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The Effect of Capital Adequacy Ratio, Non-Performing Loan and Debt Equity Ratio on Financial Performance

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ABSTRACT

This study aims to determine the effect of capital adequacy ratio, non-performing loan and debt equity ratio on financial performance in banking companies listed on the Indonesia Stock Exchange (IDX) in 2020-2022. The population in this study is banking companies listed on the Indonesia Stock Exchange (IDX) in 2020-2022. This study used purposive sampling techniques. With an analysis unit of 129 financial statements with 43 banking companies. The analysis used in this study is multiple regression analysis using SPSS version 25 as a tool in calculation. Based on the results provided in this study, it shows that the capital adequacy ratio and non-performing loans have no effect on financial performance. Meanwhile, the debt equity ratio negatively affects financial performance. The predictive ability of the three variables to financial performance was 18.8% while the other 81.2% came from other variables.

Keywords: capital adequacy ratio, non-performing loan, debt equity ratio and financial performance.

INTRODUCTION

Business growth encourages companies to compete to improve their performance. Especially during the COVID-19 pandemic, which in mid-2021 even increased globally along with the spread of the Delta variant of cases. This is evidenced by the transmission rate of COVID-19 cases (reproduction rate) which increases in some countries accompanied by weekly average increases (fatality rate). Rising fatality rate in Indonesia is indicated by the low vaccination rate and limited medical personnel and health facilities (OJK, 2021). The impact of COVID-19 in all countries has the same impact, causing weak economic activity. This virus not only has a negative impact on companies engaged in the health sector but also experienced by the financial industry, causing significant losses to the global economy and placing intense pressure on financial markets and banks and other institutions (Nurcahyono et al., 2020, 2021).

Financial performance is an analysis used to see the financial condition of banks as measured by indicators of capital adequacy and profitability of banks (Nurkhalifa et al., 2021). One of the indicators of banking financial performance can be seen through profitability. Profitability is the ability produced by the company to obtain profits in its sales which can be seen from profits and own capital that is taken into account (Ramadhanti et al., 2019). In banking activities other than bank health, it is important to pay attention to the profitability aspect which is the bank's business in generating profits (Islamiyah & Sukaris, 2023). To assess the company's financial performance can use financial statement analysis. In analyzing the financial performance of an enterprise, certain tools are needed. The tool used is financial ratios. Based on the report, a ratio emerges that will become the standard for assessing the level of profitability of banks (Hadian & Phety, 2021). Financial analysis can help business people, both government and other users of financial statements in assessing the financial condition of a company, including banking companies.

The COVID-19 pandemic has caused the Indonesian economy to experience shocks, including the financial sector, namely banking companies. Banking companies themselves are one of the categories of the financial sector listed on the IDX that has a pace to continue to grow, but during a pandemic like that time banking companies continue to experience a decline in their profits. The growth rate of banking companies is seen from the return on assets, namely:

Figure 1.
Return On Assets of Banking Companies in 2020-2022

Source: Data processed 2023 from www.idx.co.id

Based on Figure 1.1, it can be seen that the average profit seen from the return on assets of each banking sector company listed on the Indonesia Stock Exchange (IDX) in www.idx.co.id for 3 periods, namely from 2020-2022, from the figure the return on assets

on the IDX in 2020 to 2022 fluctuated and after COVID-19 experienced a significant increase. In 2020, the average profit of banking companies was 0.30%, then in 2021 it was 0.20%. And finally in 2022 0.30%. However, despite the decline in profits, the company still has great potential in generating dividends provided by the company. The company's profit as shown in the table above shows that the company's profit in the banking sector is less effective in achieving its target. Based on the above phenomena in predicting factors that affect financial performance are the variables capital adequacy ratio, non-performing loan, and debt equity ratio.

The first variable is Capital Adequacy Ratio (CAR) can be defined as a bank's capital expressed as a percentage of its risk-weighted commitment (Mili et al., 2017). This is evidenced by research on the effect of CAR on financial performance such as the results of Safitri's research (2022)Hosted by Arama. (2020) dan Sunaryo (2020), stated that CAR has a positive effect on financial performance, but in previous research Kusumastuti (2019), Irawan (2019) dan Soares (2018) found that CAR negatively affects financial performance.

The second variable is Non Performing Loan (NPL) defined as a ratio that shows the bank's ability to manage non-performing loans provided by the bank (Sunaryo, 2020). NPLs can be categorized as non-performing loans that are directly related to total loans and loans in growth in banking (Kryzanowski et al., 2022). NPLs provide valuation information on capital, profitability, credit risk, and market risk by assessing quality if there are problems with banking assets held (Irawati et al., 2019). The impact on financial performance in the banking industry, if the lower the loan distribution portfolio to customers, the lower the level of non-performing loans at the bank. Research on the effect of NPL on financial performance found the results of research on Utomo (2021) ,Octaviani (2018), and Akter (2017) positive influence on financial performance, but in previous research Swandewi (2021), Sunaryo (Sunaryo, 2020) and Silitonga (2020) negatively affect financial performance.

The third variable is the Debt Equity Ratio (DER), which is a ratio used to measure the extent of a bank's capital capability by looking at the debt to equity ratio (Nasution et al., 2019). Therefore, DER describes the higher the ratio, the greater the amount of borrowed capital used for asset investment in order to generate profits for the company (Rambe & Rambe, 2020). The impact of DER on financial performance in banks if the bank's financial statements on the amount of debt are greater, the greater the risk borne, and the greater the possibility of a decline in bank financial performance that occurs. Research on the effect of DER on financial performance as Susilawati's research results (2022) ,Rambe (Rambe & Rambe, 2020) dan Sutrisno (2018) which states that DER negatively affects financial performance, but in previous research Gunawan (2022) Mugun (2019), and Hantono (2018) which found that DER positively affects financial performance. Based on the description above, there are research inconsistencies from three independent variables (Videsia et al., 2022). Therefore, previous research as described above still has many differences in results from previous studies, so researchers want to re-examine whether the capital adequacy ratio, non-performing loan, and debt equity ratio affect financial performance.

LITERATURE REVIEW

The Effect of Capital Adequacy Ratio on Financial Performance

Capital Adequacy Ratio is a financial ratio related to capital in banking where the amount of bank capital can affect whether a bank can carry out financial management activities efficiently or not Sukmadewi (2020). Capital adequacy ratio has the objective of

indicating that the higher the ratio value capital adequacy ratio With personal capital used to fund productive assets, the lower the interest funds issued by the bank will contribute significantly to Soares' financial performance (Soares & Yunanto, 2018). The effort made by the company in carefully selecting funding sources is very important for a bank. The greater the ratio Capital Adequacy Ratio then it shows the better the financial performance of a bank (Muliyanti et al., 2023).

This statement is supported by Menicucci's research (2016), Corrie (2019), and Safitri (Safitri & Oktavia, 2022) states that capital adequacy ratio Positive effect on financial performance. This proves that the higher the capital funds, both investment and distribution of funds that are done well, it can be interpreted good news by investors because it indicates that the bank has been efficient in channeling its funds. Based on the signal theory of previous research, the research hypothesis is formulated as follows:

H_1: Capital Adequacy Ratio has a positive effect on financial performance

The Effect of Non-Performing Loans on Financial Performance
Non-Performing Loan is a ratio value that shows the ratio between total non-performing loans and total loans given to debtors. Non-performing loan reflects the magnitude of credit risk faced by banks. Therefore, it is necessary for banks to analyze in providing credit to debtors to pay their obligations (Sukmadewi, 2020). Non-performing loan Usually projected with non-performing credit scores in bank customers which is a comparison of non-current loans with loans disbursed. The importance of attention to credit risk management in banks certainly affects the role of commercial bank financial intermediaries which are the core source of income for banks that can affect banking financial stability (Ifada et al., 2023; Nurcahyono & Sinarasri, 2023).

A ratio value non-performing loan It can be said to be healthy with credit funds disbursed less than 5% of the total credit disbursed. The smaller the ratio value non-performing loan indicates that the less risk will be borne for the possibility of bank failure to overcome credit risk problems that arise. In accordance with signal theory, the banking capability will be responded positively by Jati investors (2021). This statement is supported by Pinasti's research (2018), Sagala (2019), and Arasy (Arasy & Handayani, 2020) states that non-performing loan Positive effect on financial performance. Banks that have low non-performing credit scores then show ratios non-performing loan can function properly and can increase its obligations both to parties outside the banking and inside the banking. Based on the signal theory of previous research, the research hypothesis is formulated as follows:

H_2 : Non Performing Loan has a positive effect on financial performance

The Effect of Debt Equity Ratio on Financial Performance
Debt Equity Ratio Namely the type of ratio used to measure the company's ability to guarantee its debt with a number of assets owned. This includes assessing the ratio between the total capital itself and the total amount of debt (Nasution et al., 2019).
Debt equity ratio The large one shows that the amount of debt owned by the bank is greater than its capital, so the costs that must be borne to meet obligations will also be greater. Therefore, if the value in the banking industry is high, it gives a negative signal because it shows a high risk so that the risk of default faced by banks will be even greater. (2020).
This statement is supported by Amanda's research (2019), Non-commissioned officers (2020), and Alifiana (2021) states that debt equity ratio negatively affect financial performance. Companies that have value debt equity ratio A high level will potentially decrease dividend payments and affect revenue performance in bank financial

statements. Based on the signal theory of previous research, the research hypothesis is formulated as follows:
H_3: Debt Equity Ratio negatively affects financial performance

RESEARCH METHOD

Population is the sum of all objects to be studied by researchers. In this study, the population used by researchers is banking companies listed on the Indonesia Stock Exchange (IDX) for the 2020-2022 period. The sampling used in this study was purposive sampling. Purposive sampling is a sampling technique with certain considerations (Sugiyono, 2019).
The characteristics applied in sample determination are:

1. Banking companies listed on the Indonesia Stock Exchange (IDX) for the period 2020-2022.
2. Banking companies that issue complete financial statements on the Indonesia Stock Exchange (IDX) for the 2020-2022 period.
3. Banking companies that did not experience losses on the Indonesia Stock Exchange (IDX) for the 2020-2022 period.

The type of data used in this study is secondary data. Secondary data is data that is not directly received by the researcher but passes through other people or documents (Sugiyono, 2019). The secondary data obtained in this study is based on the publication of financial statements of banking companies listed on the Indonesia Stock Exchange (IDX) for the 2020-2022 period. The data collection method used in this study is the documentation method, where researchers record data listed in the financial statements of banking companies listed in www.idx.co.id and the company's official website for 3 periods, namely 2020-2022.

This study used quantitative data analysis techniques. After obtaining the desired data, the researcher will carry out data processing and analysis using program tools Statistics for Social Sciences (SPSS) version 25. This software program serves to analyze data, perform parametic and non-parametic calculations on a windows basis (Ghozali, 2018).

Analysis data use multiple linear analysis is performed to determine the direction of how much influence the independent variable has on the dependent variable (Ghozali, 2018). Multiple linear regression equations used in this study:

$$Y = \alpha + \beta 1\ X1 + \beta_2\ X2 + \beta_3\ X3 + \varepsilon$$

Information:

And	: Financial Performance
α	: Konstanta
β1	: Regression Coefficient Capital Adequacy Ratio
β2	: Regression Coefficient Non-Performing Loan
β3	: Regression Coefficient Debt Equity Ratio
X1	: Capital Adequacy Ratio
X2	: Non-Performing Loan
X3	: Debt Equity Ratio
E	: Standard Error

RESULTS

Table 2 Descriptive Statistical Analysis Test Results

Variable	Minimum	Maximum	Mean	Std. Deviation
Capital Adequacy Ratio	0,18	0,98	0,3119	0,20106
Non-Performing Loan	0,00	0,31	0,0372	0,04174
Debt Equity Ratio	0,19	9,81	4,9815	2,47162
Return On Asset	0,01	0,19	0,0241	0,03087

Source: SPSS processed data, 2023

The results of statistical descriptive analysis of the research sample can be seen in the table showing that the minimum, maximum, mean, and standard deviation values for each variable used in this study.

Hypothesis test

This test aims to determine the influence between the independent variable and the dependent variable. In this study, multiple regression analysis was used which was processed with SPSS software (Ghozali, 2013). The following are the results of the multiple linear regression analysis test:

Table 3 Multiple Linear Regression Results

Variable	Beta	t	Sig
Konstanta	0.252	-6.10	0.000
X1	-0.018	-1.794	0.705
X2	-0.095	0.537	0.894
X3	-0.053	0.792	0.008

Source: processed secondary data (2023)

DISCUSSION

The Effect of Capital Adequacy Ratio on Financial Performance

The capital adequacy ratio variable based on the results of the statistical test analysis t shows a calculated t value of -0.326 and a significance value of 0.705>0.05 so that it can be concluded that H_1 is rejected. These results show that the variable capital adequacy ratio (X1) has a relationship that has no effect on financial performance. The resulting beta value is -0.058. Capital Adequacy Ratio has no effect on financial performance, based on descriptive analysis the mean capital adequacy ratio value in the banking sample is closer to the minimum value of 0.18, meaning that the majority of banks in the sample data are still relatively minimal in terms of capital adequacy conditions in banks are still low to bear the risk of any risky credit or productive assets. So that it will make banking have a low adequacy value over capital. So that the results of this study can give a negative signal to banking.

Based on Bank Indonesia regulation No. 13/3/PBI/2013 concerning capital adequacy ratio A bank with a minimum value of 8% indicates that the bank is considered to have the potential to maintain smooth running in the adequacy of banking business capital. It can be seen that the empirical conditions of the object of banking research have value capital adequacy ratio Most of the financial statements from banks operating in 2020-2022 are only 31% that can optimize existing funds. This indicates that the value capital adequacy ratio which is low compared to the adequacy ratio with a value of at least 8% so that capital adequacy ratio No effect on financial performance (Agustin et al., 2023; Fizabaniyah et al., 2023). Insignificance that occurs between capital adequacy ratio The financial performance is also due to the possibility of the bank to comply with Bank

Indonesia regulations that require every financial institution to maintain value capital adequacy ratio With a minimum provision of 8% so that bank owners strive for bank capital by providing sufficient funds to anticipate all forms of loans provided so that the capital adequacy ratio is maintained and in accordance with the provisions. This is in line with research (Chaerunisak et al., 2019).

In banking companies in the study period, this can happen because of Bank Indonesia regulations that require: capital adequacy ratio At least 8% so that banks try to always maintain value capital adequacy ratio owned in order to comply with applicable regulations. The results of this study support the results of Kusumastuti's previous research (Kusumastuti & Alam, 2019), Irawan (Irawan & Syarif, 2019)Soares (Soares & Yunanto, 2018), Chaerunisak (Chaerunisak et al., 2019) and Imani (Imani & Pracoyo, 2018) which states that capital adequacy ratio no influence on financial performance.

The Effect of Non-Performing Loans on Financial Performance

The non-performing loan variable based on the results of the statistical test analysis t shows a calculated t value of -1.201 and a significance value of 0.894>0.05 so that it can be concluded that H_2 is rejected. These results show that the non-performing loan variable (X2) has a relationship that has no effect on financial performance. The resulting beta value is -0.095. Non-Performing Loans have no effect on financial performance, judging from descriptive statistical data, the value of non-performing loans in the low banking sample with a mean value closer to the minimum value of 0.18 means that the majority of banks in the sample data are still relatively minimal in the condition of customers who fail to pay part or all of their obligations to the bank so that it will make banks have low bad credit score. So that the results of this study can give a positive signal to banking.

Value non-performing loan the low then the quality of productive assets can be said to be good. Because banking management can manage loan funds provided to customers professionally by being able to analyze existing risks well (Utomo & Trisnawati, 2021). It can be seen from Bank Indonesia regulation No. 13/24/DPNP Year 2011 with a ratio of non-performing loan healthy below 5%, this can also be shown by the results of the study which showed 3.1% which despite the mean value non-performing loan has complied with regulations, but during the current year the sample of banks in lending is also relatively small, so that non-performing loan No effect on financial performance (Ambarwati & Nurcahyono, 2022; Handayani et al., 2023; Videsia et al., 2022).

Ideal size on non-performing loan Below 5%, which indicates a low ratio value, reveals an increase in the bank's financial performance to pay its credit. So that the smaller the risk that will be borne by banks for the possibility of bank failure in overcoming credit risk problems that arise. The results of this study support the results of previous research, namely from Ichsan (Ichsan et al., 2021), Swandewi (Swandewi & Purnawati, 2021), Sunaryo (Sunaryo, 2020), Cereal (Silitonga et al., 2020) and Irawati (Irawati et al., 2019) which states that non-performing loan has no effect on financial performance.

The Effect of Debt Equity Ratio on Financial Performance

The variable debt equity ratio based on the results of statistical test analysis t shows a calculated t value of -2.993 and a significance value of 0.008<0.05 so that it can be concluded that H_3 is accepted. These results show that the variable debt equity ratio (X3) has a negative and significant relationship to financial performance. The resulting beta value is -0.053.

Debt Equity Ratio has a negative effect on financial performance, based on descriptive analysis the mean debt equity ratio value in the banking sample is closer to the minimum

value of 0.19 which means that the majority of sample banks are still relatively low in debt value. The results of the study explain if the value of the debt equity ratio Banks operating in that year rose, then financial performance will also decrease, and vice versa. So that the results of this study can give a positive signal to banking (Azzahra et al., 2023; Nurcahyono et al., 2019).

Debt management carried out properly by bank management will be able to provide additional income for the bank. The lower the value debt equity ratio shows that the amount of debt owned by the company is also smaller than its capital, so the costs that must be borne to meet obligations will be smaller. As a result, the financial performance of banks will further improve (Kurniawan & Samhaji, 2020). The lower the value debt equity ratio Then it can show a small debt value, then the interest expense incurred decreases so that the return on assets increases (Rambe & Rambe, 2020). In this study with results that show a low debt value, there is a decrease in the ratio of debt to equity so that there is an increase in financial performance. So that debt equity ratio Effect on Financial Performance with Value debt equity ratio the small one.

Management in banks with low debt levels indicates that bank interest expenses will be smaller and improve the quality of financial performance. Effective management of debt funds owned by banks will have an impact on increasing the profits obtained by the bank. The results of this study support the results of previous research, namely from Susilawati (Susilawati et al., 2022), Rambe (Rambe & Rambe, 2020) dan Sutrisno (Sutrisno, 2018) states that debt equity ratio negatively affect financial performance.

CONCLUSION

This study aims to empirically provide the effect of capital adequacy ratio, non-performing loan and debt equity ratio on financial performance in banking companies listed on the Indonesia Stock Exchange (IDX) in 2020-2022. Based on the results and discussion, the conclusion is that the Capital Adequacy Ratio does not affect Banking Financial Performance, this is because the adequacy value of capital is still low. This shows that banks are still low in improving Financial Performance. For Non-Performing Loans, it does not affect Banking Financial Performance, this is because banks in the sample have a low ratio of non-performing loans to banks so that it can improve Financial Performance obtained by banks. While the variable Debt Equity Ratio negatively affects bank Financial Performance, this is because the value of the debt to equity ratio in banks has a low value, it will minimize costs so that it will encourage Financial Performance.

This study has limitations that are taken into consideration, while the limitations in this study are that in this study it has a low test result value in R-Square research of only 18.8%. Based on the findings and limitations of this study, proposals that can be submitted for additional examination include expected for further research to add other independent variables such as loan to deposit ratio, net interest margin and so on, otherwise for future research can add to the sample by extending the observation period by more than 3 years.

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