefits of financial ratios to predict benefit some period in the future by using the ratio of banking that is Capital, Assets, Management, Earnings, and Liquidity. The research using a sample of banks in the United States in the 1990s by using logit regression statistics tool. 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.

Research Hypothesis

H_0 : There is no significant positive influence of the Capital Ratio, Asset Quality Ratio, Earnings Ratio, and Liquidity Ratio to the Profit Growth.

H_1 : There is significant positive influence of the Capital Ratio, Asset Quality Ratio, Earnings Ratio, and Liquidity Ratio to the Profit Growth.
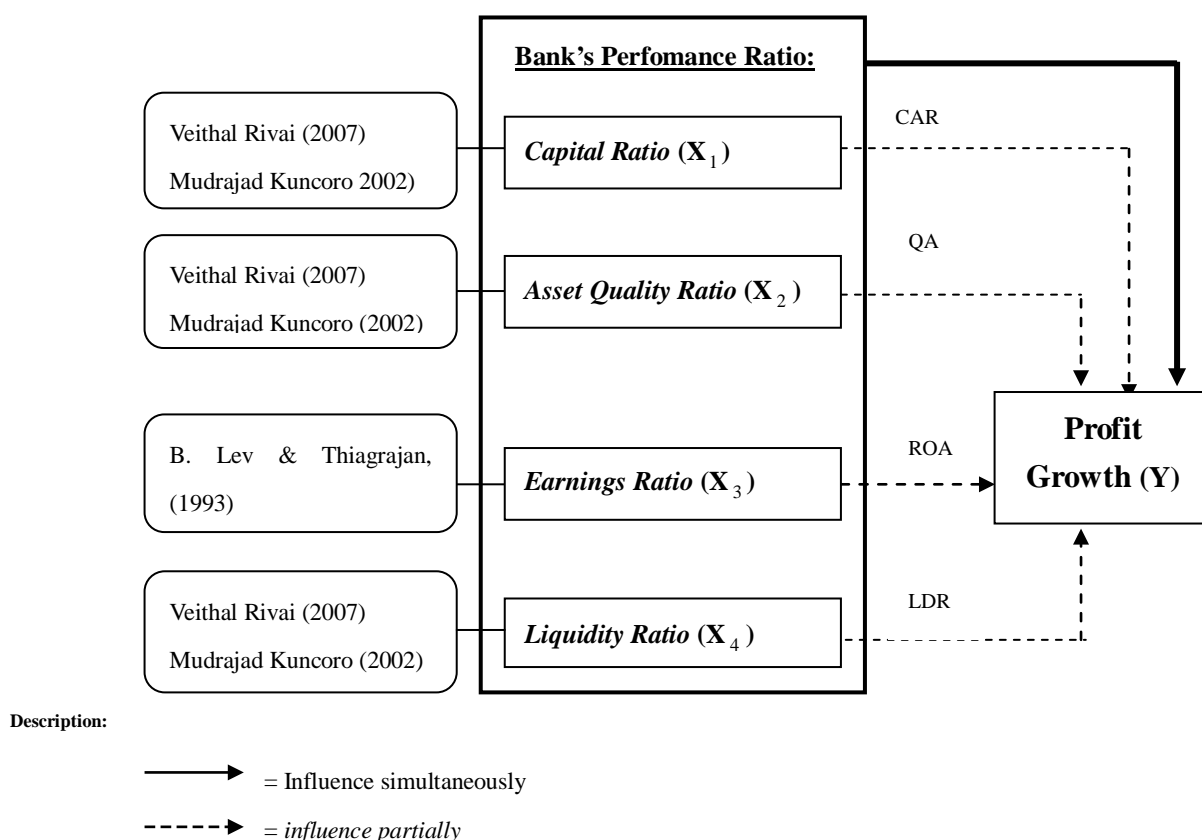
Research Model

Figure 1. Research Model

RESEARCH METHODS

Types of data used in this research are quantitative data. While the source of the data in this study is secondary data obtained from Indonesia Stock Exchange (IDX) year period 2009-2011 and other sources relevant to this research. The population of the research was the banking companies listed on the Indonesia stock exchange (IDX) that consists of 31 banks. As for the samples specified in purposive sampling with the following criteria:

1.   The Banking companies listed in the IDX
2.   The Banking companies listed in successive research during the period of in 2009-2011.
3.   The Bank companies listed presents financial statements and had complete data on the
      Capital Ratio, Asset Quality Ratio, Earnings Ratio, Liquidity Ratio and Profit Growth.

This research uses pooled data that is the combined data time series and cross section. In this case, the data captured includes 31 (n) banks for three (t) year periods. The method used to analyze the data is multiple linear regression methods. 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 = Profit Growth (PROFIT)

X_1 = Capital Ratio (CAR)

X_2 = Asset Quality Ratio (QA)

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

The regression hypothesis test panel before the data is used, and then do the test the assumptions underlying the use of the regression equation.

RESULTS AND DISCUSSION

In overall, the bank's performance ratio (CAR, QA, ROA and LDR) of Banking Companies in Indonesia on the period of 2009-2011 had influence toward profit growth. Its shows from Table 1, the value of the correlation (R) of the fourth 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.

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

Regression 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, ROA and LDR then only PROFIT value of 0.641.

Hypothesis Testing

The Regression Model to Simultaneously Test

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

A testing regression model with the F test shows the value of the test statistic F of the model at 33.387 with Probability (F-statistic) is 0.000. F table (error rate of 5%) is 2.261. The F value (33.387) is greater than F table (33,387> 2,261) and if seen the value of significance (p-value) is 0.000 which is smaller than 0.05. It concludes that the effect of Bank's Performance Ratio (CAR, QA, ROA, and LDR) simultaneously significant influence on against the profit growth in Banking Companies in Indonesia period 2009 -2011.

The Regression Models to Partially Test

The regression model to partially test analyzed 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. A testing regression model with the t-Test shows in Table 2.

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 show that fourth of the variables tested, it turned out that only the liquidity (LDR) that influence the profit (Y). The conclusion is derived from the t-value calculate larger than t-table. Where t-table the LDR of 6.307 with the value of significance (p-value) is 0.000 which is smaller than 0.05 (0000 < 0.05). The opposite happened to variable CAR, QA, and ROA, where the t-value (1.414,-0.744, and 0.277) with the value of significance (p-value) is 0.000 which is higher than 0.05 (0.171, 0.465, and 0.784 >

0.05). This indicates that the variable CAR, QA, and ROA did not influence to profits.

The results are consistent with research Zainuddin and Hartono (2000) and Sri Isworo Ediningsih (2004) liquidity influence on profit growth of one or two years. This research is also consistent with the theory proposed by Jeff Madura (2007) and Mudrajad Kuncoro (2002). According to Altman (1968), Profitability, Liquidity, and Solvency are useful in predicting bankruptcy of a company. Its means that liquidity is one of indicator for measured the risk management.

CONCLUSION AND RECOMMENDATION

Based on the results of the statistical analysis and hypothesis testing can conclude as follows.

- The F test shows the value of the test statistic F of the model at 33.387 with Probability (F-statistic) is 0.000. F table (error rate of 5%) is 2.261. The F value (33.387) is greater than F table (33,387> 2,261) and the value of significance (p-value) is 0.000 which is smaller than 0.05. It concludes that the influence of Bank's Performance Ratio (CAR, QA, ROA and LDR) simultaneously significant influence on against the profit growth in Banking Companies in Indonesia period 2009 -2011.

- The t-Test results showed that only the liquidity (LDR) that influence to Profit Growth (Y) in Banking Companies in Indonesia period 2009 -2011, because the value t statistic larger than t table of 6.307 with significance value < 5% alpha (0000 < 0.05).

- The results are consistent with the findings Zainuddin and Hartono (2000) and Sri Isworo Ediningsih (2004) liquidity influence on profit growth of one or two years. This research is also consistent with the theory proposed by Jeff Madura (2007) and Mudrajad Kuncoro (2002). In another side of results of this study did not by the research Ni Ketut Leli Aryani (2003), Luciana Spica Almilia (2005) and the theory proposed by Veithzal (2007).

Based on the conclusion, the following were recommendation for management and researchers: For the management of the bank may be taken into consideration in improving the bank's performance through an increase in the aspect of capital, asset quality, earnings, and liquidity so that it will increase the profit growth of in the future. As for the other researchers are advised to re-examine aspects of capital, asset quality, management, and earnings by using different research objects such as banks government and private banks in Indonesia.

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