EFFECT OF FINANCIAL PERFORMANCE ON THE RETURN ON SHARES OF BANKS ON THE INDONESIAN STOCK EXCHANGE IN 2012-2016

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Abstract—This research aims at identifying as to whether or not financial ratios have any effect on the return on shares. The samples used in this research are companies engaging in the financial sector which had gone public and had been listed on the Indonesian Stock Exchange (IDX) for three years, namely in the period of 2012-2016. The data analysis techniques used are multiple linear regression and hypothetical test using t-statistic for testing the partial regression coefficient as well as F-statistic for testing the significance of effects simultaneously or concurrently with a significance level of 5%. The results of this research indicate that the financial ratios, which consist of CAR, NPL, ROA, ROE, BOPO, NIM and LDR, have simultaneous effect on the return on shares, and the CAR, NPL, NIM and LDR ratios partially affect the return on shares, while the most dominant ratio affecting the return on shares is CAR.

Keywords—Financial Performances, Financial Ratios, and Return on Shares

I. INTRODUCTION

In a country's economic system, the existence of banks is imperative as banks play a significant role. The improved performance of banks in a country will lead to the country's improved economy. At present, the business competition is increasingly tight, with various companies competing with each other to win their market. This is also the case with banks; as business entities engaging in the financial sector, each bank must also compete with other banks to gain the existing market share.

One of the methods currently chosen by banking companies in fulfilling the demand for funds in order to be able to survive and compete is by selling shares to the public or investors through the capital market. Investors are generally interested to make investments which can provide relatively higher gain (return) and with smaller risks, since investors basically intend to maximize their wealth. As such, investors will not simply purchase shares without first assessing the issuer (company). Therefore, investors must first consider the company's performance in making investment decisions.

Before investing in a company which is listed on the IDX, an investor would conduct analysis on the company's performance, among other things by using financial ratios, hence the company's financial performance is related to the return on shares (Husnan, 2005). To measure a company's performance, investors normally observe the financial performance reflected from various ratios, consisting of liquidity ratio, solvability ratio, rentability ratio, bank business risk ratio and business efficiency ratio.

Based on the description above, the formulation of the problem and the objectives in this research is whether or not the financial performance, which consists of the CAR, NPL, ROA, ROE, BOPO, NIM, and LDR ratios, simultaneously and partially affects the return on shares of banks on the Indonesian Stock Exchange and which ratio has the most dominant effect.

II. LITERATURE STUDY

Return constitutes the gain received from an investment. According to Jogiyanto (2009), return can be in the form of realized return and expected return. Realized return constitutes return which has occurred, while expected return is the return expected to be gained by the investor in the future.

The function of CAR is to measure the extent of the bank's property or the property owned by its shareholders. In the framework of deregulation package dated 29 February, 1991, (*Pakfeb'91*), Bank Indonesia requires each commercial bank to provide a minimum capital of 8% of the total Risk-Weighted Assets (*Aktiva Tertimbang Menurut Risiko*/ATMR).

NPL constitutes one of the indicators of soundness of quality of the bank's assets. The assets quality assessment constitutes assessment of the condition of the Bank's assets and the sufficiency of credit risk management. According to Regulation of Bank

Indonesia Number 6/10/PBI/2004 dated 12 April, 2004, regarding System of Assessment of Soundness Level of Commercial Banks, higher NPL score (above 5%) means that the bank is not in sound condition.

ROA constitutes the ratio which indicates the bank's ability to generate profit by using its assets. Higher level of this ratio indicates the bank's improved performance.

ROE constitutes the ratio which indicates the bank's ability to generate profit by using its equity. Higher level of this ratio indicates the bank's improved performance.

BOPO ratio is the ratio of operating expense to operating income. The operating expense ratio is used for measuring the bank's efficiency and ability in carrying out its operations.

NIM (Net Interest Margin) ratio is the ratio of net interest income to average productive assets. This ratio indicates the bank's ability to generate net interest income by the placement of productive assets. Higher level of this ratio indicates the bank's improved performance in generating interest income.

LDR ratio is used for analyzing the bank's ability in fulfilling its obligations. A bank is deemed liquid if it is able to fulfill its debt obligations, able to repay all of the customers' deposits, as well as able to fulfill the demand for credit applied without any postponement.

A. Previous Research

There are several previous researches on banks' financial performance and its effect on return on shares. Ulfanto (2009) found that only CAR ratio has an effect on the return on shares, while the ROA, BDR, BOPO and LDR ratios have no effect. Ayu (2007) concluded that the financial ratios, which consist of the CAR, LDR, ROA, ROE, and BOPO, have simultaneous effect on banking companies' return, and the CAR, LDR and ROA ratios partially affect the banking companies' return, while the most dominant ratio on a company's return is ROA. The result of research by Ardiani (2007) identified that there are significant effects among CAR, RORA, and LDR partially, whereas the results of partial test for ROA, BOPO, and NPM have no significant effect on the share price.

B. Hypothesis of the Research

In this research, the author proposes the following hypotheses:

H1: The financial performance of banks on the Indonesian Stock Exchange, which consists of the CAR, NPL, ROA, ROE, BOPO, NIM, and LDR ratios, has simultaneous effect on the return on shares

H2: The financial performance of banks on the Indonesian Stock Exchange, which consists of the CAR, NPL, ROA, ROE, BOPO, NIM, and LDR ratios, has partial effect on the return on shares

III. RESEARCH METHOD

A. Population and Sample

The population in this research consists of companies in the financial sector, namely banking companies which are listed on the IDX (Indonesian Stock Exchange) in 2012-2016, whereas the samples used are banking companies which meet the criteria. The criteria are banking companies which, during the research period, prepared annual reports and are widely published, and banking companies with active shares. The criteria above resulted in 29 banking companies on the Indonesian Stock Exchange which serve as samples in this research.

B. Data Type and Source

The data used in this research are secondary data. The data are in the form of financial ratios as indicator of financial performance and the value of return on shares. The data in this research are obtained from the banks' financial reports, Annual Report of banking companies, and JSX monthly statistics.

C. Research Variables

1) Dependent Variable (Y Variable)

The dependent variable used is Return on Shares

2) Independent Variable (X Variable)

- CAR (Capital Adequacy Ratio)
- NPL (Non Performance Loan)
- ROA (Return on Asset)
- BOPO (*Beban Operasi dan Pendapatan Operasi*/Operating Expense and Operating Income)
- NIM (Net Interest Margin)
- LDR (Loan to Deposit Ratio)

3) Data Analysis Method

The statistical method used in this research is multiple linear regression model with the regression equation as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + e \quad (1)$$

Note:

Y = Return on shares
A = Constant
$\beta_1 ..... \beta_7$ = Coefficient for each independent variable
X_1 = CAR
X_2 = NPL
X_3 = ROA
X_4 = ROE
X_5 = BOPO
X_6 = NIM
X_7 = LDR
e = error term

IV.RESULT AND DISCUSSION

Based on the results of descriptive analysis, the average score of CAR is 0.168 or 16.8% with a standard deviation of 0.062. The average score of NPL is 0.020 or 2% with a standard deviation of 0,029. The average score of ROA is 0.017 or 1.7% with a standard deviation of 0.024. The average score of ROE is 0.229 or 22.9% with a standard deviation of 1.350. The average score of BOPO is 0.829 with a standard deviation of 0.186. The average score of NIM is 0.058 with a standard deviation of 0.024. The average score of LDR is 0.761 or 76.1% with a standard deviation of 0.147. The return on shares of banks is measured by the changes in share price, which, on average, were able to generate a return of 0.397 or 39.7%.

This research also used a classical assumption tests, Autocorrelation, Heteroscedasticity, and Multicollinearity, in order to ensure that the regression equation is not biased. The results indicate that the data for this research are normal, no autocorrelation, heteroscedasticity and multicollinearity occurred; therefore, regression analysis can be carried out on the existing data.

Based on the simultaneous test, a calculated F of 6.501 is obtained with a probability of 0.000<0.05. This indicates that the Sig F is much smaller than the significance score of 0.05, therefore, the financial performance, which consists of the CAR, NPL, ROA, ROE, BOPO, NIM, and LDR ratios, has simultaneous effect on the return on shares of banks on the Indonesian Stock Exchange. Based on the partial test, it is indicated that only the CAR, NPL, NIM and LDR variables affect the return on shares, while the ROA, ROE and BOPO variables have no effect on the return on shares.

TABLE 1. RESULTS OF REGRESSION TEST

Variable	Regression Coefficient (B)	t	Sig.
(Constant)	-1.532	-2.628	0.010
CAR	3.233	3.124*	0.002
NPL	-6.400	-2.685*	0.009
ROA	0.071	0.017	0.986
ROE	0.014	0.300	0.765
BOPO	0.479	0.935	0.353
NIM	5.415	2.000*	0.049
LDR	1.054	2.410*	0.018
Dependent Var: Return on Shares			

(Source: Regression results data, 2012)

Note: *: significant at the level of 5%

Based on Table 1, the following regression equation can be composed:

$$Y = -1.532 + 3.233X_1 - 6.400X_2 + 0.071X_3 + 0.014X_4 + 0.479X_5 + 5.415X_6 + 1.054X_7 + e \quad (2)$$

The test results discovered that CAR has positive effect on the return on shares. A higher CAR achieved by a bank indicates the bank's improved performance, thus generating positive response for the market. The improved market perception on the banking performance will increase the demand for shares, thus being able to drive increase in the price of shares and, ultimately, increase the return on shares.

The test results discovered that NPL has negative effect on the return on shares. This means that a higher NPL leads to a lower return on shares. In providing loans, banks must perform analysis on the debtors' ability to repay their obligations. After loans are provided, the banks must monitor the use of the loans as well as the debtors' ability and compliance in fulfilling their obligations. Banks should perform review, assessment and binding on the collaterals in order to minimize the credit risk.

The test results on the ROA variable have no significant effect on the return on shares. ROA reflects the management's ability in managing assets and profits. The assets are divided into productive assets (loans, participation) and non-productive assets (fixed assets and other assets). If the productive assets are more dominant, the return on shares will be high and if the non-productive assets are more dominant, the market will respond negatively.

The test results on the ROE variable have no significant effect on the return on shares. The likely reason for this is that a bank's primary income is not only originating from the bank's operating income gained from management of the company's equity. This condition has led the investors to not only view the bank's income merely from the management of its equity; therefore, ROE is not yet proven to have a significant effect on the return on shares.

The test results on the BOPO variable indicated no significant effect on the return on shares. The reason for

BOPO's insignificant effect is that it constitutes a management aspect related to the management system, procedures and policies in managing the company's operating expenses.

The test results proved that NIM has positive effect on the return on shares. This indicates that a higher NIM means a higher return on shares in the banking companies on the IDX. NIM is used as proxy of the Market Ratio and constitutes the ratio of net interest income to its average productive assets which reflects the market risk arising from movement in the market variables, which can adversely affect the bank.

The test results on the loan to deposit ratio variable discovered a significant effect on the return on shares. This indicates that the bank's ability is in loans from third party funds. Given a high level of loans, the interest income from such loans will also increase, which leads to high profit gained by the bank. Therefore, it can be stated that the bank's financial performance improves followed by an increasing return on shares.

V. CONCLUSIONS

Based on the results of analysis and discussion described above, the conclusions of this research are that the financial ratios, which consist of CAR, NPL, ROA, ROE, BOPO, NIM, and LDR, simultaneously or concurrently affect the return on shares, while only the CAR, NPL, NIM and LDR ratios have a partial effect on the return on shares, and the rest have no effect. In addition, the most dominant ratio which affects the return on shares is the CAR ratio.

VI.RESEARCH LIMITATION

This research is far from perfect; there are several things which constitute the limitation of this research, as follows:

1. Further study is required on the other samples, for example, by comparing with the banking companies which have not gone public on the IDX.
2. Only seven financial ratios were used in this research, namely CAR, NPL, ROA, ROE, BOPO, NIM and LDR.
3. A study is still needed on other independent variables outside the research model which may affect the return on shares.

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