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Determinants of Non Perfomance Financing in Sharia Cooperatives in Indonesia

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ABSTRACT

This study aims to test and analyze: (1) the effect of capital adequacy ratio on non-performance financing, (2) the effect of operating costs on operating income on non-performance financing, (3) the effect of company size on non-performance financing, (4) which among the capital adequacy ratio , Operating costs on operating income and company size, which have a dominant influence on non-performance financing. This research was conducted in sharia cooperatives incorporated in Inkopsyah BMT as many as 30 cooperatives. Samples were determined by saturated sample technique, obtained by 90 such cooperatives during 2020-2022. Data related to research variables were obtained by copying financial statement documents at the cooperative through the http://idx.co.id link. Once the data is collected, it is analyzed by multiple linear regression. Before analysis, tests are first carried out: linearity, feasibility of the model and classical assumptions. To test the hypothesis used t-test. The results of this study prove that: (1) capital adequacy ratio has a significant negative effect on non-performance financing, (2) operating costs on operating income have a significant positive effect on non-performance financing, (3) company size has a significant negative effect on non-performance financing, (4) Operating expenses on operating income have a significant positive dominant effect on non-performance financing.

INTRODUCTION

As with conventional cooperatives, sharia cooperatives are inseparable from the possibility of problematic financing. This problem arises when the high growth rate of Islamic cooperative assets is not matched by healthy growth in financing volume. Financing products as an asset-forming element and a valuable resource, are used as a tool used to implement the company's strategy in producing good performance.

One of the problems in Islamic financial institutions is Non-Performing Financing (NPF) or problem financing. The following table to determine the predicate of NPF magnitude.

Table 1. Non Performing Financing Rating Assessment Criteria

NPF value	Predicate
0 NPF < 1.25	No Risk
1.25 ≥ NPF < 2.50	Less Risk
2.50 ≥ NPF < 3.75	Risky
NPF ≥ 3.75	Very risky

Source: Permenkop &; UKM SE BI No 07/Per/Dep.6/IV/2016

Data obtained from the reports of several sharia cooperatives that were used as research samples are presented in table 2 below.

Table 2. NPF Data of Several Sharia Cooperatives

Year	2018	2019	2020	2021	2022
NPF (%)	2,85	3,15	3,20	3,27	3,35

Source: Sharia cooperative report

Table 2 above shows that NPF tends to rise and is at risk. Therefore, it is necessary to conduct research to find out the cause. The causes are influenced by: capital adequacy ratio, operating costs to operating income, and company size. Capital Adequacy Ratio (CAR) is a capital adequacy ratio that serves to accommodate the risk of loss that may be faced by banks. bear the risk of any credit/productive assets at risk (Darmawi, 2018). While operating costs on operating income show the ability of bank management to control operating costs over operating income. The smaller this ratio means the more efficient the operational costs incurred by the bank concerned (Herdinigtyas & Almilia, 2005). Furthermore, the size of the company describes the total assets owned and used for its operations in order to generate profits (Mamahit &; Tulung, 2022)

The cause has been proven by his research (Adisaputra, 2012) concluded that CAR has a significant positive effect on NPF. Instead, the research (Astrini et al., 2018) concluded that CAR has a significant negative effect on NPF. Meanwhile, the research (Ahmad & Bashir, 2013) concluded that operating expenses over operating income negatively affect NPF. In contrast, his research Adisaputra (2012) and (Jayanti & Haryanto, 2013) concluded that operating expenses over operating income have a positive effect on NPF. Next, the results of the research (Indrawan, 2013) concluded that the size of the company negatively affects NPF. In contrast, Jayanti's (2013) research concluded that company size has a positive effect on NPF. The existence of the research gab, this research needs to be carried out as an effort to reduce the gab. Therefore, the purpose of this study is to test and analyze the effect of: (1) capital adequacy ratio on non-performance financing, (2) operating costs on operating income on non-performance financing, (3) company size on non-performance financing, (4) capital adequacy ratio, operating costs on operating income and company size, which has a dominant effect on non-performance financing.

(Purwanti, 2020) said that the Capital Adequacy Ratio (CAR) is a bank performance ratio to measure the adequacy of capital owned by banks in supporting assets that contain or produce risks, such as credit provided to customers. In addition, CAR is a minimum capital that is sufficient to guarantee the interests of third parties. CAR is a ratio that calculates the amount of capital owned by banks to Risk-Weighted Assets (ATMR). So, CAR shows a ratio to describe the adequacy of capital that can be used to accommodate the risk of loss faced by financial institutions / banks. The higher the CAR value, the better the bank's ability to bear the risk of any risky productive assets or credit. Bbank is said to be healthy if it has a CAR exceeding 8%. To reduce the high level of NPF that occurs due to credit problems, the bank provides funds for business development purposes and accommodates the risk of loss of funds caused by bank operations called CAR. The size of the funds owned by the bank will be able to provide benefits and can pose risks that must be borne by the bank. Funds are the most important thing in the bank's operational activities. The higher the CAR, the greater the bank's ability to minimize credit risk that occurs, so that non-performing loans that occur in the bank will be lower with the amount of reserve funds obtained from the ratio of capital and risk-weighted assets (Ali, 2004).

Operating Costs of Operating Income (BOPO), used to measure the ability of bank management to control operating costs against operating income. The smaller this ratio means the more efficient the operational costs incurred by the bank concerned (Almilia and Herdiningtyas, 2018). According to BI Circular Letter No. 3/30DPNP dated December 14, 2001, BOPO is measured by the comparison between operating costs to operating income. Operating costs are costs incurred by banks in order to carry out their basic business activities (interest costs, labor costs, marketing costs and other operating costs). Operating income is the bank's main income, namely interest income obtained from the placement of funds in the form of credit and other operating income. OJK sets BOPO below 90%. If it exceeds 90% to close to 100%, then the bank can be categorized as inefficient in carrying out its operational activities.

(Kasmir, 2018), states that the asset side of the bank indicates management strategies and activities related to the place of collection of funds including cash, accounts with the central bank, short- and long-term loans, and fixed assets. The greater the assets owned by a bank, the greater the volume of credit disbursed. The greater the volume of credit can provide an opportunity for banks to reduce the level of spread, which in turn lowers the interest rate of credit, so that banks will be more competitive in providing services to customers who need credit. Low interest rates can facilitate credit payments and reduce the number of non-performing loans. The size of the company describes the size of a company can be shown by total assets, number of sales, average level of sales and average total assets (Kumala, 2018). While the size of the company is the total amount of assets owned by the company. On the balance sheet of a bank, assets indicate the position where funds are used (Kuncoro, 2002) So, it can be concluded that the size of the company is a company scale regarding the size of the company as seen from total assets, log size, stock market value, number of sales, average level of sales and average total assets. So, the higher the size of the company can be said to be the lower the NPF.

Non Performing Loan (NPF) is a condition where the customer is unable to pay part or all of his obligations to the bank in accordance with the agreement. NPF can provide information on the assessment of capital conditions, profitability, credit risk, market risk, and liquidation. In addition, NPF can show the ratio between the number of non-performing loans and the amount of loans disbursed. Non-performing loans also reflect the credit risk that occurs in the bank. Non-performing loans or bad loans are loans in which there are obstacles caused by 2 elements, namely from the bank in analyzing and from the customer who intentionally or unintentionally in their obligations do not make payments (Kasmir 2018). The development of lending that is a consideration for the bank is if the credit it provides turns out to be a non-performing loan which results in the amount of risk borne by the bank. NPF is also referred to as non-performing loans or credit risk which is one of the key indicators to assess bank performance. Non-performing loans are non-current loans or loans where the debtor does not meet the agreed requirements (Kuncoro &; Suhardjono, 2018).

First hypothesis: CAR has a significant negative effect on NPF. This hypothesis was developed from the study of the theory above and the results of its research: (Rabbani & Rahadian, 2022), Jayanti, (2013) prove that CAR has a significant negative effect on NPF. This means that the higher the CAR, the lower the NPF. Conversely, the lower the CAR, the higher the NPF. The second hypothesis of BOPO has a significant positive effect on NPF. This hypothesis was developed from the study of the theory above and the results of Rabbani & Rahadian's (2022) research, (Ad'hadini & Kusumawardhani, 2016) proves that BOPO has a significant positive effect on NPF. This means that the higher the BOPO, the higher the NPF. Conversely, the lower the BOPO, the lower the NPF

The third hypothesis of the size of the company has a significant negative effect on NPF. This hypothesis was developed from the study of the theory above and the results of his research Astrini et al (2018), (Ad'hadini & Kusumawardhani, 2016) prove that the size of the company has a significant negative effect on NPF. This means that the larger the size of the company, the smaller the NPF. Conversely, the smaller the size of the company, the larger the NPF. The fourth hypothesis of BOPO has a significant positive dominant effect on NPF. This hypothesis was developed from the study of the theory above and the results of Rabbani & Rahadian's (2022), Ad'hadini's (2016) research proved that the regression coefficient value is the largest with a smaller p value alp [a 5%. This means that BOPO has a significant positive dominant effect on NPF.

METHOD

This research was conducted in sharia cooperatives incorporated in Inkopsyah BMT as many as 30 cooperatives. The sample was determined by saturated sample technique, obtained a sample of 90 such cooperatives during 2020-2022. Data related to research variables were obtained by copying financial statement documents at the cooperative through the http://idx.co.id link. Once the data is collected, it is analyzed by multiple linear regression. Before analysis, tests are first carried out: linearity, feasibility of the model and classical assumptions. To test the hypothesis used t-test. Furthermore, to determine the dominant influential variable can be seen from the value of the regression coefficient. If the value is greatest, then it is stated that the variable has a dominant influence. The variables are measured as follows. CAR is measured by the formula: capital divided by risk-weighted assets multiplied by 100%. BOPO is measured by the formula: operating expenses divided by operating income multiplied by 100%. The size of the company is measured by the company's total assets in the country. NPLs are measured by the formula: non-performing loans (criteria 3,4,5) divided by total loans multiplied by 100%.

RESULTS AND DISCUSSION

Test results: validity, reliability, linearity, model feasibility, and classical assumptions are presented in the following Table 1.

Table 3. Summary of Test Results: Linearity, Model Feasibility, and Classical Assumptions

Test	Test Equipment	Result	Knot
Linearity	Ramsey Test	Nilai itself. > 5%	Linear
Model Eligibility	R-Square	The value is 0.79	Proper
Asumy classic:			
Multicollinearity	VIF	The value is < 10	Not violated
Heteroscedasticity	Scatter Plot	Irregular drawing	Not violated
Autokorelass	Durbin Watson	1.987	Not violated
Normalitas	Kolmogorof-Smirnov	Nilai itself. > 5%	Usual

In Table 1 above, it appears that the test results: linearity, model feasibility, and classical assumptions show that nothing has been violated, so the use of double liner regression can be used as an analytical tool in this study. The results of hypothesis testing using multiple linear regression and t-tests are presented in the following Table 2.

Table 4. Summary of Hypothesis Test Results

Description	Coefficient Regression	*p-value*	*p value < 0.05 knot*
effect of X1 on Y	-0.334	0.026	H-1 accepted
effect of X2 on Y	0.553	0.012	H-2 accepted
effect of X3 on Y	-0.353	0.022	H-3 accepted
X2 is dominant	The regression coefficient is greatest		H-4 accepted

Information:
X_1= CAR
X_2= BOPO
X_3= SIZE
Y = NPL

In Table 2 it appears that the results of the hypothesis test using a t-test on the variable X2 = BOPO, the p value is 0.012 smaller 0.05 and has a regression coefficient with a positive sign of 0.553 the largest compared to other variables. This means that BOPO has a significant positive dominant effect on NPF. If BOPO is increased by 1%, then its NPF will also increase by 5.53%. Conversely, if BOPO is reduced by 1%, then its NPF will also decrease by 5.53%. Thus, the results of this study support Rabbani &; Rahadian's (2022) research, Ad'hadini (2016) concluded that BOPO has the greatest significant positive effect on NPF. This means that the higher the BOPO, the higher the NPF. Conversely, the lower the BOPO, the lower the NPF,

Discussion

The results of this study prove that CAR has a significant negative effect on NPF supporting the results of his research: Rabbani &; Rahadian (2022), Jayanti, (2013) prove that CAR has a significant negative effect on NPF. The higher the CAR, the lower the NPF. Conversely, the lower the CAR, the higher the NPF. Therefore, the existence of CAR needs to be improved referring to Rivai (2017) as follows: (1) minimize the commitment of loans that are not used, (2) loans provided are more limited and selected so that the risk is reduced, (3) bank guarantee facilities that only obtain income results in the form of relatively small positions but with risks as large as loans that should be limited, (4) Letter of Credit (L/C) commitments for foreign exchange banks that have not really obtained certainty and underwriting or cannot be utilized efficiently should also be limited, (5) participation that has a 100% risk needs to be reviewed whether it is useful or not, (6) the position of assets and inventory is sought so that it is not excessive and does not just meet the feasibility, (7) increase and improve the capital position by means of cash deposits, go public, and long-term subordinated loans from shareholders.

The results of the study prove that the size of the company has a significant negative effect on NPF supporting the results of his research Astrini et al (2018), Ad'hadini (2016) proved that the size of the company has a significant negative effect on NPF, the larger the size of the company, the smaller the NPF. Conversely, the smaller the size of the company, the larger the NPF. Therefore, asset management needs to be done well. Asset management according to Parmujianto (2017) cannot be separated from liability management, which is a series of actions and procedures designed to control financial position. Furthermore, Rivai (2019) mentioned that asset and liability management is to manage risks that may arise in daily business activities that are designed in such a way that they can optimize revenue while limiting asset and liability risk by complying with monetary policy provisions and bank supervision. Next (Darwis & Toatubun, 2021), states that there are three stages of the asset and liability management approach. namely: (1) Stage I (general), namely the general stages in managing and classifying bank assets and liabilities, which are broadly grouped: a) asset management, b) liability management, c) capital management. At this stage the grouping is still general, in accordance with the structure of financial statements that appear on the bank's balance sheet in general only. (2) Phase II (specific), at this stage the grouping has been more specific and detailed both in terms of assets and liabilities and capital with the following composition:

- Reserve position asset management - Reserve position liability management
- Liquidity management - Generalized loan position
- Investment management - Long Term debt managemen

- Loan management - Capital management
- Fixed asset management

(3) Stage III (balance sheet generates the income and expense). In this stage, it has begun to be more detailed than the previous stages, which finally to see the bank's ability to generate profits, with the following formula:
Profit = Revenue – Interest Cost – Overhead – Taxes

The results of this study prove that BOPO has a dominant influence on NPF, supporting Rabbani & Rahadian (2022), Ad'hadini's (2016) research that BOPO has a significant positive effect on NPF. The higher the BOPO, the higher the NPF. Conversely, the lower the BOPO, the lower the NPF. Therefore, the existence of BOPO needs to be managed properly by taking into account the components of operational costs and operating income referring to (Tanjung et al., 2018) As follows: (1) The components of operating expenses include: a) interest costs, i.e. interest costs on funds owned by banks, b) foreign exchange costs, arising from foreign exchange losses, c) overhead costs, are costs incurred by banks that have no benefit for the foreseeable future. These types of costs include costs related to employees, depreciation costs of fixed assets, office operating costs and types of costs incurred or related to the financial reporting period, d) employee costs, namely all costs incurred by the bank to finance its employees, e) depreciation costs, which is the allocation of costs financed into the income statement according to criteria or based on time, f) non-operating costs, namely costs that are not related to the main activities of the bank, such as losses from the sale of fixed assets, g) extraordinary costs, namely costs whose occurrence is abnormal or unrelated to the company's activities and does not occur frequently or is not repeated in the future, h) past corrections, if there has been a miscalculation, errors in improper accounting principles, negligence in recording a transaction, i) income tax. (2) the components of operating income include: a) interest income, which is interest income from loans provided or from plantings made by the bank, b) provisions and commissions, namely bank income that will be received and recognized as income when the credit is approved by the bank, c) income on foreign exchange transactions, is income derived from foreign exchange differences, d) other operating income, namely other income that is a direct result of other activities that are bank operations that are not included in the above income account, such as dividends received from shares, e) non-operating income, is a form of income derived from activities outside the bank's business, f) extraordinary income, namely profits received suddenly or never predicted before, g) past corrections, namely corrections to errors in the financial statements of the past period stemming from miscalculations or improper application of accounting principles, omissions in recording a transaction and errors of a mathematical nature, h) the cumulative effect of changes in accounting principles, is the difference between the amount of retained earnings at the beginning of the change period and the amount of retained earnings that should have been reported when the new accounting principles have been applied for the entire affected period.

CONCLUSION

The results of this study concluded that: first, the capital adequacy ratio has a significant negative effect on non-performance financing, meaning that the higher the capital adequacy ratio, the lower the non-performance financing; second, operating costs on operating income have a significant positive effect on non-performance financing, meaning that the higher the operating costs on operating income, the higher the non-performance financing; Third, the size of the company has a significant negative effect on non-performance financing, meaning that the larger the size of the company, the lower the non-performance financing; Fourth, operating costs on operating income have a significant positive dominant effect on non-performance financing.

Advice for sharia cooperatives that are members of the BMT Inkopsyah in managing NPL should focus on paying attention to the BOPO variable, because the BOPO variable has a dominant influence on NPF. BOPO variables that need to be considered are from the components of operating costs including (1) interest costs, (2) overhead costs, (3) employee costs, (4) depreciation costs, (5) non-operating costs, (6) future extraordinary costs, (7) past corrections. Meanwhile, the components of operating income include: (1) interest yields, (2) provisions and commissions, (3) other operating income, (4) extraordinary income, (5) past corrections, (6) the cumulative effect of changes in accounting principles. Suggestions for future researchers should replace or add other variables that are thought to affect NPF or research elsewhere, so that the results can develop knowledge related to NPF management.

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