



Empirical factors in increasing return on assets at islamic banks in Indonesia

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ABSTRACT

The purpose of this study is to develop a research model to overcome business phenomena and research gaps between Operating Costs and operating Income and NonPerforming Financing on Return on Asset with Funding to Deposit Ratio as a mediating variable at Islamic Commercial Banks in Indonesia (Case Study on Islamic Commercial Banks in Indonesia listed on the IDX in 2016-2020). The data collection method used is literature study and documentation study. Sampling using the saturated sampling method obtained as many as 11 Islamic banks. The available data has met the requirements for using multiple linear regression equation models. Hypothesis testing uses a significance test (t-test), coefficient of determination test (R²), and SPSS test. Coefficient of determination (R²) and Sobel test. The results of this study indicate that Operating Expenses and Operating Income have a negative and significant effect on Return on Assets, and the Funding Deposit Ratio has no considerable impact on Return on Assets. At the same time, Operating Costs and operating Income have no significant effect on the Deposit Ratio. Intervening Funding to Deposit Ratio cannot mediate the relationship between Operating Costs and operating Income with Return on Assets. In addition, the author hopes this research can theoretically contribute to the financial management and banking literature in this context.

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1. INTRODUCTION

Financial performance is an analysis to see the extent to which banking companies have used the rules of financial application safely and appropriately. Financial performance is a reflection of the finances of a bank that is analyzed in ways with financial analysis, and it can automatically be known what is good or bad about the financial condition of a bank that describes the results of activities in an extraordinary time (Melita & Wagiyo, 2020). The entire performance of the bank can be seen through the profitability value. The condition of a company in the future can be seen and predicted through its financial performance, and it is imperative to know the sustainability and stability of a business both from internal and external parties as a consideration in making a decision. The good and bad financial performance can be analyzed using financial ratios in the company's financial statements reviewed through the balance sheet and income statement. This ratio is urgent for companies because the return on assets is used to measure the company's operational effectiveness when managing assets to get net profit (Anisa & Anwar, 2021).

The economic growth and development of banking are primarily determined by the profit obtained from its operational activities. The profit level can indicate that the bank has carried out its intermediary function. One of the indicators used to measure the level of profitability of Islamic banks is Return on Asset. Return on Assets is used to measure the success of management in generating profits. The smaller percentage ratio indicates the lack of ability of bank management in terms of managing assets to increase income (Almira & Wiagustini, 2020; Monika, Azam, & Teguh, 2021; Rostami et al., 2016)

Operating costs to operating income influence return on assets. Working costs to operating income is the ratio between operating expenses and operating income. The lower the ratio level of operating costs to active income, the better the performance of bank management because it is more efficient in using resources (Fauji et al., 2022; Hamzah et al., 2022; Safitri et al., 2021). The bank's efficiency level in carrying out its operations affects the income or earnings generated by the bank. If operational activities are carried out efficiently (in this case, the ratio of operating costs to operating income is low), then the revenue generated by the bank will increase. In addition, the high proportion of operating expenses to operating income is also due to the high cost of funds raised and the low interest payment from investment (Fauji et al., 2022; Muthusamy & Kalpana, 2019; Riadi, 2018).

In addition to operating expenses to operating income, return on assets is also influenced by funding deposit to ratio. When viewed from the function of its main activities, Islamic commercial and conventional banks collect funds from the public and channel these funds in the form of loans or financing. Providing credit/financing from Islamic commercial banks to the public can be measured by the financing-to-deposit ratio. In Islamic banking, the term credit (loan) is not recognized but is known as financing (Somantri & Sukmana, 2020). The higher the financing-to-deposit ratio, the better the bank's ability, which implies it can manage its intermediation function optimally. Conve

sell, the lower the ratio, the less optimal the bank's intermediation function. However, the higher percentage also illustrates that the bank's liquidity is decreasing because more funds are allocated to lending/financing. Meanwhile, the lower this ratio indicates that the bank is more liquid (Anggari & Dana, 2020; Muda & Afifah, 2018).

Islamic banks are banks that, in their activities, both in raising funds and in the context of channeling their funds, provide and charge rewards based on Sharia principles, namely buying and selling and profit sharing. Islamic banks carry out their business activities based on Sharia principles and stay away from usury practices to be filled with investment activities based on profit sharing from trade financing. The Islamic banking industry is part of the national banking system, which is essential to the economy. The role of Islamic banking in particular, among others, is as an adhesive for new nationalism, which means being a facilitator of populist economic business networks, empowering the people's economy, encouraging a decrease in speculation in financial markets, encouraging income distribution and increasing the efficiency of fund mobility. The profitability of Islamic commercial banks in Indonesia in 2016 - 2020 experienced fluctuations tending to decrease; congratulations on the last five years. The development of Islamic banking ROA from 2016-2020, when compared to the Criteria for Determining Profitability Ratings, the average value from 2016-2020 is not included in the unhealthy category. Seen in 2016 with an average ROA of 0.43%; in 2017, the average ROA value decreased by 0.061%. However, in 2018, it increased by 0.602%; in 2019, it also increased the average ROA value by 0.693%; in 2020, it experienced a decrease in the average value of 0.43%.

This study aims to develop a research model to overcome business phenomena and research gaps between Operating Expenses and Operating Income and non-performing financing on Return on Asset with Funding to Deposit Ratio as a mediating variable. In addition, in this context, the author hopes that this research can make a theoretical contribution to the financial management and banking literature.

2. RESEARCH METHOD

This research uses descriptive quantitative research methods with a causal approach. The data source taken is secondary data. Secondary data is accepted by researchers not measuring directly from the object under study. Still, researchers use data from other people's research results or from an institution where the data has been published. The population in this study was eleven Islamic

banks in Indonesia. In this case, the sampling technique was carried out by saturated sampling. Saturated sampling is a sampling technique where every member of the population is selected as a sample. Eleven Islamic banks have been sampled to compile financial reports from 2016 - 2020. Data is collected by observation. Observation is carried out on all data sources following the observation/analysis units determined in the study. Data sources for research are obtained from websites such as Bank Indonesia <http://www.bi.go.id>, the Indonesia Stock Exchange website <http://www.idx.co.id>, and the websites of banks sampled in this study. This data analysis method facilitates researchers in data management and analysis. This data is tested with descriptive analysis followed by a classical assumption test, including data normality, heteroscedasticity, multicollinearity, and autocorrelation. Then, the author continues with multiple linear regression tests. To test the hypothesis, the author uses the t-test and Sobel test.

3. RESULTS AND DISCUSSIONS

Before stepping on the hypothesis test that the author compiles, the author presents a classic assumption test, among others, with the calculation of the Kolmogorov Smirnov test with the help of SPSS version 26, which can be seen in the table below.

Table 1. One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		50
Normal Parameters ^b	Mean	,0000000
	Std. Deviation	,57415364
Most Extreme Differences	Absolute	,108
	Positive	,108
	Negative	-,062
Test Statistic		,108
Asymp. Sig. (2-tailed)		,200 ^{c,d}

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

The Kolmogorov-Smirnov Test can be summarized as follows: Kolmogorov-Smirnov Asymp. Sig. (2-tailed) with a significance probability value of $0.200 > 0.05$. This means that it can be concluded that the data is typically distributed. In addition, the Multicollinearity Test to find out that these variables do not have multicollinearity can be seen by looking at the tolerance and VIF (Variance Inflation Factor) values, namely the tolerance value < 1 and $VIF > 10$, so there is no multicollinearity. The following multicollinearity test results can be seen in Table 2 below.

Table 2. Multiklonieritas Test Coefficients

Model	Tolerance	Collinearity Statistics VIF
(Constant)		
BOPO	,804	1,243
FDR	,953	1,049

a. Dependent Variable: SQRT_ROA

Table 2 shows that the Coefficients shows that the VIF value of the Operational Cost & Operating Income variable is 1.243, the Nonperforming Financing variable is 1.233 and the Funding to Deposit (FDR) variable is 1.049 which means the VIF value is < 10 . Menurut (Ghozali, 2021) menguraikan persamaan regresi linier berganda dilakukan untuk mengetahui arah pengaruh dari satu variabel eksogen atau lebih terhadap variabel endogen, untuk mengetahui model regresi digunakan program SPSS 26 dengan output sebagai berikut.

Table 3. Multiple Linear Regression Equation Results Test
Coefficients a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,452	,785		1,849	,071
	BOPO	-,009	,004	-,249	-2,152	,037
	FDR	,012	,009	,151	1,419	,163

a. Dependent Variable: SQRT_ROA

The table above shows a constant of 1.452, meaning that if the value of Operating Costs & Operating Income, and Funding to Deposit Ratio is zero, then the Return on Asset value is still 1.452. The regression coefficient value of the Operating Cost and operating Income value is positive (-0.009), which means that if the value of Operating Cost and running Income increases by one time or 100%, the Return on Asset value increases by (0.009) times. The Funding to Deposit Ratio regression coefficient value is favorable (0.012). If the Funding to Deposit Ratio value is good by one time or 100%, the Return on Asset value increases by (0.012) times. The following hypothesis test is presented in the table below.

Table 4. Hypothesis Test

Variable	T-value	P-values	Result
OE → ROA	-2,152	0,037	Accepted
OE → FDR	1,074	0,288	Rejected
FDR → ROA	1,419	0,163	Rejected
OE → FDR → ROA	0,202	0,839	Rejected

Source: Results of research data processing 2023

From Table 4, the hypothesis test in this study statistically shows an effect of operating expenses & operating income on return on assets. The first hypothesis predicts that operating expenses & active income negatively and significantly impact return on investments. Thus, the first hypothesis is accepted. Banks must continue to carry out their operational activities efficiently in connection with the intermediation function. Efficient (controlling its operating costs for financing activities, operating costs & operating income) actions will determine the profit earned because every business activity is always related to the cost of expenses more significant than income, which will reduce yields and vice versa. If payment is more effective than costs, it will increase profits, so operating costs & operating income negatively influence profitability. Research conducted by (2020) states that the greater the operating expenses & operating revenue, the smaller or lower the financial performance of banks. Vice versa, if managing costs & active income are getting smaller, it can be concluded that a company's financial performance (banking) is increasing or improving. In line with research conducted by (Azmi, 2016), The costs incurred should be less than the revenue generated. If not, the longer it will further reduce the profit earned. If this continues, the business continuity of Islamic commercial banks will be disrupted. In addition, research conducted by (Syakhrun, Anwar, & Amin, 2019) states that the higher the ratio of operating expenses & operating income of the bank, the less efficient the bank is in relying on its operational costs so that it affects the decrease in revenue generated by Islamic Commercial Banks.

The second finding in this study statistically states operational costs & operating income on funding to deposit ratio. The results of the second hypothesis are that operating costs & income have a positive effect and have no impact on the funding-to-deposit balance. Thus, the third hypothesis is rejected. When the number of operating expenses & operating income rises, the funding-to-deposit ratio value will also increase (Iskandar, 2017; Safitri et al., 2021). The funding-to-deposit ratio is a ratio that shows the high and low financing channels. At the same time, operating expenses & operating income are a ratio to determine operational costs & revenues incurred by comparing

operating expenses with active income. When operating costs are high, the bank will carry out a strategy to reduce this figure so that it does not get bigger, namely by increasing revenue (Fauji et al., 2022; Hamzah et al., 2022). Financing is a source of bank income, so banks must increase financing distribution to cover and offset high operating costs, increasing the funding-to-deposit ratio value. On the other hand, banks increase income by increasing financing and investing in productive investments such as SBI demand deposits, shirkah funds, and other non-operating income (Aldy., 2023; Riadi, 2018).

The third finding in this study statistically explains the funding-to-deposit ratio on return on assets. The results of the third hypothesis are that the funding-to-deposit balance has no positive and insignificant effect on return on investments. Thus, the fifth hypothesis is rejected. The increasing funding-to-deposit ratio value reflects that the bank's function as an intermediary institution is running well, which allows the bank to earn profits from the results of the financing provided will be more significant (Somantri & Sukmana, 2020). On the other hand, the increasing value of funding to deposit ratio also has an impact on the greater risk of non-performing financing; if bank management has not been able to manage financing optimally, the opportunity to get a significant profit causes the value of funding to deposit ratio not to have a substantial effect on the return on assets of Islamic commercial banks (Rosidah, 2018).

The fourth finding in this study statistically shows that the funding-to-deposit ratio cannot mediate the effect of operating costs & operating income on return on assets. Bank operating costs can be used to carry out company activities while operating income is a form of income obtained from the bank's performance (Iskandar, 2017). Financing is a form of distribution of funds provided by Islamic banks to people who need to use funds collected from people who have surplus funds (Popita, 2013). The increasing volume of Islamic banking business certainly raises the question of why Islamic banks can be profitable even though the primary purpose of Islamic banks is not to seek profit, perhaps because of good financing products that make Islamic banks worthwhile. This profit can be seen through profitability (profit); the profitability ratio is used to know the amount of profit earned, and this ratio can also be used to see the success of a bank's performance (Riyadi & Yulianto, 2014).

4. CONCLUSION

From the results of research and discussion, the authors conclude that operating costs & operating income have a significant adverse effect on return on assets. Operating costs & active income have no significant impact on the funding-to-deposit ratio. Then, the financing-to-deposit balance has no significant effect on the return on investments. Then, the deposit ratio cannot mediate the impact of operating costs & operating income on return on assets. It is expected that Islamic banking can reduce the level of non-performing financing ratio by reducing the amount of non-performing financing, perhaps with a new policy on financing distribution. Then, it is expected that Islamic banks can reduce operating costs & operating income in operational activities. This will impact bank income, with the many expenses Islamic banks incur. In addition, in this context, the author hopes that this research can make a theoretical contribution to the financial management and banking literature. It is hoped that future research needs to add research variables, such as return on Equity, Revenue Sharing Financing, and other ratios in order to know what can improve financial performance at Islamic Banks in Indonesia.

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