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An assessment of banking sector performance in Indonesia

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Abstract

Purpose: This study examines the effect of dividend pay-out ratio (DPR), total assets, and asset growth on banking company performance, measured by return on assets (ROA) and net profit margin (NPM).

Research methodology: Using purposive sampling, we obtained 67 banking companies as samples, comprising 33 unlisted firms and 34 listed firms on the IDX. This study observed a 9-year period from 2011 to 2019; thus, the total sample comprises 603 firm-year observations. Linear regression analysis was used to analyze the data.

Results: The results show that DPR and total assets, namely ROA and NPM, have a significant effect on the performance of banking companies. Asset growth had a significant effect on NPM. However, asset growth has no significant effect on ROA.

Limitations: We acknowledge that we solely used a banking corporation in Indonesia. Nevertheless, to demonstrate the bigger picture of the study findings in terms of banking performance, further studies should employ banking corporations in all emerging countries.

Contribution: The results enrich the theoretical knowledge about these factors in financial performance, particularly in the Indonesian banking industry.

Practical Implications: Corporation management might consider this finding when making decisions regarding dividend ratios, asset size, and asset growth. Further, management needs to pay attention to these factors when planning business strategies and making decisions to achieve higher financial performance.

Novelty: To the best of our knowledge, this is the first study to examine the relationship between DPR, total assets, and asset growth to performance that employs samples of the banking industry from listed and unlisted companies on the IDX.

Keywords: *Firm Performance, Return of Assets, Net Profit Margin, Dividend Pay-out Ratio, Total Assets*

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1. Introduction

We examined banking corporations in Indonesia as study subjects. This is because of seeing whether the performance developments carried out by banking companies are included in good performance or whether the company is being constrained by various problems that affect future performance. The strength of a nation's financial institutions plays a crucial role in its global socioeconomic development. A solid foundation for the growth of a country's economy can be achieved through robust financial institutions (Musah and Adutwumwaa, 2021). Thus, this study examines the performance of banking companies within the scope from year to year. Furthermore, this study provides an overview of matters affecting the performance of the Indonesian banking sector based on financial ratios. The performance of the Indonesian banking sector and its relationship with the real sector have experienced several ups and downs over the last few decades (Putri & Lukviarman, 2008). Despite the global and domestic economic slowdown, the banking sector in Indonesia has shown a positive growth and maintained stability, as reported by the Indonesian Financial Services Authority (FSA), indicating that the performance of Indonesian banking is still considered good (Hamzah, Gozali, Annisa, & Pratiwi, 2022). Bank policy stances generally focus on tight regulation, and this stance is accompanied by a degree of central bank disruption, which is a key feature of the highly regulated banking industry. This results in a conservative bank management model that is always limited by strict regulations that can reduce creativity and innovation (Putri & Lukviarman, 2008).

In practice, it can be said that even though agreements have been reached with strict regulations, some banks are even less careful, which can often be detrimental to depositors, investors and other stakeholders. This may be caused by a phenomenon called bad credit, which ultimately affects the country's economy. To ensure that the banking industry in Indonesia can carry out its activities properly, which are related to the principle of banking stability, Bank Indonesia, as the regulator, issued various regulations regarding the assessment of the soundness of banks, one of which was the finalization of BI Circular Letter No. 26./BPP/1993. Measuring the financial performance of a bank can be said to be very important because performance measurement can be said to be an illustration that represents an achievement made in terms of operational activities during the current year, which aims to determine the current condition of a bank's health. In the same way as the opinion of previous researchers, measuring a bank's performance can be done using an appraisal method that uses financial ratio analysis, the results of which can later be interpreted in making decisions in the future (Cakhyaneu, 2018).

The Dividend Payout Ratio (DPR) describes a certain percentage of the company's income paid in cash dividends to shareholders (Darmadji & Fakhruddin, 2012). The higher the dividends paid, the lower the amount of retained earnings, which can hamper a company's growth rate in terms of sales and share prices (Bailia, 2016). Total Assets is one of the performance ratios used to determine a company's effectiveness in business management. (Hanafi & Halim, 2009). Asset Growth measures a company's ability to maintain its financial position during economic and industrial growth (Kashmir, 2012). Some of these indicators are one of the methods used to measure banking performance, which are related to one another.

The variables used in this study, namely the Dividend Payout Ratio (DPR), Total Assets, and Asset Growth, are related to one another. Similarly, Simanjuntak (2018) explains the relationship between Total Assets and DPR, which can be calculated from the Total Assets owned by a company. This indicator is used to determine how much asset turnover occurs within a company. The greater the activity in a company, the more profit it generates during that period. Thus, any dividend obtained by an investor may increase either, which is followed by asset turnover. Likewise, with the existence of a relationship related to Asset Growth and DPR (Mufidah, 2018), asset growth in a company has a very important influence in determining dividend policy. This is due to the greater and faster asset growth within the company, resulting in the decision to use the profits earned to finance expansion rather than dividend payments. High growth makes the company use the profits to finance its own growth, so that the dividend that is distributed to external parties would be relatively small. In accordance with Dividend Residual Theory (Horne & John, 1997), a company pays dividends if no investments are estimated to be profitable. Similarly, these three variables are related to the performance of banking companies because the previous variables can be used as a ratio to measure and determine the current or future performance of a company.

Furthermore, the results of this study can be used as a reference or input for related agencies to add information related to the relationship between the Dividend Payout Ratio (DPR), Total Assets, and Asset Growth on the performance of banking companies. In this way, it motivates related agencies to improve their performance. In contrast to previous studies that used one variable to measure performance, we employ ROA and NPM, which are benchmarks for banking performance. Moreover, we add DPR as an independent variable to the proposed model.

2. Literature review

2.1 Firm Performance

One can utilize the analysis of current financial statements to assess performance and anticipate the risks and opportunities that a company may encounter in the future. Additionally, these results can be explained to clients (Olayinka 2022). Numerous studies have utilized various ratios to gauge bank performance, including return on assets (ROA) and net interest margin (Tharu & Shrestha, 2019). According to Kashmir (2012), ROA is the ratio of the results (return) to the total assets used by the company. This ratio also measures the net profit generated for each amount of money recorded in the equity. ROA measures the proportion of the net income generated by a company's assets. This ratio indicates how much net profit is generated per unit of investment in total assets (Shabrina and Hadian, 2021). Tulung and Ramdani (2016) also stated that ROA is a useful tool for measuring the efficiency and effectiveness of a company in generating profits. ROA is an indicator of profitability in measuring the health of a company, one of which is a banking company, this is evidenced by several previous studies that have been conducted previously by Katharina, Christine, Wijaya, and Clorinda (2021), Novita, Jalaludin, and Sucipto (2022), Permana, Halim, Nenti, and Zein (2022) and Syahrial, Yuliansyah, and Sudrajat (2020)

NPM is the ratio of net profit to sales. The higher the NPM, the more profitable a company, and consequently, the greater the confidence of investors to invest in the company (Bastian, 2006). NPM can also be regarded as a metric that shows a company's ability to generate profits after tax. The higher the NPM, the more productive the company's performance, thereby increasing investor confidence in investing in the company (Amalya 2018). NPM can be an indicator of a company's performance, especially that of a banking company. This is supported by the results of studies conducted by KatharinN21 oviand et al.(21), Nov et al. (2022), and Permana et al. (2022).

2.2 Dividend Payout Ratio

According to Harmono (2022), DPR is the dividend payout ratio, which plays a role in determining the amount of profit that must be retained by the company to maximize shareholder wealth. The optimal DPR is determined by whether investors prefer to receive dividends or capital gains in the future. The value of dividends paid must be balanced by the opportunity cost of retained earnings as a source of company funding. According to Ary (2013), a dividend policy cannot stand alone, and must be adjusted to other factors that will be affected directly or indirectly. Dividend policy is part of management decisions related to financial management, in addition to funding and investment decisions. Therefore, it can be concluded that DPR is part of the net profit paid to shareholders. It can be said that DPR is a ratio that measures how much dividends are distributed by a company to shareholders compared to net profit. DPR is expressed as a percentage and is calculated by dividing the total dividends distributed in one period by the company's net profit in the same period. This ratio helps investors evaluate how much money they receive in dividends each time they buy company shares. DPR also helps reveal how conservative a company is in distributing profits to shareholders. The higher the DPR, the more dividends the company distributes to shareholders; the lower the DPR, the more profit the company retains for use in future operations.

2.3 Total Asset

Total assets are the sum of all assets or wealth owned by a company or an individual at a certain time. These assets can be cash, property, investment, equipment, receivables, or merchandise. It reflects the overall size of the company or individual as well as its ability to generate income and pay financial obligations (Simanjuntak, 2018). Total assets can be used as an indicator of the financial health of a company or individual, and can be compared with total liabilities to calculate the level of debt and the ability to repay the debt. Total assets are also one of the elements listed in financial statements, especially on the balance sheet, which provides an overview of the financial condition of a company at the end of a certain period.

2.4 Asset Growth

Asset growth is the growth or increase in a company's total assets over a certain period of time. Assets are properties or resources owned by a company and used in business operations. The greater the value of assets, the greater the potential income obtained from operational activities. An increase in asset value followed by an increase in income strengthens the company's image in the eyes of outsiders, including creditors (Tandiono et al., 2019). The growth of this asset can be calculated by measuring the change in the total value of the assets from period to period. Asset growth can be an important indicator of performance and ability to generate profits and achieve long-term goals. If asset growth continues to increase from year to year, the company can expand its operations and earn greater profits. However, asset growth can also have financial and operational risks. If growth is too fast and the company is not able to manage it properly, there can be an increase in debt and interest expenses, decreased profits, or even bankruptcy. Therefore, companies need to carry out careful analyses to ensure that asset growth is in accordance with their capabilities and resources. Kasmir (2011) explains that the growth ratio is a ratio that describes the ability of a company to maintain its economic position amid economic growth and its business sector. The greater the need for financing in the future, the more likely the company is to retain profits (Makhsun, Yuliansyah, Razimi, & Muhammad, 2018; Tandiono et al., 2019).

2.5 The Effect of the Dividend Payout Ratio on Company Performance

The Dividend Payout Ratio (DPR), according to Sundjaja, Barlian, and Sundjaja (2010), describes the ability of a company to fulfill its obligations. An increase in debt can definitely affect the amount of net profit available to shareholders because this obligation has priority over the payment of dividends. In addition, Anggreeini et al. (2020): ROA, as an indicator that can assess the quality of performance, can be said to be the ability to generate net profit from the total utilization of assets owned by the company. Which is the result of this income is reduced by the various liabilities that produce net profit after tax of the company, which will later be distributed to shareholders in accordance with the policies set for the distribution of dividends and retained earnings. This finding indicates that DPR influences company performance. In accordance with this opinion, Sartono (2010) states that the higher the ROA, the greater is the possibility of paying dividends. Strengthened by study that was conducted by Laili, Darmawan, and Sinarwati (2015) and Anggreeini et al. (2020). Based on the relationship between DPR and company performance, we propose two hypotheses:
H1a: DPR has an effect on ROA
H1b: DPR has an effect on NPM

2.6 The Effect of Total Assets on Company Performance

Company performance, as measured by certain indicators, such as ROA and NPM, is related to total assets as one of the ratios. According to (Kashmir, 2012) low ROA results from low profit margins owing to low investment turnover. The ratio of assets to sales is known as asset turnover and measures the efficiency of a company in generating sales from its assets". Thus, the higher this ratio, the better, which means asset turnover, faster profits, and more efficient use of total assets in generating sales (Alpi & Gunawan, 2018; Makhsun, Yuliansyah, Pahlevi, Razimi, & Muhammad, 2018). This indicates a relationship between the ROA and DPR. Previous studies by Alpi and Gunawan (2018) and Sipahutar and Sanjaya (2020). Thus, we propose two hypotheses.
H2a: total assets have an effect on ROA
H2b: total assets have an effect on NPM

2.7 The Effect of Asset Growth on Company Performance

According to Wardaya (2020), company growth in economic management is measured by changes in sales, even every year, and how growth should be calculated economically by looking at investment and financing decisions. Kamaruddin 2015) and Wardaya (2020) studied the effect of asset growth on the performance of a company, which in this case, is calculated by the ROA indicator, which states that there is a significant influence. NPM describes a company's profit from its sales. The level of management efficiency and effectiveness can be seen in the sales profits. The resulting high profit indicates productive company performance (Syahida and Agustin, 2021).
H3a: asset growth has an effect on ROA

H3b: asset growth has an effect on NPM

3. Research methodology

3.1 Samples

The data are quantitative and sourced from the annual financial reports of banking companies in Indonesia from 2011 to 2019. There are 95 banking companies in Indonesia, both listed on the Indonesia Stock Exchange (IDX) or not. The final sample of the study included 67 companies for an observation period of nine years, and 603 observation samples were obtained. 67 companies comprise 34 companies listed on the IDX, and the remaining 33 companies were unlisted. The sample in this study was determined using a purposive sampling method with the criteria described in Table 1.

Table 1. Sample Criteria

Criteria	**Samples**
Banking Companies in Indonesia	95
Companies that do not publish financial reports in the study period	(1)
Companies that do not have the required data 3 years in a row	(27)
Total samples	67
Total observation-year (9 years)	603

3.2 Measurement

Tabel 2. Variables Operational

Variable	**Definition**	**Description**	**Measurement**	**Reference**
Independent Variable				
DPR	Dividend Payout Ratio	The percentage of a company's income that is paid cash dividends to shareholders	$\frac{Total\ Dividend}{Net\ Income}$	Bailia (2016); Purnasari, Sitanggang, Lestari, Purba, and Juliarta (2020)
TA	Total Asset	performance ratios used to determine the effectiveness of the company	Ln. Total Aset	Hutapea and Saerang (2017); Purnasari et al. (2020)
AG	Asset Growth	percentage change in total assets	$\frac{Total\ Asset_t + Total\ Asset_{t-1}}{Total\ Asset_{t-1}}$	Bailia (2016); Purnasari et al. (2020)
Dependent Variable				
ROA	Return on Assets	Ratio of net income to total assets	$\frac{Net\ Income}{Total\ Assets}$	Hutapea and Saerang (2017); Purnasari et al. (2020)
NPM	Net Profit Margin	net profit to sales ratio	$\frac{Net\ Income}{Operating\ Revenue}$	Hutapea and Saerang (2017); Rahmani (2021)

4. Result and discussion

4.1 Result

Based on the data in Table 3, it can be seen that the value of each variable is different. For the dependent variable ROA, it is known that the observation value has a total of 544, and NPM has the same number of 544, which indicates that ROA and NPM have 59 empty data. For independent variables, DPR has an observation value of 603, which indicates that there is no empty data in the DPR variable, TA (Total Asset) has a total of 544, and AG (Asset Growth) has a total of 477, which indicates that total assets and asset growth have 59 and 126 empty data, respectively.

Table 3. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	544	.01	.023	-.362	.044
NPM	544	.152	.469	-4.693	.895
DPR	603	.434	4.115	0	70.184
TA	544	7009396.1	15239705	38494.598	1.019e+08
AG	477	.124	.304	-.826	2.776

Based on Table 4, it can be seen that the results of the f data test show a result of 0.0. An f test was carried out to determine whether there was a simultaneous effect between the independent variables on the dependent variable (Ghozali, 2018). Thus, DPR, total assets, and asset growth have a simultaneous effect on ROA. Furthermore, it can be determined from this table. From the results of the significance value, it can be seen that the DPR variable has a value of 0.081, the total assets variable has a value of 0, and the asset growth variable has a value of 0.222. This indicates that DPR and total assets affect the ROA. However, asset growth has no significant effect on ROA. Thus, it can be said that the hypotheses H1a and H2a are accepted. Nevertheless, H3a is rejected.Referring to the coefficient value, it shows the direction of the causal influence of the independent variable on the dependent variable. The coefficient values of DPR, total assets, and asset growth are positive. This implies that the dependent influences of DPR, total assets, and asset growth are positive for ROA.

Table 4. Model 1 Regression Results

Roa	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
Dpr	0	0	1.75	.081	0	.001	*
Ta	0	0	8.51	0	0	0	***
Ag	.011	.009	1.22	.222	-.007	.029	
listed : base 0	0	.	.	.	.	.	
1	-.006	.003	-2.17	.031	-.011	-.001	**
Constant	.009	.003	2.62	.009	.002	.015	***

Mean dependent var	0.010	SD dependent var	0.024
R-squared	0.076	Number of obs	477
F-test	.	Prob > F	.
Akaike crit. (AIC)	-2248.094	Bayesian crit. (BIC)	-2231.424

*** *p<.01, ** p<.05, * p<.1*

Based on Table 5, it can be seen that the results of the f data test show a result of 0.0. Thus, we conclude that DPR, total assets, and asset growth simultaneously affect NPM. Furthermore, from the results of the significance value, it can be seen that the DPR variable has a value of 0.028, the total asset variable has a value of 0, and the asset growth variable has a value of 0.051. This implies that DPR, total assets, and asset growth affect NPM. Thus, it can be said that the hypotheses H1b, H2b, and H3b are accepted. The coefficient value indicates the direction of the causal influence of the independent variable on the dependent variable. The coefficient values of DPR, total assets, and asset growth are positive. This implies that the dependent influences of DPR, total assets, and asset growth are positive for NPM.

Table 5. Model 2 Regression Results

Npm	**Coef.**	**St.Err.**	**t-value**	**p-value**	**[95% Conf**	**Interval]**	**Sig**
Dpr	.008	.004	2.21	.028	.001	.015	**
Ta	0	0	5.78	0	0	0	***
Ag	.229	.117	1.96	.051	-.001	.46	*
listed : base 0	0	.	.	.	.	.	
1	-.167	.049	-3.42	.001	-.263	-.071	***
Constant	.148	.035	4.21	0	.079	.217	***

Mean dependent var	0.134	SD dependent var	0.494
R-squared	0.073	Number of obs	477
F-test	9.160	Prob > F	0.000
Akaike crit. (AIC)	652.768	Bayesian crit. (BIC)	673.606

**** p<.01, ** p<.05, * p<.1*

4.2 Discussion

The DPR in this study is calculated by comparing total dividends with the company's net income. The independent variable t-test results in regression model 1 show that DPR has a significant effect on ROA. Furthermore, DPR has a positive influence on ROA. Similarly, with the t-test results of the independent variables in regression model 2, where the DPR from the results of the t-test, the DPR has a significant and positive effect on NPM. Thus, it can be said that the lower the DPR level, the higher the ROA that can be achieved by the company. This is because the lower the level of DPR, the more profits that can be reallocated within the company for investment and business development. In the long run, making the right decisions related to the DPR level can have a significant impact on a company's performance and growth. The link between NPM and the dividend ratio is very strong. If companies succeed in maintaining a stable profit level, they can predict future profits more accurately (Firdaus & Handayani, 2019). Thus, the company sets a better dividend ratio that provides benefits for shareholders in the long run. Additionally, an increase in NPM can strengthen the position of a company in the market and increase investor confidence in the company. The result is not in line with studies that has been conducted by Arseto and Jufrizen (2018), Ariyani, Anatasya, and Simanjuntak (2019) and Pasaribu, Siahaan, Sitanggang, and Astuty (2021) which states that there is no influence between the DPR with ROA and NPM. This result is consistent with the findings of Febriani and Sari (2019).

The total assets in this study are measured by comparing the amount of each asset in the company. The t-test results of the independent variables in regression model 1 show that total assets have a significant effect on ROA. The total Assets had a positive correlation coefficient. Thus, it can be concluded that total assets have a positive influence on ROA. Similarly, with the independent variable t-test results in regression model 2, total assets have a positive and significant effect on NPM. However, it should be noted that the effect of total assets on ROA is not always linear. Too many assets owned by a company can affect the efficiency of using them, thereby reducing ROA. Therefore, company management needs to conduct effective asset management to ensure that its impact on ROA remains positive and optimal. The positive relationship between total assets and NPM is because the greater the total assets owned by the company, the greater the company's ability to generate higher profits. However, keep in mind that the influence of total assets on NPM can also be influenced by other factors such as operating costs and operating income. Therefore, company management must focus on these factors to maximize the influence of total assets on NPM and improve the overall financial performance of a company. The result is not in line with previous studies by Sanjaya and Sipahutar (2019) and Widiani (2019), each of which states that there is no significant effect of Total Assets and ROA and NPM. However, several studies support this result, such as the study of Budiang, Pangemanan, and Gerungai (2017) and (Nova, 2016).

In this study, asset growth is calculated by comparing the total change in each asset from the current year to the previous year in the company. The independent variable t-test results in regression model 1 show that Asset Growth has no significant effect on ROA. The amount of funds needed for investment and management of company resources is influenced by the number of growth opportunities available. However, the lack of management performance in managing company resources, both external and internal, can hinder the growth of a company in every period. Investors pay close attention to the performance related to the growth and management of resources to assess the potential benefits that can be obtained. Therefore, companies need a clear strategy and business plan to take advantage of existing growth opportunities and ensure the effective use of resources. Management performance in terms of managing resources and responding to business opportunities can affect a company's image in the eyes of investors and the market as a whole. Thus, companies must strive to improve their performance in managing resources and strengthening their positions in the market (Febriani & Sari, 2019). This result is consistent with the findings of Wardaya (2020). However, asset growth has a positive and significant effect on NPM. Asset growth can increase the efficiency of a company by utilizing existing resources; thus, it has a positive impact on NPM. This is because the greater the assets owned by the company, the greater the ability of a company to generate income and profits. Thus, companies must consider asset growth as an important factor in improving financial performance and long-term success. The result is in line with studies conducted by Irmawati (2012) and Adnyana and Suardana (2016) which states that there is no influence between Asset Growth and ROA as an indicator of the company's performance appraisal ratio. However, it should be noted that the results apply to the sample and time period used in this study; thus, they cannot be generalized to all companies or any specific time period. Therefore, it is necessary to carry out further study to confirm these results and expand the sample coverage and time period used.

5. Conclusion

This study examines the effects of DPR, total assets, and asset growth on banking company performance, which are measured by ROA and NPM. There are 67 banking companies, comprising 33 banking companies that are not listed on the IDX and 34 that are listed on the IDX. This study observed a 9-year period from 2011 to 2019; thus, the study examines a total sample of 603 firm-year observations. Based on these results, several conclusions can be drawn. First, DPR has a significant effect on the performance of banking companies, namely, ROA and NPM. Second, total assets, namely ROA and NPM, have a significant effect on the performance of banking companies. Lastly, Asset growth has a significant effect on NPM but no significant effect on ROA.

From these findings, it can be concluded that DPR, total assets, and asset growth have a significant influence on the performance of banking companies, as measured by ROA and NPM. This shows that banking management must pay attention to these factors when making decisions and designing business strategies. For example, banking management may consider increasing the dividends paid to shareholders to improve financial performance. In addition, banking management might pay attention to the right asset growth strategy to improve its goals in terms of financial performance.

The practical implication of this study is that banking company management may use this finding as a reference when making decisions about dividend ratios, asset size, and asset growth. The results of this study indicate that higher dividend ratios, greater total assets, and faster asset growth can affect banking companies' financial performance. Therefore, the management of banking companies needs to pay attention to these factors when planning business strategies and making decisions to achieve better financial performance. The theoretical implications of this study contribute to the literature on the effects of dividend ratios, asset size, and asset growth on financial performance. The results of this study provide further understanding of the relationship between these factors and the financial performance of banking companies. In addition, this study enriches the theoretical knowledge about other factors that can affect the financial performance of banking companies. Overall, this study provides a significant contribution to understanding the factors that influence the financial performance of banking companies, and can assist banking company management in planning business strategies and making better decisions.

5.1 Limitation and study forward

The results of this study contribute to further research on banking performance in emerging countries such as Indonesia. We suggest more specific variables related to banking companies' performance, such as company size, interest rates, and other macroeconomic factors. Future studies should explore other factors that affect banking performance, such as the technological innovation and regulatory policies imposed by the government. Thus, this study can serve as a basis for further in-depth and comprehensive studies on the performance of banking companies.

Additionally, several banking objects can be added. Not only the Indonesian corporations in Indonesia, but also banking corporations from other emerging countries, to see a significant comparison with the large number of data samples. The implications of this study are expected to be used by banking companies to examine their performance, especially for banking companies in Indonesia, in terms of financial ratios consisting of DPR, total assets, and asset growth.

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