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Analysis of Factors Affecting Financial Sustainability Ratio in Banking Industry

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ABSTRACT :

The Financial Sustainability Ratio (FSR) has an important role in describing a company`s financial capabilities and the potential for sustainable development in the future. In this research, the assessment of bank financial ratios involves Return On Assets, Capital Adequacy Ratio, company size, Operating Expenses to Operating Income, and Loan To Deposit Ratio. This research used a literature review method by analyzing more than 70 relevant articles. The results of the analysis show that all of these variables have a significant influence on FSR. These results are in line with signaling theory, which shows that financial ratios can be used as signals or indicators of company performance which may influence stakeholder perceptions. This research makes an important contribution to the understanding of the factors that influence FSR and confirms the important role of financial ratios in describing a company's financial sustainability. The practical implication of this research is that companies and stakeholders can use these financial ratios as a tool to understand and measure sustainable financial performance.

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Keywords: Financial Sustainability, Financial Performance, ROA, CAR, LDR, Company Size, OEOI

INTRODUCTION

In the ever-evolving and complex business world, the concept of sustainability has become one of the main aspects that companies must pay attention to. Sustainability not only focuses on economic growth, but also considers the social and environmental impacts generated by a company's operations. One of the main indicators to measure the extent to which a company is able to achieve this balance is the Financial Sustainability ratio (Burhany et al., 2021) .

The banking industry has a very important role in a country's economy. Financial sustainability is a crucial factor in maintaining the stability and growth of the banking industry. These factors that affect financial sustainability require a deep understanding to ensure the continuity of banking business (Galletta et al., 2022).

Financial Sustainability refers to a company's ability to maintain a balance between achieving long-term financial goals and the social and environmental responsibility carried out by the company. This ratio reflects the extent to which the company can achieve sustainable

growth while considering the positive impact on society and the surrounding environment. With increasing pressure from various stakeholders such as investors, consumers, and governments, analysis of the factors affecting Financial Sustainability ratios has become crucial. (Roostika & Susilowati, n.d.) (Alfaiz & Aryati, 2019)

This research will help companies to better understand the factors that affect their sustainability performance and identify strategies that can be implemented to improve Financial Sustainability ratios. In addition, the research will provide valuable insights for investors, regulators, and other stakeholders in better measuring and evaluating a company's sustainability performance. The novelty of this study lies in a more in-depth analysis with the literature review method used to analyze the effect of financial performance depicted in ROA, CAR, LDR, company size, and OEOI on financial sustainability in the banking industry, by confirming the signal theory.

THEORY REVIEW

Signaling Theory

Signaling theory is a company's action in providing an overview of the company's sustainability prospects in the future to investors by managing financial performance. The signal is getting better, even though facing uncertainty, investors will prefer to invest. Investors will be increasingly attracted by the presence of high profitability, which will have an impact on the share price of the company, in this case the bank. The existence of information provided by the company, will provide more accurate information than information by outside parties who do not fully understand the company's condition. (Abdul Rasyid, 2015; Brigham & Houston, 2014; Setiawanta & Hakim, 2019).

Financial Sustainability

Financial sustainability Related to the company's financial security in the long term as one of the key factors'sustainability Overall. If the company's revenue is able to cover operating costs and savings, losses, and inflation so as to achieve financial growth, then the company has (Gleißner et al., 2022) financial that sustainable (Ayayi &; Sene, 2010; Mia et al., 2016). Financial sustainability is the survivability of cash flow, capital growth, and the uninterrupted provision of services to customers. The company's ability to make a profit without external assistance, have good liquidity, and be able to pay its obligations illustrates (Said et al., 2019)

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financial sustainability (Kakati &; Roy, 2021). Financial sustainability, or the sustainability of an organization's financial well-being over the long term, is a critical concept in the business and non-profit sectors. It goes beyond short-term profitability and explores an organization's ability to maintain financial health, meet its financial obligations, and adapt to changes and challenges in the external environment (Rezaee, 2016). Financial sustainability is important for the survival of an organization and its capacity to meet its mission or goals.

In the business world, financial sustainability involves maintaining a balance between earnings, cost management, and investment in growth. This requires wise financial planning, risk management, and a focus on creating long-term value for stakeholders. In the nonprofit sector, financial sustainability is critical to achieving the social or environmental goals of those organizations. This ensures that the organization can continue to provide services, make a positive impact, and attract funding or donations in the long term. Achieving financial sustainability often requires diversifying revenue sources, building reserves, and demonstrating accountability and transparency to donors and supporters (Maboya & McKay, 2019). In summary, financial sustainability is the foundation of organizational resilience, growth, and impact, in both profit-oriented and not-for-profit sectors.

Financial Performance

Financial performance is an assessment of the financial results of a company in a certain period. A successful company must have higher revenues than expenses. (Tudose et al., 2022) Financial performance is related to the efficiency and effectiveness of the use of company resources in achieving its goals. (Egbunike & Okerekeoti, 2018; Mahrani & Soewarno, 2018; Suhadak, 2019) Financial performance describes the economic value that a company is able to obtain in providing returns for investors. (Al-Sa'eed, 2018; Orozco et al., 2018)

Return on Asset (ROA)

ROA is an indicator of the efficient use of company assets to produce annual sales. ROA is one of the profitability ratios calculated by dividing net income by total assets. (Aissa & Goaied, 2016) ROA can be used to analyze the profitability of a company. ROA displays the (Enqvist et al., 2014; San & Heng, 2013; Vătavu, 2015) net income a company earns from the

value of assets. The greater the ROA, the higher the rate of return, the greater the company's performance. (Ramadhani &; Ratnasari, 2022)

Capital Adequacy Ratio (CAR)

CAR (Capital Adequacy Ratio) is a capital adequacy ratio that serves to accommodate the risk of loss that may be faced by the bank (Simanjuntak, 2017). The higher the CAR, the better the bank's ability to bear the risk of any risky credit/productive assets (Ardheta &; Sina, 2020). CAR is a ratio of bank performance in assessing suitability in supporting risky assets such as providing credit to customers. Banks that solvable will have a high CAR because it illustrates the higher capability of the bank in funding its operations sustainably.

Loan to Deposit Ratio (LDR)

Loan to Deposit Ratio (LDR) is a ratio between the amount of funds channeled to the community (credit) with the amount of public funds and own capital used (Astrini et al., 2018). LDR measures whether customers or borrowers can withdraw funds from savings, current accounts, and bank deposits. A good LDR rate is 78%-92% according to Bank Indonesia regulations.

Company Size (Ukuran Perusahaan)

Company Size (Firm Size) is a scale to determine the size of a company that can be proxied in several ways, including total assets (Total Assets) and total sales (Total Sales) (Adria &; Susanto, 2020). The definition explains that company size is a measurement scale that shows the size or size of a company through total assets and total sales owned. The size of the company has a positive influence on sustainability where larger companies will provide broad information and clear company goals. The influence and activity of large companies will be high on shareholders and stakeholders.

Operating Expenses to Operating Income (OEOI)

OEOI or BOPO According to Veithzal Rivai (Rivai &; Arifin, 2010) BOPO is operating cost, operating income is a ratio used to measure the level of efficiency and ability of banks to carry out their operations, Furthermore, according to Hasibuan (2019) BOPO is Operating Cost

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to Operating Income (BOPO) is a comparison or ratio of operating expenses in the last 12 months to operating income in the same period. The BOPO ratio is the ratio of the ratio between operating expenses and operating income. The BOPO ratio is used to measure the level of efficiency and ability of banks to carry out their operations. The larger the BOPO, the smaller or lower the financial performance of banks. Vice versa, if the BOPO is getting smaller, it can be concluded that the financial performance of banks is increasing or improving (Dewi et al., 2015).

METHODE

This article uses the literature review method which provides output in the form of data and elaboration of findings as a research study to compile a discussion of the problem under study (Andriani, 2021). More than 70 relevant articles were identified. This review focuses on critical elements of financial performance ratio analysis and its relationship to financial sustainability, in terms of signaling theory.

RESULTS AND DISCUSSION

Financial Sustainability Ratio (FSR) describes the company's financial capabilities and good prospects in the future in describing sustainable development, therefore it is necessary to assess the company's financial ratios. (Meher & Getaneh, 2019; Rustam & Adil, 2022) Sustainable finance is finance that supports the company's sustainable development in one or more of its economic, environmental, or social dimensions. (Migliorelli Hotels, 2021; Ryszawska, 2018) Sustainable finance is the allocation of capital as the key to a sustainable economy (Summer, 2020). Financial Sustainability is a company's capability to deliver value and provide long-term operational sustainability, which is a combination of investment and optimal sources of financing. Financial (Zabolotnyy & Wasilewski, 2019) sustainability analysis is to use FSR which contains expenses and revenues. Good value is above 100%. FSR evaluates the ability of a company, in this case a bank, to obtain and develop returns for the sustainability of the bank's operations for a long period of time. (Purwanti, 2020) (Son and Daughter, 2020) (Sanfa & Ida, 2023).

Financial performance displays a company's ability to make profits, manage expenses, and utilize resources effectively in order to create value. A company that has good (

Supsermpol et al., 2023) financial performance and low risk will be more reliable than a company with the opposite condition. (Weber, 2017) Financial performance affects the financial sustainability of the company. In the banking industry, (Almilia et al., 2009; Ameer & Othman, 2012; Amouzesh et al., 2011; Kapoor & Sandhu, 2010; Pan et al., 2014; Pham et al., 2021; Yilmaz, 2021) financial performance ratios that affect FSR are Return on Assets (ROA), Capital Adequacy Ratio (CAR), Company Size, Operating Expenses to Operating Income (OEOI), and Loan to Deposit Ratio (LDR). (Rustam & Adil, 2022).

ROA is one component of the profitability ratio. Good financial performance will result in a high ability of the company to generate profits. Profitability describes the level of success of the company that will have a direct impact on the returns received by investors. ROA assesses the return on profit from an investment. ROA affects the FSR level because it describes the bank's ability in its efficiency to obtain returns from assets owned and displays the bank's (Mahmudah &; Ratnawati, 2020) financial performance. The higher the ROA, the better the company's performance in terms of profitability and asset management. ROA is a major factor that has a significant positive effect on FSR. Increasing ROA will gradually improve the bank's (Nathanael &; Mayangsari, 2022; Rustam & Fair, 2022; Sutarti & Syakhroza, 2019) (Arsyad et al., 2021; Harianto, 2017; Nurhikmah &; Rahim, 2021) financial sustainability. High ROA describes good company profits and performance, which leads to company operations, stock prices, and stock demand in accordance with (Bartolacci et al., 2018; Henock, 2019; Marwa & Aziakpono, 2015; Mohammad, 2017; Rianasari & Pangestuti, 2016) signaling theory (Cahyaningtyas & Rahayu, 2021)

CAR is a ratio of bank performance in assessing suitability in supporting risky assets such as providing credit to customers. A (Yunita et al., 2022) solvable bank will have a high CAR because it illustrates the higher capability of the bank in funding its operations sustainably. A bank's investment decision making may also refer to the CAR. CAR affects the profitability of the company. CAR has a positive and significant effect on FSR. It is necessary to optimize bank capital so that financial performance is good for the sake of increasing profits that have an impact on the survival of banks and FSR. CAR aims to support the risk of bank losses from credit and risky assets in order to create (Kusuma, 2021; Murwaningsari et al., 2019) (Korri & Bascara, 2019) (Abbas et al., 2020; Oktoviyanti & Etty Murwaningsari, 2023; Yuliawati & Saputri, 2020) financial sustainability (Rustam & Adil, 2022). CAR affects bank profitability. With the financial statements, it will support investor confidence in accordance with signaling theory (Yusuf & Surjaatmadja, 2018).

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LDR measures whether customers or borrowers can withdraw funds from savings, current accounts, and bank deposits. High LDR indicates that a bank is illiquid. A good LDR rate is 78%-92% according to Bank Indonesia regulations. There is debate over the effect of LDR on FSR. LDR has a significant negative effect on FSR because banks must have a good intermediation function so that they are able to use funds from savings efficiently and effectively for credit distribution so that bad loans do not occur. On the other hand, there are several articles that provide results that the effect of LDR on FSR is not significant. This is because the total credit issued from third party fund income does not determine the high and low (Panjaitan, 2017) (Saputra et al., 2018) (Januar Santoso et al., 2017; Rahman & Mazlan, 2014) sustainability of the bank's financial performance. A high LDR is not a guarantee of high FSR. The lower LDR illustrates the ineffectiveness of banks in lending and their profits will fall. An increase in LDR will increase profitability, whereas an increase in the number of credits, will increase income from credit which will affect the financial statements presented, according to signaling theory. (Arifani, 2020; Sanfa & Ida, 2023; Widyaningsih, 2012) (Hakim & Sugianto, 2018; Saraswati et al., 2018)

OEOI is a financial performance ratio which is a cost efficiency ratio. This ratio measures the bank's capability to control operating costs against operating income, where the lower it is, the better it will be for the bank. OEOI displays the efficiency of banks' efforts in measuring the costs incurred by banks in obtaining earning assets. If the value is higher, it can be concluded that the bank is inefficient in utilizing its operational costs so that the FSR decreases. The results of previous studies noted that there was a positive but not significant effect of OEOI on FSR. Banks that have difficulty due to having a high OEOI level will have their operational performance disrupted so that their value is not comparable to FSR. OEOI can be measured by (Abbas et al., 2020; Notoatmojo & Rahmawati, 2016) (Nurhikmah & Rahim, 2021; Oliveira & Raposo, 2019; Zulfikar, 2014) Operational Efficiency Ratio (OER). OER is used to assess the efficiency and capability of banks in their operations. The lower the better because it affects the profitability that will be displayed in the financial statements and affects investors' desire to invest in related banks according to signaling theory. An increase in operating expenses without followed by operating income will reduce profitability (ROA). (Buchory, 2015; Dendawijaya, 2009; Pian &; Evina, 2022; Prasetyo &; Darmayanti, 2015)

The size of the company represents the total value of the company's assets and resources. The size of the company has a positive influence on sustainability where larger companies will

provide broad information and clear company goals. The influence and activity of large companies will be high towards shareholders and stakeholders. Large companies will have more opportunities to become investment objects so that it will have an impact on (Negoro &; Haris, 2021) (Chariri & Ghozali, 2007; Suryono, 2013; Wang, 2017) financial sustainability (Nawaiseh, 2015) . A larger company size represents a positive signal of the company's ability and prospects to be better at running its business. More company assets will facilitate management in controlling the company and increasing profits, especially its shares spread across the capital market so that it is easy to obtain investment funds. Large companies will invite more investors, where although the stock price is higher but comparable to the value of the company. (Chabachib et al., 2019; Hidayah, 2014; Nurhayati, 2013; Obradovich et al., 2012)

CANSLUSION

Financial Sustainability Ratio (FSR) in describing the company's financial capabilities and good prospects in the future in describing sustainable development, requires an assessment of the company's financial ratios. Assessment of bank financial ratios using Return On Assets (ROA), Capital Adequacy Ratio (CAR), Company Size, Operating Expenses to Operating Income (OEOI), and Loan To Deposit Ratio (LDR). The influence of all variables on FSR is real and has been confirmed by signaling theory. Further research can be carried out on types of businesses other than banking using empirical studies

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