CHAPTER I

INTRODUCTION

1.1. Background

Banking is a financial institution that plays an important role in a country's economy. According to Kasmir (2010), banking is a financial institution operating in the financial sector which functions as a party that collects and distributes funds. The existence of the banking sector is quite important because banks are the intermediaries that bridge the parties to transactions. Apart from that, banking also provides services that collect funds from the public which are channeled back in the form of credit, investment, savings, deposits, etc. In its operational activities, every business activity, including banks, aims to make a profit, so that profit becomes an interesting discussion in decision making.

Generally, the way to measure profitability is by using Return on Assets (ROA) or Return on Equity (ROE). In this research, profitability is calculated using ROA. The ROA calculation can provide a better measure of profit because it can show the effectiveness of management in using its assets (Kasmir, 2010). The higher the banking ROA, the higher the profits generated, so it can be said that the bank can use assets optimally. The following is the movement of banking ROA performance in Figure 1.1. for the period 2016-2022.

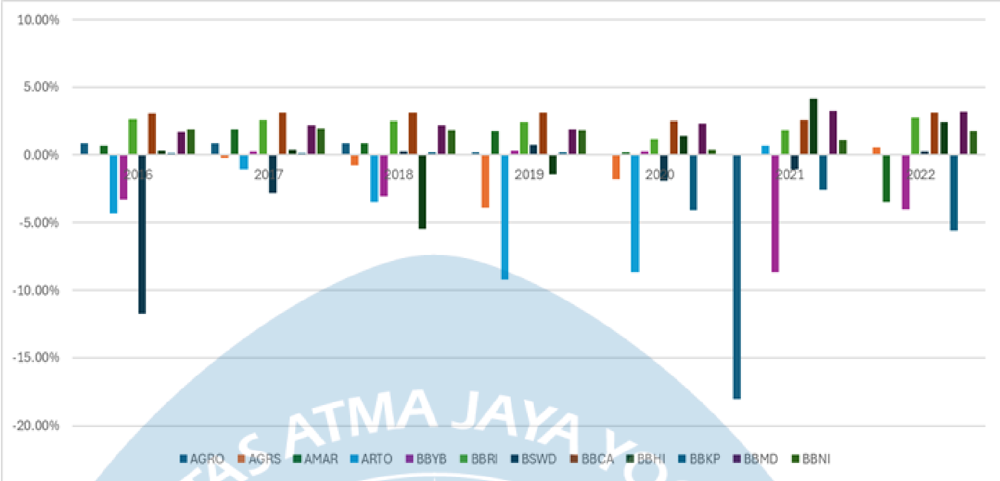

Figure 1.1. Banking ROA Performance Graph 2016-2022

Source: IDX Publication Annual Report (processed)

Based on the data above, the profit performance (ROA) for 2016-2022 can be seen in the ROA movement of 12 banks listed on the Indonesia Stock Exchange (BEI). There are movements in ROA up and down, according to Bank Indonesia (BI), a good ROA standard is more than 1.5%. Banks such as BBCA, BBMD, and BBRI have consistently had ROA above 1.5%, but other banks such as AGRO, AGRS, AMAR, ARTO, etc. still has an unstable ROA movement and even shows a negative ROA. So, it is necessary to identify what factors can increase ROA to increase bank profits in the future.

In this study, researchers want to know factors that can increase ROA based on previous research by Mehzabin et al. (2023) who have examined capital structure, operational efficiency, and non-interest income on bank profitability in Asia for the period 2004 - 2018. This research is interesting to study because there are still inconsistencies in the results and limited research using that variable in research on profitability. In addition, researchers want to see how it affects when applied to banking in Indonesia by adding green banking variables to see how financial and non-financial aspects can affect profitability for the period 2016-2022.

Forest and land fires *(karhutla)* can be caused by various events such as lightning strikes, volcanic eruptions, long dry seasons, land clearing, etc. (www.liputan6.com). Forest fires that occur in Indonesia are caused 99% by humans and 1% by nature, either accidentally by clearing land or intentionally because they get paid (www.bnpb.go.id). Whether intentional or not, the act of forest burning has a huge impact on the environment and humans such as the killing of wildlife and plants.

Of the top 10 banks that finance corporations involved in forest fires, Indonesian banks are also involved in these forest fires by funding corporations that cause forest fires, representing the largest funding value of USD 3 billion. Evidence of the involvement of state-owned banks in forest fires is Bank Rakyat Indonesia (BRI) amounting to USD 1,722 million and Bank Negara Indonesia (BNI) amounting to USD 1,086 million. Meanwhile, there are 17 affiliated holding companies, namely Austindo, Batu Kawan, Cargill, DSN, Genting Group, Harita Group, LG International, Provident Agro, and Rajawali Group (www.tuk.or.id). The bank's involvement in this funding can damage the bank's reputation and image to the public.

Responding to the issue of forest and land fires (karhutla), banks are required to pay attention to the impact on the environment of their operational activities. This is supported by the stipulation of Financial Services Authority (OJK) regulation NUMBER 51 /POJK.03/2017, concerning the implementation of sustainable finance for financial service institutions. issuers, and public companies. This regulation stipulates that financial institutions are required to implement sustainability principles in their strategies and operational activities.

One of the factors that influence profits is green banking disclosure. Green banking is a real form of bank responsibility for its operational activities towards social and environmental issues. There can be various forms of implementing green banking, such as saving resources, implementing mobile banking, using e-statements, etc. By implementing green banking practices, the bank shows that the bank is not only concerned about seeking profits but also cares about the environment. It is hoped that it will gain the trust of investors and the public so that it can support the bank's operational activities and profits.

The results of research conducted by Asfahaliza & Anggraeni (2022) show that the implementation of green banking has a positive and significant effect on bank profitability in Indonesia. However, research by Rachmawati & Jayanti (2023) shows that the implementation of green banking disclosure has no effect on profitability. Another factor that can affect profits is the capital structure, in its operational activities the company has the option to fund its operations and projects, namely through equity and debt. The right capital structure can increase company profits (Riyanto, 2010). In this research, the capital structure is explained by the debt-to-asset ratio, the use of this ratio shows how much of the company's total assets are financed by debt. Because companies such as banks rely more on debt to finance their operational activities, the use of debt can provide benefits such as funding bank expansion such as through opening new branches, or investing in financial instruments, etc., but it should also be noted that excessive use of debt can increase the risk of bankruptcy.

Because having bank debt has a higher risk, namely a high interest burden which, if not managed properly, can increase the risk of bankruptcy. Inappropriate funding decisions will result in a high cost of capital resulting in low profits (Megawati et al., 2021). Based on research by Azizah Basmar et al. (2023) shows that capital structure (DAR) has a negative effect on profitability and Husin & Purnamasari, (2021) also shows that DAR has a negative effect on profitability. Meanwhile, Saaba & Yunita's research (2022) shows that DAR has an insignificant effect on profitability. Meanwhile, according to Mehzabin et al. (2023) capital structure (DAR) has a positive effect on profitability.

Another factor that can affect profit is operational efficiency. Operational efficiency is important for banks to manage because good operational control can increase company profits. Banks that are inefficient in their business activities will experience difficulties in competing and channeling funds to the public (Kuncoro & Suhardjono, 2016). Operational efficiency can affect profits by showing the extent to which the bank has used its production factors optimally to generate profits. In this research, operational efficiency is explained by non-interest expense to total assets, this ratio is used to see how efficient the company's operations are to its total assets. Research by Mehzabin et al. (2023) shows that operating efficiency (NIE) has a positive influence on profitability. In contrast, research by Suteja & Ginting (2014) and Saaba & Yunita (2022) shows that NIE has a negative influence on profitability.

Another factor that can influence profits is non-interest income. Apart from interest income from loans, bank income also comes from non-interest income (Elsas et al., 2010). Non-interest income is bank income obtained from activities other than credit such as fee and commission income, trading income, and other non-interest income. The existence of non-interest income can provide additional income for banks, thus opening more sources of income to increase their profits. Apart from that, non-interest income can be a way for banks not to depend solely on interest income. In this research, non-interest income is explained by non-interest income to total assets, this ratio is used to see how much non-interest income to its total assets. Research by Abu Khalaf (2024), Karadayi (2023), and Mehzabin et al. (2023) shows that non-interest income has a positive positive effect on profitability. Meanwhile, research (Suteja & Ginting, 2014) shows that non-interest income has no effect on profitability.

The development of bank profitability in Indonesia shows that there are still banks whose ROA performance is unstable and still below standard and there is still no research that combines financial performance such as capital structure, operational efficiency, and non-interest income and non-financial performance such as green banking on profitability. and there are still inconsistencies in research results regarding variables that influence profits, which is the reason for carrying out this research. The research objects used are banks listed on the Indonesia Stock Exchange (BEI) for the 2016-2022 period because the green banking commitment was only established at the end of 2014 in the Sustainable Finance Roadmap by the OJK.

1.2. Research Problem

The role of banking is very important for a country's economy with its main role as a collector and distributor of funds. Because it plays an important role in the economy, it is necessary to measure its profit performance. One way to measure profits is with ROA. However, there are still banks that show financial performance that is not optimal according to BI, namely above 1.5%. Several factors are thought to influence bank profits, namely capital structure, operational efficiency, non-interest income, and green banking. Based on the description above, the problem formulation in this research is:

1. Does Capital Structure affect banking profitability?
2. Does Operating Efficiency affect banking profitability?
3. Does Non-Interest Income affect banking profitability?
4. Does Green Banking affect banking profitability?

1.3. Research Objective

This research aims to provide empirical evidence of the influence of capital structure, operational efficiency, non-interest income, and green banking on banking in Indonesia in banks listed on the Indonesia Stock Exchange (BEI) in 2016-2022.

1.4. Research Contribution

1. Theoretical Contribution

   It is hoped that the results of this research can be used as a reference in further research regarding the influence of capital structure, operational efficiency, non-interest income, and green banking on profits and can increase knowledge for writers and readers.

2. Practice Contribution

   It is hoped that the results of this research can provide information and input for banking management to increase profits, and provide information on the influence of capital structure, operational efficiency, non-interest income, and green banking on profits.

3. Policy Contribution

   It is hoped that the results of this research can support the preparation of sustainability reports regulated in POJK Number 51/POJK.03/2017 for LJKs, issuers, and public companies.

1.5. Writing Structures

Chapter I INTRODUCTION

This chapter explains the background, problem formulation, research problem, research benefits, and systematic discussion.

Chapter II THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

This chapter explains the theoretical basis used, previous research, and hypothesis development.

Chapter III RESEARCH METHODOLOGY

This chapter explains the types of research, research objects, research populations and research samples, types and techniques of data collection, operationalization of variables, research models, and data analysis techniques.

Chapter IV RESULT AND DISCUSSION

This chapter explains the results of data analysis and discussion of research results.

Chapter V CONCLUSIONS

This chapter explains the conclusions, limitations, and research suggestions.