



# Influential Factors towards Return On Assets and Profit Change (Study on all BPR in Bali Province)



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Article history: Received 10 August 2017, Accepted in revised form 20 February 2018, Approved 5 March 2018,  
Available online 13 March 2018

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## Keywords

BOPO;  
CAR;  
LDR;  
NIM;  
ROA;

## Abstract

The research was intended at knowing and analyzing the influence of Capital Adequacy Ratio, Operational Revenue Operating Expense, Loan to Deposit Ratio, and Net Interest Margin to Return On Assets and Profit Change. The present research was conducted on Rural Banks in Bali Province. In order to answer the hypothesis proposed in the study, the data were analyzed using path analysis with AMOS program 16. The results showed that Capital Adequacy Ratio has a positive influence on Return On Assets. Operational Revenue Operating Expense (BOPO) has a negative effect on Return On Assets. Loan to Deposit Ratio (LDR) has a positive effect on Return On Assets (ROA). Net Interest Margin (NIM) has a positive influence on Return On Assets (ROA). Capital Adequacy Ratio (CAR) has a positive effect on Profit Change. Operational Revenue Operating Expense (BOPO) has a negative effect on Profit Change. Loan to Deposit Ratio has a positive effect on Profit Change. Net Interest Margin has a positive influence on Profit Change. Return On Assets (ROA) has a positive effect on Profit Change.

*e-ISSN : 2550-7001, p-ISSN : 2550-701X ©Copyright 2018. The Author.  
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## 1. Introduction

One of the benchmarks that can be used to measure a company's performance is profitability (Pandian and Narendran, 2015, Rouf, 2010; Wallace & Naser, 1995; Meek, et al., 1995). Similarly, those used in medium-level financial institutions, unlike *rural banks (BPR)*. Rouf (2010) and Wallace & Naser (1995) stated that Profitability Ratios are ratios used to assess a company's ability to find profits or profits in a given financial period, while *Return On Assets (ROA)* is a very important profitability ratio to determine how effective financial institutions *e.g.*, BPR is able to generate profits from total assets owned, due to the greater ROA shows the better level of profitability.

In an enterprise, increasing or decreasing in profits is reflected in the rate of change in earnings (Gustina and Wijayanto, 2015). Due to the profit is a general parameter used to measure aims achieved by BPR. Therefore, the profits will serve as a basis for management decision-making related to investment and prediction to forecast future earnings changes in the future. According Triono (2015) stated that knows the level of changes in earnings can be seen in the financial statements of each period. In addition to the liquidity ratio, one type of ratio that is also important to be used unlike BPR performance appraisal parameter is the solvency ratio. According to Kasmir (2014), stated that solvency ratio is the ratio used to measure the ability of the company to pay all its debts, for short-term and long-term. This ratio aims to measure the bank's efficiency in carrying out its activities (Kasmir, 2014). One type of ratio that can be used to measure the solvency level of BPR is CAR (Hua, 2006). According to Kasmir (2014), CAR is a ratio that measures the capital adequacy of a bank. Buyuksalvarci and Abdioglu (2011) stated that every bank generally is required to maintain adequate capital funds to deal with the possibility of future bad events. Based on Bank Indonesia regulation No.15/12/PBI/2013, the minimum capital that must be owned by a bank is 8%.

In order to achieve maximum BPR benefit, efficiency in the utilization of resources owned by BPR will play a very important role. Through Bank Indonesia Regulation No.14/26/PBI/2012 on Business Activities and Office Networks Based on Bank's Core Capital, Bank Indonesia stipulates that the achievement of bank efficiency level is measured, *e.g.*, through *Operating Revenue Operating Expense (BOPO)* and *Net Interest Margin (NIM)*. The greater of BOPO in BPR will certainly indicate the inefficiency carrying out its business activities. Unlike NIM, the higher of NIM value, the more efficient of BPR is in running its business activities. Based on the above description, the present study is intended at examining the Influence of CAR, BOPO, *Loan to Deposit Ratio (LDR)* and NIM to ROA and Profit Change, conducted on all existing BPR in Bali.

## 2. Research Method

This research is conducted on all BPR in Bali and has been registered with the Financial Services Authority in 2015. The present research is quantitative, which explains the causality relationship between research variables by analyzing numerical data (numbers) using statistical methods through hypothesis testing. The data used are secondary data with Path Analysis technique (Ferdinand, 2014) and processed by using AMOS Program version 20.

## Literature Review

a) Profit Change

BPR performance generally can be seen from its management ability in producing/generating profit. The general principle for companies is how companies can make the most profit by spending as little as possible. In terms of management, of course, expect high profits change due to the higher profit change than the more flexible companies in running the company's operational activities (Gustina and Wijayanto, 2015; Savitri, 2011). The change in profits that is continued to increase will have a positive impact on the operational activities of BPR itself, due to the additional profits will increase the capital and can guarantee the continuity of BPR establishment. Profit is the difference between the income earned by a company within one reporting period and the cost incurred to obtain the income. The information presented on the profit earned is focused on BPR performance. According to Harahap (2015) earnings are defined as the difference in the measurement of income and costs. Thus, it can be concluded that profit is the result of deductions from realized income with the expenses incurred on a financial transaction in a certain financial period.

b) Return On Assets (ROA)

According to Golbert and Rai (1996); Akbas (2012) and Eng (2013), stated that ROA is a company's financial ratios related to profitability used to measure the ability of companies to generate profits or profit (profitability) at the level included income, assets, and capital stock. Kasmir (2014: 329) suggested that ROA is used to measure management's ability to generate income from asset management. Vasanth (2015) stated that ROA provides an overview of the company's ability to obtain results on the financial resources invested by the company. Thus, BPR management will be able to measure the extent of financial performance and operational performance in the utilization of all resources owned by the company within ROA. According to Hart and Ahuja (1996), Elsayed and Paton (2005); Iwata and Okada (2011) and Qi et al. (2014) stated that ROA shows how much is the net profit obtained by the company when measured from the asset value.

c) Capital Adequacy Ratio (CAR)

CAR is the ratio used to measure a bank capital adequacy level (Kasmir, 2015: 346). According to Taswan in Tanor et al. (2015), CAR is the capital calculation and risk-weighted assets based on the provisions of the applicable minimum capital requirements. According to Wantera and Mertha (2015), CAR shows how the bank's ability to maintain sufficient capital to control the risks that may affect the bank performance in its profit-generating effort. Eng (2013) stated that the higher of CAR, the stronger of bank's ability to assume any risky credit/earning assets and able to finance the bank's operations. Thus, contributing substantially to profitability. Based on the provisions of Bank Indonesia No.15/12/PBI/2013, the bank is declared healthy should have a CAR at least 8%.

d) Operating Revenue Operating Expense Ratio (BOPO)

BPR assessment can be performed using BOPO ratio (Eng, 2013). BOPO ratio is often used as a tool to measure the operational efficiency for BPR. BPR financial performance will largely depend on the maximal or minimal operational costs incurred by BPR to obtain operating income. The fewer costs incurred by BPR to earn its operating income, indicating that the company is more efficient. If the lower of BOPO BPR ratio means the better BPR performance. It defines that the company is more efficient in using its resources to carry out its operational activities. Prasetyo and Damayanti (2015) stated that BOPO is a comparison between operational cost and operating income.

e) Loan to Deposit Ratio (LDR)

LDR is one type of ratio used to assess how well BPR liquidity rate by dividing the number of loans granted by the number of funds collected by the BPR sourced from a third party. LDR indicates the ability of BPR to provide funds to its borrowers with the capital owned by BPR itself or funds collected by BPR from the society. According to Kasmir (2014: 319) and Eng (2013), LDR is a ratio to measure the composition of the loan amount compared to the number of public funds and capital used. According to Harahap (2015: 321), LDR indicates how much the loan granted is funded by a third party.

f) Net Interest Margin (NIM)

NIM ratio is a ratio used to demonstrate the BPR ability to generate its business income in the form of interest income derived from lending activities (Golbert and Rai, 1996; Guisse, 2012). According to Bank Indonesia Circular No. 6/23/DPNP on May 31<sup>st</sup>, 2004, NIM represents the ratio between net

interest income to average earning assets. BPR type of the financial ratios can serve as a benchmark for its ability to generate net interest income through the placement of its earning assets. If NIM value ratio is higher, the better BPR performance in generating and/or earning interest income.

### 3. Results and Analysis

#### 3.1 Influence of CAR to ROA

CAR influence (X1) towards ROA (Y1) has an absolute value C.R.= 4,865 > 2,000 wherein the probability value (P)= \*\*\*\* < 0.05. Thus, CAR path coefficient on ROA is positively significant with the value of standardized estimate is 0,217. The study result is in accordance with [Primadewi and Suputra \(2015\)](#), [Pranata \(2015\)](#), [Muhamad \(2015\)](#), [Edo and Wiagustini \(2014\)](#), [Christiano et al. \(2014\)](#), [Mulatsih \(2014\)](#), and [Narayana \(2013\)](#) indicated that CAR has a positive influence on ROA. It is to show that the higher of CAR is the better of BPR performance is reflected on ROA. CAR is used to measure the extent of the capital adequacy level held by BPR in providing funds to overcome problems that may arise due to the existence of problem or assets risk. It is surely, BPR is more ready in anticipating all possible losses that will arise. It will be the more optimal performance of BPR is to gain profit.

#### 3.2 Influence of BOPO towards ROA

BOPO influence (X2) towards ROA (Y1) has an absolute value C.R.= -21,551 < 2,000 and with probability value (P)= \*\*\* < 0.05. Thus, the coefficient of BOPO to ROA is negative significantly with the value of standardized estimate is -0.852. The study results in line accordance with [Muhamad \(2015\)](#), [Wibowo and Syaichu \(2013\)](#), [Mulatsih \(2014\)](#), and [Lukitasari & Kartika \(2014\)](#) and [Rosada \(2013\)](#), stated that BOPO is negatively affected ROA. It defines that the higher of BOPO of ROA will be lower, on the contrary, if BOPO is lower, then ROA will increase. BOPO ratio is a comparison of the operational costs incurred by BPR to obtain its operating income. It implies that the lower of BOPO value is the more efficient of BPR performance. Conversely, if the higher of BOPO value is the more inefficient of BPR performance will be.

#### 3.3 Influence of LDR towards ROA

LDR influence (X3) towards ROA (Y1) has an absolute value C.R.= 2,833 > 2,000 and probability value (P)= 0.005 < 0.05. Thus, the coefficient of LDR to ROA is positively significant with the value of standardized estimate is 0.460. The study results are in accordance with [Narayana \(2013\)](#), [Prasetyo and Damayanti \(2015\)](#), [Pranata \(2015\)](#), [Mulatsih \(2014\)](#), and [Pasaribu and Sari \(2011\)](#), indicated that LDR towards ROA. It defines that the higher of LDR will lead to increased BPR profitability reflected in ROA, and vice versa. The higher of LDR level of BPR, indicating that the amount of funds disbursed by BPR in the form of credits whose source of funding comes from third-party funds is more optimal. In the end, if BPR can keep LDR level within safe limits in accordance with the Bank Indonesia regulation, surely BPR performance will be more maximally. It is performed more leverage, surely the profitability level of BPR will be better.

#### 3.4 Influence of NIM towards ROA

NIM influence (X4) towards ROA (Y1) has an absolute value C.R.= 5,278 > 2,000 and probability value (P)= \*\*\* < 0.05. Thus, the coefficient of NIM to ROA is a positively significant with the value of standardized estimate is 0.332. The study result is in accordance with [Bentum \(2012\)](#), [Eng \(2013\)](#), [Purwoko and Sudiyatno \(2013\)](#), [Mulatsih \(2014\)](#) and [Maria \(2015\)](#) showed that NIM has a positive effect on ROA. It defines that the higher of NIM will lead to increased BPR profitability reflected on ROA, and vice versa. NIM is a ratio that can be used to measure how much net interest income received by BPR compared with the average of its earning assets. The amount of NIM will affect the level of profit generated by BPR. This is due to one of the main components of profit-making BPR is net interest. Wherein the net interest that will be generated by BPR will indirectly increase ROA.

#### 3.5 Influence of CAR towards Profit Change

CAR influence (X1) towards Profit Change (Y2) has an absolute value C.R.= 2,864 > 2,000 and wherein the probability value (P)= 0.005 < 0.05. Thus, CAR path coefficient on Profit Change is positively significant with the value of standardized estimate is 0.255. The study result is in accordance with [Aini \(2013\)](#) showed that CAR has a positive effect on Profit Change. It is to show that the higher of CAR is the better of BPR performance is reflected in the value of Profit Change. CAR is used to measure the extent of the capital adequacy level held by BPR in providing funds to overcome problems that may arise due to the existence of issue or assets risk. It is surely, BPR is more ready in anticipating all possible losses that will arise, the more optimal for BPR performance. The more optimal of BPR performance, certainly the opportunity to gain greater profits.

### 3.6 Influence of BOPO towards Profit Change

BOPO influence (X2) towards Profit Change (Y2) has an absolute value C.R.= -2.006 < -2,000 and wherein the probability value (P)= 0.044 < 0.05. Thus, the coefficient of BOPO to Profit Change is a negatively significant with the value of standardized estimate is -0.340. The study result is in accordance with [Lubis \(2013\)](#) and [Aini \(2013\)](#) showed that BOPO has a negative and significant effect on Profit Change. It defines that the higher of BOPO is the lower of Profit Change, on the contrary, if BOPO is lower, then Profit Change will increase. BOPO ratio is a comparison of the operational costs incurred by BPR to obtain its operating income. It defines that the lower of BOPO value is the more efficient of BPR performance. Conversely, if BOPO value is higher, then the more in-efficient of BPR performance. If BPR is more efficient in using existing resources to earn their income. It defines fewer costs incurred by BPR that will result in the higher profits to be gained.

### 3.7 Influence of LDR towards Profit Change

LDR influence (X3) towards Profit Change (Y2) has an absolute value C.R.= 2.696 > 2,000 and wherein the probability value (P)= 0.007 < 0.05. Thus, the coefficient of LDR to Profit Change is a positive sign with the value of standardized estimate is 0.312. The study result is in accordance with [Andayani et al \(2015\)](#), [Aini \(2013\)](#) and [Savitri \(2011\)](#) indicating that LDR has a positive effect on Profit Change. It defines that the higher of LDR will lead to increasing BPR profitability as reflected in Profit Change, and vice versa. The higher of LDR level of BPR indicated that the amount of funds disbursed by BPR in the form of credits whose source of funding comes from third-party funds is more optimal. Finally, if BPR can keep LDR level within safe limits in accordance with Bank Indonesia regulation. Then, BPR can perform optimally. It is performed more leverage, surely BPR opportunity to earn profit becomes greater.

### 3.8 Influence of NIM towards Profit Change

NIM influence (X4) towards Profit Change (Y2) has an absolute value C.R.= 2,274 > 2,000 and probability value (P)= 0,023 < 0,05. Thus, the coefficient of NIM to Profit Change is a positive sign with the value of standardized estimate is 0,510. The study result is in accordance with research conducted by [Savitri \(2011\)](#) and [Aini \(2013\)](#) showed that NIM has a positive and significant influence on Profit Change. It defines that the higher of NIM will lead to increasing BPR profitability reflected on Profit Change, and vice versa. NIM is a ratio that can be used to measure how much net interest income received by BPR compared with the average of its earning assets. The amount of NIM will affect the profit generated by BPR. This is due to one of the main components of profit-making BPR is net interest. Therefore, increasing of NIM, it will be higher profit/profit generated.

### 3.9 Influence of ROA towards Profit Change

ROA influence (Y1) towards Profit Change (Y2) has an absolute value C.R.= 2,969 > 2,000 and wherein the probability value (P)= 0.004 < 0.05. Thus, ROA coefficient on Profit Change is positively significant with the value of standardized estimate is 0.365. The study result is in accordance with [Syamni dan Martunis \(2013\)](#) and [Abidin and Asyik \(2013\)](#) showed that ROA has a positive and significant impact on Profit Change. It defines that the higher ROA is the higher of Profit Change and vice versa. ROA serves to measure BPR effectiveness in generating profit by utilizing all assets owned. The greater of ROA will show BPR better performance in utilizing the source of all its assets to generate income or earn profits.

#### 4. Conclusion

- a) The results of path analysis show that CAR has a positive influence on ROA. It defines that the higher CAR is the higher of ROA. The result is accepted for the first hypothesis.
- b) Path analysis results that BOPO has a negative effect on ROA. It defines that the higher of BOPO is the lower of ROA. The result is accepted for the second hypothesis.
- c) Path analysis shows that LDR has a positive effect on ROA. It defines that the higher of LDR is the higher of ROA. The result is accepted for the third hypothesis.
- d) The result of path analysis shows that NIM has a positive influence on ROA. It defines that the higher of NIM is the higher of ROA. The result is accepted for the fourth hypothesis.
- e) The result of path analysis shows that CAR has a positive effect on Profit Change. It defines that the higher of CAR is the higher of Profit Change. The result is accepted for the fifth hypothesis.
- f) The result of path analysis shows that BOPO has a negative effect on Profit Change. It defines that the higher of BOPO is the lower of Profit Change. The result is accepted for the sixth hypothesis.
- g) The result of path analysis shows that LDR has a positive effect on Profit Change. It defines that the higher of LDR is the higher of Profit Change. The result is accepted for the seventh hypothesis.
- h) The result of path analysis shows that NIM has a positive effect on Profit Change. It defines that the higher of NIM is the higher of Profit Change. The result is accepted for the eighth hypothesis.
- i) Path analysis results show that ROA has a positive effect on Profit Change. It defines that the higher of ROA is the higher of Profit Change. The result is accepted for the ninth hypothesis.

#### Acknowledgments

Our deep and sincere gratitude were presented to God for having granted us the ability and the opportunity to complete this paper. We would also like to thank our former lecturers and our friends for their support, their patience, their contribution, and their valuable input, therefore, this article could be completed. We would also thank I Wayan Suryasa ([Scopus ID: 57200211897](#)) as an advisor as well as editor in chief of IJCU, IJMRA, SKIREC, Euro Asia as well as ScienceScholar who has reviewed and approved this study to be published.

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