

# Financial Performance Determinants of Financing Companies Listed on the Indonesia Stock Exchange

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## Abstract

This study aims to determine the effect of gearing ratio, financing to asset ratio, non-performing financing, and efficiency ratio on the financial performance of multi-finance companies. The research population is all finance companies (multi) listed on the Indonesia Stock Exchange in 2021. The sample that meets the criteria is 16 companies. Data were analyzed using panel data regression. The results showed that the Random Effect was the best model. Partially found that the Gearing ratio does not affect Return On Assets (ROA) as a proxy for the company's financial performance. In contrast, the Financing to assets ratio (FAR) positively affects Return On Assets (ROA). Non-Performing Financing (NPF) and Operating Expenses (BOPO) have a negative effect on Return On Assets (ROA).

**Keywords:** Financial performance, gearing ratio, financing to assets ratio, non-performing financing, operating expenses (BOPO).

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## INTRODUCTION

A finance company (multi) is one of the financial services businesses classified in the Non-Bank Financial Industry (IKNB). Finance companies (multi) have a significant role and function in supporting the national economy, namely as an alternative source of financing for the community in terms of fulfilling capital and or buying assets/goods.

Many parties are interested in evaluating the performance of multi-finance companies such as managers, investors, governments, the business

community, and related institutions. Management requires the results of the performance assessment of its business units to ensure the achievements or measures of success that have been achieved and develop strategic planning for the future. Another party who also needs to know the performance of the finance company (multi) is the investor because the better the performance of the multi-finance company, the greater the security of the funds invested. Performance is important because it reflects the company's ability to manage and allocate its resources.

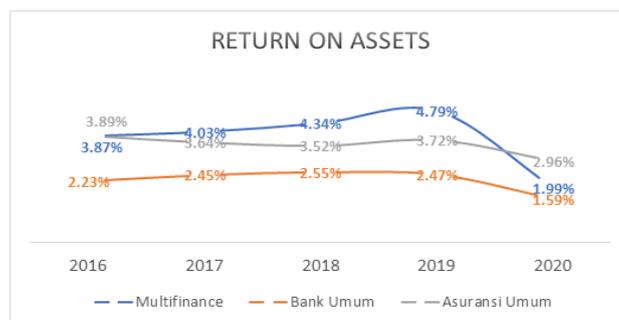


Figure 1: Performance of Financial Institution Companies in Indonesia 2016-2020

Source: OJK (2021)

Figure 1 shows the dynamics of the performance of Financial Industry companies as measured by Return On Assets (ROA). In 2020 ROA has decreased. One of the reasons for this is the Covid-19 pandemic. The most significant decline in ROA occurred in the finance industry, which was -2.8%, compared to banking which experienced a decline of 0.76%, and insurance, which decreased by 0.88%.

The gearing ratio shows the level of readiness of the financing company to face the worst possible situation. Mufida (2020) found that the Gearing ratio had a positive and significant effect on Return On Assets (ROA) (Mufida, 2020). In contrast to Suteja and Majidah (2020), who obtained research results that the Gearing ratio had no effect on Return on Assets (ROA) (Suteja & Majidah, 2020).

Financing to Assets Ratio (FAR) is the financing to assets ratio. The FAR value focuses on managing assets properly so that they can distribute financing to debtors. The higher the FAR, the better the level of credit distribution performance. Ganang (2016) found that FAR had a positive and significant effect on ROA (Ganang, 2016). In contrast to Putra (2021), who stated that FAR had a negative effect on ROA (Putra, 2021).

Non-Performing Financing (NPF) is a financial ratio related to credit risk. If a finance company (multi) has a high NPF, it will increase costs, including reserves for productive assets and other costs. In other words, the higher the NPF of a multi-finance company, the lower the company's performance. Ali's research (2017) found that NPL (Non-Performing Loan) had no effect on ROA of BUMN Banks for the period 2003 – 2015 (Ali & T. Y, 2017). In comparison, Hediati et al. (2021) found that NPL (Non-Performing Loan) had a significant positive effect on Bank BJB's ROA for the period 2011 – 2018 (Hediati & Hasanuh, 2021). Fanny et al. (2020) found that NPL had a significant negative effect on the ROA of Government Banks and Conventional Banks listed on the IDX in 2014 – 2017 (Fanny et al., 2020).

Multi-finance companies carry out operational efficiency to determine whether the Company's operations are carried out efficiently. The proxy for operating efficiency is BOPO. Abel and Roux research results in Zimbabwe and Garcia (2016) in Portugal found that the operating expense / cost-income ratio had a negative and significant effect on profitability (Abel & Roux, 2016; Garcia & Guerreiro, 2016). At the same time, Özgür and Gorus (2016) in Turkey, the results of operational expenses do not affect profitability (Ozgur & Gorus, 2016).

## LITERATURE REVIEW

Return on Assets (ROA) is a ratio used to measure the company's management ability to obtain

profit (profit) from the use of its assets. The higher the ROA of a company, the better the company's performance. According to Sihombing (2018), the profitability ratio is measured by comparing net income and assets. In other words, Return on Assets (ROA) measures the company's ability to generate net income based on specific assets (Sihombing, 2018).

The gearing ratio is between the financing company's total loans to its capital and subordinated loans after deducting existing capital investments. The Financial Services Authority Regulation article 79 POJK NUMBER 35 / POJK.05 / 2018 states that finance companies are required to meet the Gearing Ratio provisions of a minimum of 0 (zero) times and a maximum of 10 (ten) times.

Financing to Assets Ratio (FAR) is the ratio of financing to assets ratio. The FAR value focuses on managing assets properly so that they can distribute financing to debtors. The higher the FAR, the better the level of credit distribution performance. Article 84 of POJK NUMBER 35 / POJK.05 / 2018 states that finance companies (multi) are required to have a ratio of net outstanding principal to total assets (FAR) of at least 40% (forty percent).

Quality of Non-Performing Financing Receivables, starting now referred to as Net NPF, are financing receivables consisting of substandard, doubtful, and loss quality, after deducting the allowance for the write-off of financing receivables for financing receivables consisting of high-quality financing receivables. Substandard, doubtful, and jammed. The net NPF ratio is determined at the highest at 5% (POJK 35, 2018).

BOPO is used to measure the management ability of finance companies (multi) in controlling operational costs to operating income. The smaller this ratio, the more efficient the operational costs incurred by the finance company (multi). The more efficient a company, the better its performance. In Bank Indonesia Circular No. 15/7/DPNP dated March 8, 2013, it is explained that the BOPO ratio must be maintained at no more than 85%. If the BOPO ratio exceeds 85% to close to 100%, the financial company can be categorized as inefficient in carrying out its operations.

## HYPOTHESIS

Based on theoretical studies and supported by previous research results, the hypotheses of this study are as follows:

H1: Gearing Ratio has a negative effect on Return on Assets (ROA)

H2: Financing to Assets Ratio (FAR) has a positive effect on Return on Assets (ROA)

H3: Non-Performing Financing (NPF) has a negative effect on Return on Assets (ROA)

H4: BOPO has a negative effect on Return on Assets (ROA)

The framework of this research is as follows:

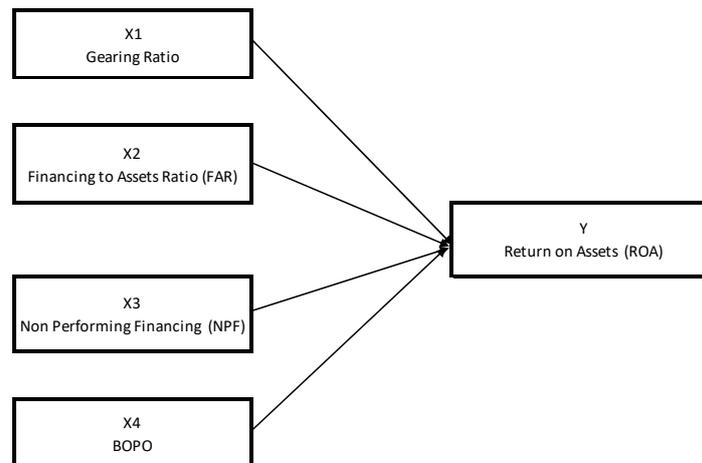


Figure 2: Conceptual Framework

**RESEARCH METHOD**

This research belongs to the type of causality research. The approach used in this research is quantitative. The research data are annual data for the 2015-2020 period (time series) from 13 companies (cross-section). Data analysis used a panel data regression approach with 78 observations. The research population is all finance companies (multi) listed on the Indonesia Stock Exchange (IDX) in 2020, totaling 16 companies. Companies that meet the sample criteria are 13 companies.

The regression equation used to answer the research problem is:

$$ROA_{it} = \alpha + \beta_1 GR_{it} + \beta_2 FAR_{it} + \beta_3 NPF_{it} + \beta_4 BOPO_{it} + \epsilon_{it}$$

- ROA : Return on Assets
- GR : Gearing Ratio
- FAR : Financing to Assets Ratio
- NPF : Non-Performing Financing
- BOPO : Operating Expenses Operating Income
- $\alpha$  : Intercept
- $\beta_1 \beta_2 \beta_3 \beta_4$  : Regression coefficient
- $\epsilon_{it}$  : Error term

**RESULT AND DISCUSSION**

Table 1: Descriptive Statistics of Research Variables

	Minimum	Maximum	Mean	Std. Deviation
ROA (Y)	-.66697	.09625	.00521	.09706
GR (X1)	.00812	5.36601	2.40673	1.54446
FAR (X2)	.369198	.96744	.81545	.13486
NPF (X3)	.00277	.56414	.04453	.09066
BOPO (X4)	-15.36813	2.72591	.61143	2.08257

The average ROA value is 0.00521, meaning that every 100 rupiah of assets generates a net profit of 0.5 rupiahs. The maximum ROA value of 0.09625 occurred at PT BFI Finance Tbk (BFIN) in 2018. The minimum ROA value was -0.66697 occurred at PT Intan Baruprana Finance Tbk (IBFN) in 2020. A negative ROA indicates the company has suffered a loss.

The average value of GR is 2.40673, which means that the debt to equity ratio is 2.41 times. The average number meets the OJK regulations, which regulate the gearing ratio limit of zero to a minimum and a maximum of 10 times. The highest GR value of 5.36601 occurred at PT WOM Finance Tbk (WOMF) in 2017. The lowest value of 0.00812 occurred at PT Trust

Finance Indonesia (TRUS) in 2016. Overall, all multi-finance companies listed on the IDX in the 2015-2020 period complied with POJK No. 35 of 2018 regarding the gearing ratio.

The average value of FAR is 0.81545, meaning that for every 100 rupiahs of assets, 81 rupiahs can be channeled as financing to consumers. The highest FAR value of 0.96744 occurred at PT Clipan Finance Tbk (CFIN) in 2017. The lowest value of 0.369198 occurred at PT Radana Bhaskara Finance, Tbk (H DFA) in 2020.

Non-Performing Financing/NPF has an average value of 0.04453, meaning that the NPF value of financing companies, in general, is 4.45%. In other

words, for every 100 rupiahs of assets owned, there are 4.45 rupiahs non-performing assets. In this case, the average NPF of finance companies is still below the OJK regulation, which is a maximum of 5%. The highest NPF value of 0.56414 occurred at PT Intan Baruprana Finance.Tbk (IBFN) in 2016. The lowest value of 0.00277 was found at PT Radana Bhaskara Finance, Tbk (HDFFA) in 2015.

The average BOPO is 0.61143, meaning that every 100 rupiahs of income incur an operational cost of 61 rupiahs. The highest BOPO value of 2,72591 occurred at PT Intan Baruprana Finance Tbk (IBFN) in 2016. The lowest BOPO of -15,36813 also occurred at

IBFN in 2020. A negative BOPO value indicates that at that time, the income was in a negative condition with positive company expenses. In 2020 the company experienced restrictions on lending due to the impact of the Covid-19 pandemic. The majority of consumers in these companies are heavy equipment corporations so that when there are restrictions on lending activities, the operational costs incurred are also reduced.

The following Table 2 presents the results of selecting the best panel model. It was found that the best estimation model in this study was the Random Effect Model (REM).

**Table 2: Best Panel Model Selection Results**

Test	Test Criteria	Test result	Conclusion
Chow Test	Value (Prob.) for Cross-section F.	0.0000	FEM is not the best model
Hausman Test	Value (Prob.) for random cross-section	0.1599	REM is not the best model
Langrange Multiplier Test	Value (Prob.) for the Breusch Cross-section.	0.0000	Best REM Model

The best model test results show the appropriate model. The calculated F value is 249.4369 with a probability of 0.000. the ability of the model to

explain the phenomenon is 93.07%. The remaining 7% change in ROA is explained by other variables outside the model.

**Table 3: Random Effect Model (REM) Analysis**

Variable	Coefficient	t-Statistic	Prob.	Description
Constanta	1.017683	22.38509	0.0000	
GR	-0.003437	-1.201965	0.2334	H1 rejected
FAR	0.191274	5.428762	0.0000	H2 accepted
NPF	-0.081566	-3.300786	0.0015	H3 accepted
BOPO	-0.220874	-22.07623	0.0000	H4 accepted
R <sup>2</sup>	0.934441			
R <sup>2</sup> adjusted	0.930695			
F-statistic	249.4369			
Prob(F-statistic)	0.000000			

Based on Table 3 the regression equation for the panel data in this study are:

$$ROA = 1.017683 - 0.003437 GR + 0.191274 FAR - 0.081566 NPF - 0.220874 BOPO$$

- a. The constant is 1.02% significant at 1% alpha. This means that when GR, FAR, NPF, and BOPO are zero, the ROA of the multi-finance company is 1.02%.
- b. The regression coefficient value of the GR variable is -0.003437 with a significance of 0.2334. The significance value > 0.05 means that GR has no significant effect on ROA.
- c. The regression coefficient value of the FAR variable is 0.191274 with a significance of 0.0000. It means that FAR has a positive and significant effect on ROA. If there is an increase in FAR of one unit, the ROA will increase by 0.191274%, ceteris paribus.
- d. The regression coefficient value of the NPF variable is -0.081566 with a significance of

0.0015. It means that NPF has a negative and significant effect on ROA. If there is an increase of one unit of NPF, the ROA will decrease by 0.082%, ceteris paribus.

- e. The regression coefficient value of the BOPO variable is -0.220874 with a significance of 0.000. It means that BOPO has a negative and significant effect on ROA. If there is an increase in BOPO by one unit, then ROA will decrease by 0.220874%, ceteris paribus.

## DISCUSSION OF RESEARCH RESULTS

### 1) Effect of Gearing Ratio on Company Financial Performance (ROA)

It was found that the Gearing Ratio had no significant effect on the performance of the Financing Companies listed on the IDX in 2015-2020. Descriptive statistical data shows the average value of the Gearing ratio variable is 2.40673, and the maximum value is 5.36601. This figure shows that the finance company (multi) has complied with the provisions of POJK No.

35/2018, which stipulates that the finance company (multi) must comply with the Gearing Ratio provisions of a minimum of 0 (zero) times and a maximum of 10 (ten times). The study results align with Suteja and Majidah (2020), who found that the capital/capital adequacy ratio has no effect on Return On Assets (ROA) in Islamic banking companies (Suteja & Majidah, 2020).

#### 2) The Effect of Financing to Assets Ratio (FAR) on the Company's Financial Performance (ROA)

The average value of FAR in descriptive statistics is 0.81545. This means that the balance of net receivables to total assets on average is 81.545%. This value meets the provisions of POJK No. 35/2018, which states that finance companies are required to have a net outstanding principal to total asset (FAR) ratio of at least 40% (forty percent). The results of hypothesis testing indicate that the Financing to Assets Ratio (FAR) has a positive and significant effect on the Return on Assets (ROA) of financing companies listed on the IDX for the 2015-2020 period. The results of this study that FAR had a positive effect on the ROA of finance companies listed on the IDX for the period 2010 – 2015.

#### 3) The Effect of Non-Performing Financing (NPF) on the Company's Financial Performance (RO)

The average value of NPF on descriptive statistics is 0.04453. This value shows that for every 100 rupiahs of total credit granted, non-performing loans are 4 rupiahs. This figure meets the provisions of POJK No. 35/2018, which states that Financing Companies' highest net NPF ratio is 5%. The results of hypothesis testing conclude that NPF has a negative and significant effect on the Return on Assets (ROA) of Financing Companies listed on the IDX. 2015-2020 period. The smaller the NPF, the better the performance of the multi-finance company. The results of this study are in line with the research of Fanny et al. (2020), who found NPLs (Non-Performing Loans) had a negative and significant impact on the ROA of Government Banks and Conventional Banks on the IDX in 2014 – 2017 (Fanny *et al.*, 2020). The results of this study are also in line with Abdulazeez et al. (2021), who studied 47 Asian countries.

#### 4) The Effect of BOPO on the Company's Financial Performance (ROA)

The average BOPO value of multi-finance companies on the IDX for 2016-2020 is 0.61143. This means that for every 100 rupiahs of income, operating costs are 61 rupiahs or the BOPO of multi-finance companies is 61.14%. Bank Indonesia Circular No. 15/7/DPNP dated March 8, 2013, explains that the BOPO ratio must be maintained at no more than 85%. Thus, multi-finance companies have complied with Bank Indonesia regulations.

The results of hypothesis testing conclude that BOPO has a negative and significant effect on the ROA of financing companies listed on the IDX for the 2015-2020 period. This finding supports government provisions and theory. The results of this study are in line with Abel et al. (2016), who researched Zimbabwe, and Teresa et al. (2015) in Portugal that the operating expense/cost-income ratio has a negative and significant effect on profitability.

Of the three independent variables that significantly affect company performance, BOPO has the greatest influence. Thus, company management needs to develop programs that emphasize efficiency. The more efficient the multi-finance company, the better its performance.

## CONCLUSIONS AND SUGGESTION

Based on the results of the analysis and discussion, it can be concluded as follows:

- a) Gearing Ratio has no effect on the company's financial performance as measured by Return on Assets (ROA) in finance companies (multi) listed on the IDX in 2015 – 2020.
- b) Financing to Assets Ratio (FAR) has a positive effect on the company's financial performance as measured by Return on Assets (ROA) in finance companies (multi) listed on the IDX in 2015 - 2020.
- c) Non-Performing Financing (NPF) has a negative effect on the company's financial performance as measured by the Return on Assets (ROA) of multi-finance companies listed on the Indonesia Stock Exchange in 2015 – 2020.
- d) Cost Efficiency (BOPO) has a negative effect on the company's financial performance as measured by Return on Assets (ROA) in finance companies (multi) listed on the IDX in 2015 - 2020

Some suggestions related to the results of this research: 1) For the Company. BOPO has the most prominent negative and significant effect, following SEOJK No. 3/SEOJK.05/2016 costs included in operating expenses include interest costs, marketing costs, labor costs, and other operating costs. The more efficient the operational costs incurred by the financing company, the greater the ability to generate profits. On the contrary, if the more fantastic the costs incurred, the profits will be smaller. The Quality Ratio of Financing Receivables / Non-Performing Financing (NPF) is good because it does not exceed the maximum limit of the OJK. However, it is necessary to pay attention so that the NPF value can be managed better, and it needs to be maintained so that it does not exceed the maximum limit of 5% that the OJK has determined. Credit distribution is good, and the average FAR of multi-finance companies is 81%, which complies with POJK No. 35/2018 with a minimum limit of 40%; 2) For

Investors. Investors who want to invest in shares of multi-finance companies and consider performance need to pay attention to the company's operational efficiency. Investors should first analyze the company's condition through published financial reports; 3) For Further Researchers. Similar studies can be conducted on companies in other financial industry sectors such as Insurance and Financial Technology (Fintech).

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