

Determinant: Efficiency and Financial Performance Of Islamic Commercial Banking in Indonesia

Erwin Yudiansyah¹, Ruhadi^{2*}

¹*Postgraduate Department, Applied Master of Islamic Finance and Banking, Politeknik Negeri Bandung, Bandung, Indonesia*

²*Postgraduate Department, Applied Master of Islamic Finance and Banking, Politeknik Negeri Bandung, Bandung, Indonesia*

*Corresponding author. Email: ruhadi@polban.ac.id

ABSTRACT

The purpose of this study was to determine the effect of internal factors on efficiency with BOPO and their impact on the financial performance of Islamic commercial banks. The variables tested in this study are Total Assets, Capital Adequacy Ratio, Financing to Deposit Ratio, Non-Performing Financing, Operational Costs, Net Profit Margin, Efficiency as proxied by BOPO, financial performance is proxied by Return on Assets. The type of research used is explanatory research. The research sample is Sharia Commercial Banks that are listed in the OJK for the period 2014-2018. The analysis technique used is PLS SEM with the analysis tool WarPLS 6.0. The findings of this study indicate that Total Assets, Non Performing Finance, Operational Costs, Net Profit Margin have a positive effect on BOPO, Net Profit Margin has a positive effect on Return On Assets, BOPO has a negative effect on Return On Assets.

Keywords: Internal Factor, BOPO, Return on Asset, Islamic Commercial Banking

1. INTRODUCTION

There is an interesting phenomenon in the development of Islamic banking in Indonesia, in 2016 Indonesia was ranked 6th and in 2017 Indonesia was down to 7th rank, in 2018 it rose 1 place to 6th and 2019 Indonesia was ranked 1st [1]. In the development of sharia banking from year to year fluctuating, this is a concern in assessing whether or not a bank is good or not, which is reflected in the performance of Islamic banks. This performance is exposed from the financial performance of these Islamic banks. Measurement of the financial performance of Islamic banks is represented by the profitability ratio. The profitability ratio is represented by the Return on Assets (ROA) ratio. Return on assets shows the ability of bank management to generate income from managing assets owned [2], using ROA as a measure of financial performance in his research in Pakistan [3]. The ROA growth of Islamic commercial banks can be seen from the following figure:

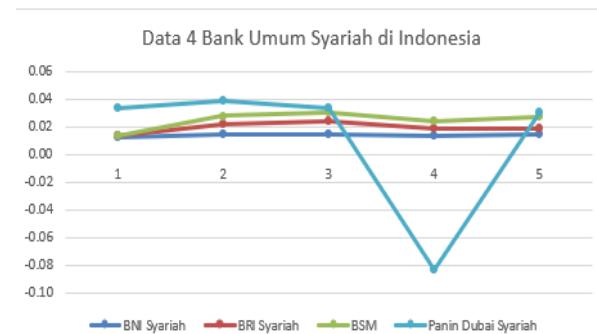


Figure 1 ROA Growth for Islamic Commercial Banks

As seen from the growth in ROA of Islamic commercial banks, there are factors that cause fluctuation of ROA, including financial performance and efficiency can be determined by internal factors [4]. According to Haron et al. [5] revealed that several factors affect profitability in case studies in Islamic banks in the world, including internal factors. Among them are Total Assets, Capital Adequacy Ratio, Financing to Deposit Ratio, Non Performing Financing, Operating Costs, Net Profit Margin, BOPO. Thus, the objective of this study is to determine the effect of internal factors on the efficiency of Islamic commercial banks. Knowing the influence of internal factors on the financial performance of Islamic commercial banks. Knowing the effect of efficiency on the financial performance of Islamic commercial banks.

1.1 Related Work

1.1.1 Total Assets

According to Adnan et al. [6] defines total assets as a picture that shows the scale of a company. Total assets are used as an indicator of the size of a bank because it is more long-term. According to Ramli [7] and Heralina [8] the results show that the size of the bank which is proxied by the total assets owned by the bank has a positive and significant effect on efficiency.

According to Dietrichet and Wanzenried [9] the results show that there is a positive relationship between total assets and ROA.

1.1.2 Capital Adequacy Ratio

Capital Adequacy Ratio is a capital ratio that shows a bank's ability to provide funds for business development purposes and accommodate the risk of loss of funds caused by bank operations. CAR shows the extent to which the decline in bank assets can still be covered by the available equity of the bank [10].

Capital Adequacy Ratio as one of the factors that can affect the level of bank efficiency. The higher the CAR the better the performance of a bank. Optimal lending with the assumption that bad credit does not occur will increase profits which in turn will increase the efficiency of the bank [11].

1.1.3 Financing to Deposit Ratio

Financing to Deposits Ratio is the ratio of financing to third party funds which describes the extent to which deposits are used to provide financing which is commonly used to measure the level of liquidity of Islamic banking by comparing the amount of credit extended to the amount of deposits held. The higher this ratio, the lower the Bank's liquidity level, because the amount of funds used to finance credit is getting smaller, and vice versa [12].

The Financing to Deposits Ratio is a ratio used to measure the performance of the banking intermediation function in channeling credit. It also found a significant positive relationship between FDR and the level of banking efficiency, however, Berger et al. [13] stated that FDR had a significant negative effect on the level of efficiency. banking. According to [14] FDR can affect the level of profitability of Islamic banks.

1.1.4 Non Performing Financing

Non performing financing according to [15], NPF can be broadly defined as a credit payment that is not smooth and does not meet the minimum obligations that are determined to a credit that is difficult to pay off or even uncollectible.

Operational costs are intended to measure a bank's ability to utilize the funds it has to finance its operational activities. Operational costs according to [16] are costs that are not directly related to the company's products but are related to the company's daily operational activities. According to [17] that BO has a relationship to efficiency and affects ROA.

1.1.5 Net Profit Margin

According to Kasmir [18], Net Profit Margin is a ratio used to measure a bank's ability to generate net income from its main operating activities. Net Profit Margin (NPM) is the ratio between net income and sales. The greater the NPM, the more productive the company's performance will be, which will increase investors' confidence to invest in the company. According to [9] that NPM has a relationship with ROA and the results have an effect on ROA.

1.1.6 Efficiency (BOPO)

According to [20], [21] shows that the total assets owned by the bank have a positive and significant effect. According to [21] provides two precise explanations for why bank size has a positive effect on the level of bank efficiency. In this study, efficiency will be represented by operating expenses to operating income (BOPO). According to [24] that BOPO has an effect on ROA.

1.2 Our Contribution

This research methodologically contributes to broadening the internal factors that affect efficiency and their impact on the financial performance of Islamic commercial banks in Indonesia.

1.3 Paper Structure

This research is organized as follows. Part 1 introduces an introduction to the research which includes the variables used and the contribution of the study, Section 2 presents a framework based on the research hypothesis, Part 3 research methods, section 4 discloses the results and Section 5 concludes and provides directions for further research.

2. BACKGROUND

2.1 Total Asset to BOPO and ROA

Sari and Saraswati's research [25] shows that total assets have no effect on BOPO. These findings are not in line with the findings of related studies conducted by [26], [27]. Dietrichet and Wanzenried's research [28] states that there is a positive relationship between total assets and ROA. These findings are in line with findings [29], [30], [31].

H1: Total assets have a negative effect on BOPO

H2: Total assets have a positive effect on ROA

2.2 CAR to BOPO and ROA

In the research of Ismail et al. [32], that there is a significant positive correlation between CAR and efficiency, inversely with the research conducted [10], that CAR as a proxy has no effect on efficiency, the same thing as research [33] that CAR has no effect on efficiency. CAR reflects the company's own capital to generate profits. The greater the CAR, the greater the chance for the bank to generate profits because with large capital, bank management is very flexible in placing its funds into profitable investment activities. The low CAR is due to an increase in risky asset expansion which is not matched by additional capital, which reduces the opportunity for banks to invest and can reduce public confidence in banks, thus affecting profitability [34]. This theory is supported by research [35] and [36] which state that CAR has a significant positive effect on ROA. If CAR rises, profitability will also increase.

H3: CAR has a negative effect on BOPO

H4: CAR has a positive and significant effect on ROA

2.3 FDR to BOPO and ROA

In a study [37], it was shown that FDR had an effect on efficiency. The same results of research [38] indicate that FDR has an effect on efficiency. In studies [39] and [40] who found that the FDR ratio has no effect on the level of profitability in Islamic commercial banks. It is not in line with the research conducted by [41] that FDR has an effect on ROA. H5: FDR has a positive effect on OEOI
H6: FDR has no effect on ROA.

2.4 NPF to BOPO and ROA

In a research study [42] which states that NPF affects BOPO. It is not in line with research conducted by [43] that NPF is not significant for efficiency.

In a study [44] which states that NPF affects the profitability of Islamic commercial banks. In line with research conducted [45] that affects the profitability of Islamic commercial banks.

According to [46], NPF can be broadly defined as a credit payment that is not smooth and fulfills the minimum obligation set up to a credit that is difficult to repay or even cannot be collected. According to [47] NPF is one of the performance appraisal instruments of a Sharia bank which is an interpretation of the assessment of productive assets, especially in assessing non-performing financing. So the size of the NPF owned by a Sharia bank can affect profitability.

H7: NPF has a positive effect on BOPO

H8: NPF has a significant effect on ROA

2.5 Operating Cost to BOPO and ROA

The operational cost referred to in this study is a ratio to measure the level of bank efficiency by comparing the ratio of total costs to total assets. Operational cost ratios are used to measure the level of efficiency and ability of banks in conducting operations [48]. In a study conducted by [49], BO had a negative effect on efficiency and had a positive effect on ROA.

H9: BO has a negative effect on BOPO

H10: BO has a positive effect on ROA

2.6 NPM to BOPO and ROA

The indicators used in calculating NPM are net income and total sales, these two indicators are variables in the income statement [50]. In a study [51] tested NPM on ROA and the results had an effect on ROA. Several other studies related to ROA as a proxy for bank profitability also show different results [52]. Based on the research researched by [53], NPF shows that there is a positive effect on ROA as well as [54]. The results of these studies contradict studies conducted by [55], [56], [57] which showed a significant negative effect of NPM on ROA. the hypothesis can be formulated as follows:

H11: NPM has a positive effect on BOPO

H12: NPM has a positive effect on ROA

2.7 BOPO to ROA

With regard to the intermediation function, the efficiency ratio in this study, namely BOPO, aims to measure the ability of bank management to control operational costs. The smaller the BOPO ratio, the more efficient the bank's operational costs are, the possibility that a bank is in a small problem. In accordance with the results of research conducted by [58] showing the ratio of OEOI has a

negative effect on the profitability of Islamic banks, this shows that the greater the ratio of total operating costs to income operational demand for profit. With the finding [59] that BOPO has a significant effect on ROA.
H13: BOPO has a negative effect on ROA

3. METHOD

The population in this study is Islamic commercial banks with samples taken by purposive sampling for the 2014-2018 period. The sample used is 12 Islamic commercial banks registered with the Financial Services Authority (OJK). The data analysis technique used partial analysis of the least Square-Structural Equation Model (PLS SEM).

Based on the results in table 1, the APC, ARS, AARS values are 0.281 respectively; 0.651; and 0.609. The value of the three indexes is declared fit because the conditions for the acceptance of this index model must be equal to or less than 0.05 of the value of significance. Then, the AVIF and AFVIF values in the model used obtained results of

4. RESULTS

4.1 Model Fit

Table 1 Analysis of Model Fit

Name	Score	Terms	Sig	Conclusion
APC	0,281	< 0,05	0,005	Fit
ARS	0,651	< 0,05	< 0,001	Fit
AARS	0,609	< 0,05	< 0,001	Fit
AVIF	3,007	< 5	-	Fit
AFVIF	3,381	< 5	-	Fit
GoF	0,807	> 0,1	-	Fit
SPR	0,615	> 0,7	-	Not Fit
RSCR	0,852	> 0,9	-	Fit
SSSR	0,769	> 0,7	-	Fit
NLBCDR	0,50	> 0,7	-	Not Fit

Source of WarpPLS 6.0 Results (data processed by researchers)

3.007 and 3.381, from the results of the two indexes it was declared fit because it was less than 5. The GoF value in the model used obtained results of 0.807 included in the large category. From the results of the index, it is stated that the explanatory power of the research model is likely to be accepted.

4.2 Analysis Modelling and Hypothesis Testing

Table 2 Hypothesis Testing Results

Variable Independent	Variable Dependent	Path Coef	P-Value	Result
Total Asset (X1)	BOPO (Y1)	-0,547	<0.001	significant
Total Asset (X1)	ROA (Y2)	0,011	0.466	not significant
CAR (X2)	BOPO (Y1)	0,044	0.364	not significant
CAR (X2)	ROA (Y2)	0,027	0.415	not significant
FDR (X3)	BOPO (Y1)	-0,181	0.070	not significant
FDR (X3)	ROA (Y2)	-0,127	0.155	not significant
NPF (X4)	BOPO (Y1)	0,216	0.038	significant
NPF (X4)	ROA (Y2)	-0,131	0.147	not significant
BO (X5)	BOPO (Y1)	-0,798	<0.001	significant
BO (X5)	ROA (Y2)	-0,138	0.134	not significant
NPM (X6)	BOPO (Y1)	-0,527	<0.001	significant
NPM (X6)	ROA (Y2)	0,678	<0.001	significant
BOPO (Y1)	ROA (Y2)	-0,224	0.033	significant

Based on the processed data of WarpPLS 6.0. obtained the following data:

1. Hypothesis 1 states that total assets have a negative effect on BOPO. The test results show the path coefficient of -0.547 ($p = <0.001$). This means that H1 is accepted or Total Assets (X1) has an effect on BOPO (Y1). The path coefficient value -0.547 indicates that Total Assets has a significant negative effect on OEOI.
2. Hypothesis 2 states that total assets have a positive effect on ROA. The test results show the path coefficient of 0.011 ($p = 0.466$). This means that H2 is rejected or Total Assets (X1) has no effect on ROA (Y2). The path coefficient value of 0.011 shows that total assets do not have a significant effect on ROA.
3. Hypothesis 3 states that CAR has a negative effect on BOPO. The test results show the path coefficient of 0.044 ($p = 0.364$). This means that H3 is rejected or CAR (X2) has no effect on BOPO (Y1). The path coefficient value of 0.044 indicates that CAR has no effect on BOPO.
4. Hypothesis 4 states that CAR has a positive effect on ROA. The test results show the path coefficient of 0.027 ($p = 0.415$). This means that H5 is rejected or CAR (X2) has no effect on ROA (Y2). The path coefficient value of 0.027 indicates that CAR has no effect on ROA.
5. Hypothesis 5 states that FDR has a positive effect on OEOI. The test results show the path coefficient of -0.181 ($p = 0.070$). This means that H6 is rejected or FDR has no effect on BOPO. The path coefficient value -0.181 indicates that FDR has no effect on BOPO.
6. Hypothesis 6 states that FDR has no effect on ROA. The test results show the path coefficient of -0.127 ($p = 0.155$). This means that H8 is rejected or FDR has no effect on ROA. The path coefficient value -0.127 shows that FDR has no negative effect on ROA.
7. Hypothesis 7 states that NPF has a positive effect on OEOI. The test results show the path coefficient of 0.126 ($p = 0.038$). This means that H10 is accepted or NPF has an effect on BOPO. The path coefficient value 0.126 shows that NPF has a positive effect on BOPO.
8. Hypothesis 8 states that NPF has a significant effect on ROA. The test results show the path coefficient of -0.131 ($p = 0.147$). This means that H11 is rejected or NPF has no effect on ROA. The path coefficient value -0.131 shows that NPF has no effect on ROA.
9. Hypothesis 9 states that BO has a negative effect on BOPO. The test results show the path coefficient of -0.798 ($p = <0.001$). This means that H13 is accepted or BO has an effect on BOPO. The path coefficient value -0.798 indicates that BO has a negative effect on BOPO.
10. Hypothesis 10 states that BO has a positive effect on ROA. The test results show the path coefficient of -0.138 ($p = <0.134$). This means that H14 is rejected or BO has no effect on ROA. The path coefficient value -0.138 shows that BO has no negative effect on ROA.
11. Hypothesis 11 states that NPM has a positive effect on BOPO. The test results show the path coefficient of -0.527 ($p = <0.001$). This means that H16 is accepted or NPM has an effect on BOPO. The path coefficient value -0.527 shows that NPM has a positive effect on BOPO.
12. Hypothesis 12 states that NPM has a positive effect on ROA. The test results show the path coefficient of 0.678 ($p = <0.001$). This means H17 is accepted or NPM effect on ROA. The path coefficient value of 0.678 indicates that NPM has a positive effect on ROA.
13. Hypothesis 13 states that BOPO has a negative effect on ROA. The test results show the path coefficient of -0.224 ($p = 0.033$). This means that H19 is accepted or BOPO has an effect on ROA. The path coefficient value -0.224 indicates that BOPO has a negative effect on ROA.

5. DISCUSSION

5.1 Total Asset to BOPO and ROA

Based on the results of research using the WarpPLS 6.0 program, it is known that total assets have a regression coefficient value of -0.547 with a significance of <0.001 . This value is said to be significant at the 0.05 significance level because it is smaller than 0.05, so it can be concluded that the hypothesis that total assets has a negative effect on OEOI can be accepted. The results of this study are not in line with research (Sari & Saraswati, 2017) which states that total assets have no effect on efficiency. This is not in line with research by (Firdaus & Hosen, 2013), and Said (2012) which states that total assets have a positive effect on BOPO. This shows that the factors that cause total assets have a negative effect on BOPO are the presence of high financing and an increase in bad credit, which causes the bank to become inefficient.

Based on the results of research using the WarpPLS 6.0 program, it is known that total assets have a regression coefficient value of 0.011 with a significance of 0.466. This value is said to be insignificant at the 0.05 significance level because it is greater than 0.05, so it can be concluded that the hypothesis that total assets has a positive effect on ROA cannot be accepted. The results of this study are not in line with research (Dietrichet & Wanzenried, 2012), which states that there is a positive relationship between total assets and ROA. Likewise (Adelopo, Lydking, & Tauringana, 2018; Tan, Floros, & Anchor, 2017) revealed that total assets are a significant determinant of profitability.

This shows that in this study the size of the total assets of a Sharia bank does not affect ROA. Even so, Islamic banks must continue to increase their total assets, the goal is that Islamic banking has a large bank size, and has high profitability as well.

5.2 CAR to BOPO and ROA

Based on the results of research using the WarpPLs 6.0 program, it is known that CAR has a regression coefficient value of 0.044 with a significance of 0.364. This value is said to be insignificant at the 0.05 significance level because it is greater than 0.05, so it can be concluded that the hypothesis which states that CAR has a negative effect on BOPO can be accepted. The results of this study are not in line with research (Ismail et al., 2013) which states that there is a significant positive relationship to efficiency. inversely with research conducted (Sari & Saraswati 2017), that CAR as a proxy has no effect on efficiency, the same thing as research (Sunardi, 2017) that CAR does not affect efficiency. This shows that the size of the CAR in an Islamic commercial bank does not affect the BOPO. Therefore, Islamic commercial banks need to prioritize trust in the public, so that as long as the public believes in credibility, the health of the bank is at least 8% according to BI regulations. Based on the results of research using the WarPLs 6.0 program, it is known that CAR has a regression coefficient value of 0.027 with a significance of 0.415. This value is said to be insignificant at the 0.05 significance level because it is greater than 0.05, so it can be concluded that the hypothesis which states that CAR has a positive effect on ROA cannot be accepted. The results of this study are not in line with research (Werdaningsyah, 2002), (Yunita, 2014) and (Azwir, 2006) which state that CAR has a significant positive effect on ROA.

This shows that the size of the CAR does not affect ROA. Banks need to continue to maintain the capital adequacy ratio so that public confidence can increase. The increase in public trust, the greater the funds can be raised by the bank, which will increase the efficiency and profitability of the bank.

5.3 FDR to BOPO and ROA

Based on the results of research using the WarPLs 6.0 program, it is known that it has a regression coefficient value of -0.181 with a significance of 0.070. This value is said to be insignificant at the 0.05 significance level because it is greater than 0.05, so it can be concluded that the hypothesis which states that FDR has a positive effect on BOPO cannot be accepted. The results of this study are not in line with research (Subandi, 2013) which states that FDR affect BOPO. The same research results (Wahab, 2015) show that FDR has an effect on efficiency.

This shows that the assessment of the liquidity aspect reflects the bank's ability to manage adequate levels of liquidity to meet obligations on time and to meet other needs. In addition, banks must also be able to ensure that their activities are managed efficiently in the sense that they can reduce high liquidity management costs and at any time they can liquidate their assets quickly with minimal losses.

Based on the results of research using the WarPLs 6.0 program, it is known that it has a regression coefficient value of -0.127 with a significance of 0.155. This value

is said to be insignificant at the 0.05 significance level because it is greater than 0.05 so it can be concluded that the hypothesis which states that FDR has no effect on ROA can be accepted.. The results of this study are in line with research (Abdullah, 2014) and (Amelia, 2015) which state that FDR has no effect on ROA. It is not in line with research conducted by (Apriani & Denis, 2016) that FDR has an effect on ROA

This shows that the fluctuation of the FDR has no effect on the size of the overall profit ROA. Because the main function of a bank is as an intermediary between parties with excess funds and parties who lack funds, the 60% Financing to Deposit Ratio (FDR) means 40% of all funds raised are not channeled to parties in need, so that it can be said that the bank is not functioning properly. Then, if the bank's Financing to Deposit Ratio (FDR) reaches more than 110%, it means that the total financing provided by the bank exceeds the funds raised. Because the funds collected from the public are small, it can also be said that the bank is not performing its function as an intermediary party properly.

5.4 NPF to BOPO and ROA

Based on the results of research using the WarPLs 6.0 program, it is known that it has a regression coefficient value of 0.126 with a significance of 0.038. This value is said to be significant at the 0.05 significance level because it is smaller than 0.05, so it can be concluded that the hypothesis which states that NPF has a positive effect on BOPO can be accepted. The results of this study are in line with Kasmir (2003) which states that NPF has an effect on BOPO. It is not in line with research conducted by (Wahab, 2015) that NPF is not significant for efficiency.

This shows that the size of the level of non-performing loans does not affect bank efficiency. In Sari and Saraswati's research (2017), it is stated that every increase in the outstanding loan that has been given, it must be covered with reserves of productive assets.

Based on the results of research using the WarPLs 6.0 program, it is known that it has a regression coefficient value of -0.131 with a significance of 0.147. This value is said to be insignificant at the 0.05 significance level because it is greater than 0.05, so it can be concluded that the hypothesis which states that NPF has a significant effect on ROA cannot be accepted. The results of this study are not in line with research (Rahman & Rochmatika, 2012) which states that NPF has an effect on ROA. Not in line with research conducted by (Apriani & Denis, 2016) that NPF affects the profitability of Islamic commercial banks. This shows that a greater NPF in a period does not directly result in a decrease in profits in a certain period. On the other hand, a high NPF will disrupt the working capital turnover of the bank. Therefore, Islamic commercial banks need to improve their performance evaluation by stopping the distribution of financing so that the NPF continues to decrease..

5.5 Operational Cost to BOPO and ROA

Based on the results of research using the WarPLs 6.0 program, it is known that it has a regression coefficient value of -0.798 with a significance of 0.001. This value is said to be significant at the 0.05 significance level because it is smaller than 0.05, so it can be concluded that the hypothesis which states that BO has a negative effect on BOPO can be accepted. The results of this study are in line with research (Subandi, 2013) which states that BO has a negative effect on BOPO.

This shows that efficient BO management will lead to the operation of a Sharia bank where its management is carried out by mobile banking transactions and efficiency of all posts and numbers that are able to reduce efficiency (Hera, 2020).

Based on the results of research using the WarPLs 6.0 program, it is known that it has a regression coefficient value of -0.138 with a significance of 0.134. This value is said to be insignificant at the 0.05 significance level because it is greater than 0.05, so it can be concluded that the hypothesis which states that BO has a positive effect on BOPO cannot be accepted. The results of this study are not in line with research (Subandi, 2013) which states that BO has a positive effect on ROA.

This shows that operational costs are one of the company's sacrifices for the activities carried out by the company to achieve company goals. Operational costs are needed for the smooth operation of the company, but maybe not all companies are in the same condition, where operating costs, as supporting costs, have an influence on the company's profitability and profitability. Therefore, it is possible that there are other costs or other variables that have a correlation with profitability, for example, production costs which directly influence the company's profitability because production costs are the main variable in calculating the cost of goods sold. The results of this study are consistent with research (Efilia, 2014) which states that it does not have a significant effect on net income.

5.6 NPM to BOPO and ROA

Based on the results of research using the WarPLs 6.0 program, it is known that it has a regression coefficient value of -0.527 with a significance of 0.001. This value is said to be significant at the 0.05 significance level because it is smaller than 0.05, so it can be concluded that the hypothesis which states that NPM has a positive effect on OEOI can be accepted. The results of this study are in line with research (Desfian, 2005) which states that BO has a positive effect on BOPO.

This shows that high NPM can lead to inefficiency in banking. Increased non-value added costs will reduce banking efficiency, so that the higher the NPM, the lower the banking efficiency. More efficient banks have lower NPM levels (Berger and Mester, 1997). Research by Muazaroh, et al. (2012) stated that NPM has a negative but insignificant coefficient. Casu et al. (2004) found negative relationship between NPM ratio and banking efficiency, banks with high risk costs tend to be inefficient.

Based on the results of research using the WarPLs 6.0 program, it is known that it has a regression coefficient value of 0.678 with a significance of 0.001. This value is said to be significant at the 0.05 significance level because it is smaller than 0.05, so it can be concluded that the hypothesis which states that NPM has a positive effect on ROA can be accepted. The results of this study are in line with Desfian's (2005) study which states that NPM has a positive effect on ROA. The results of this study contradict research conducted by (Nusantara, 2009), (Putri, 2013), and (Hardiyanti, 2012) which showed a significant negative effect of NPM on ROA. This shows that the higher the lower the NPM will give an indication that the level of risk for lending to banks is quite volatile which leads to profits.

5.7 BOPO to ROA

Based on the results of research using the WarPLs 6.0 program, it is known that it has a regression coefficient value of -0.224 with a significance of 0.033. This value is said to be significant at the 0.05 significance level because it is smaller than 0.05, so it can be concluded that the hypothesis which states that OEOI has a negative effect on ROA cannot be accepted. The results of this study are not in line with the research of Wibowo & Syaichu (2013) which states that BOPO has a significant effect on ROA. But this study is in line with the research by Ponco (2008) and Adi Setiawan (2009) which states that OEOI has a negative effect on ROA. This shows that the level of efficiency of a bank in carrying out its operations affects the level of income generated by the bank. The negative effect of BOPO on ROA is because the lower the OEOI means that the more efficient the bank is in controlling its operational costs, with cost efficiency, the greater the profits will be obtained by the bank, while the higher the BOPO reflects the lack of the bank's ability to reduce operational costs and increase its operating income will result in lack of profit generated by the bank which will ultimately reduce ROA.

6. CONCLUSION

Based on the results of the study, it can be concluded that Total Assets, Non Performing Finance, Operating Costs, Net Profit Margin have an effect on BOPO, Net Profit Margin has a positive effect on Return On Assets, BOPO has a negative effect on Return On Assets..

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