COMPARISON ANALYSIS OF FINANCIAL PERFORMANCE BETWEEN PT. BANK CIMB NIAGA, TBK AND BANK MANDIRI (PERSERO) TBK

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ABSTRACT

Bank is a company that provides financial services for the whole society. It is important for bank to go public which is the process of transformation from private company into a public company. The owner of a bank wants the management to optimize the existing resources as much as possible. Ownership of banks in Indonesia spread, partly owned by the government, partly owned by private domestic and foreign private. Research objectives are to analyze financial performance between foreign and local banks that go public in Indonesia. Analytical techniques used to see comparison of financial performance between foreign and local banks is the method of Independent sample t-test. The implementation of this method is to compare the financial performance each year from 2009 until 2012 and simultaneously. The data used in this research is gathered from IDX. The conclusion is there are significant differences for ratio of NPL, ROE, and LDR. While the ratio of CAR and ROA there was not a significant difference. In terms of profitability, capital financial performance of Bank Mandiri is better than Bank CIMB Niaga. But, there is a lower ratio of Bank CIMB Niaga, which is liquidity ratio (LDR). To improve this ratio, Liquidity ratio (LDR) can be enhanced by pressing the increase of funds channeled through bank financing or loans to customers. While Bank CIMB Niaga performance was better in terms of liquidity, but there are some lower ratios of this bank which are NPL and ROE. To improve NPL ratio bank CIMB Niaga must careful in lending to customers to reduce the amount of non-performing loans. And the bank should increase the profitability ratios (ROE) as well as increasing dividend payments, in order to give high confidence to investors, about bank prospects in the future. It means that bank should be more efficient in their operations in order to increase bank profits so as to increase the stock return.

Keywords: *financial performance, financial ratio*

INTRODUCTION

Research Background

Bank is a company that provides financial services for whole society. Bank based on the Law of Republic of Indonesia No.10 year of 1998 on amendments to the Law No. 7 year of 1997 on banking, stated that the banks are business entities that raise funds from the public in the form of savings and channeling to the community in the form of credit or other forms to improve the lives of many people. Function of bank is the intermediary between the people who need excess funds with public funds, in addition to providing other financial services. The success of a bank to make a profit is an achievement made by the management in managing the bank properly and correctly. Bank owner wants the bank's management to optimize the existing resources in the bank so the management is able to generate huge profits. The final goal of every banking company is profit that reflected with the good performance of the bank. To achieve the goals which are motivational profit from the shareholder or the bank owners, then the bank owner would choose management is expected to run the bank's business with good and profitable.

Performance of a bank can be measured by financial performance or financial statement. One of the techniques used to assess the company performance is financial ratio analysis. Financial ratios are expected to be used to detect financial difficulties. The increasing of financial performance will lead to improved functions and activities of the organizations. Ownership in Indonesian banks varies widely because banks in Indonesia have dispersed ownership. Fraction of the number of existing government-owned bank, partly owned by private parties whether private domestic and foreign private. Financial performance of a bank needs to be done by the management, investor, government or other parties that have the same interest. Considering the importance of relationship between all parties so further research is needed to know how the relationship and what the differences if the owner of the bank come from the different background.

Two banking companies' information used in this research, namely, PT. Bank CIMB Niaga Tbk. and Bank Mandiri (Persero) Tbk. Both companies have shown good performance to customers the quality of their products and services each year. In 2010 PT. Bank CIMB Niaga Tbk ranked 3rd for Best Overall FX Services and ranked 2nd for Best Innovative FX Products and Structured Ideas in foreign bank category in FX Poll 2010 surved by Asiamoney magazine. While Bank Mandiri (Persero) Tbk. got award as the Best Bank in Indonesia for 3 years, in 2010, 2011, and 2012 surved by Asiamoney magazine. Both companies have proven their existence in the banking company in Indonesia.

Research Objective

There are specific objectives for this research, to examine the difference in financial performance based on:
1. CAR between go public foreign and local banks.
2 NPL between go public foreign and local banks.
3. ROA between go public foreign and local banks.
4. ROE between go public foreign and local banks.
5. LDR between go public foreign and local banks.

THEORETICAL FRAMEWORK

Theories

Bank

Bank performs an intermediary role in an economy, by accepting deposits and making loans (Heffernan, 1996:1). While Bhattacharya and Thakor (1993) stated that banks enhance aggregate investment and also improve its quality. Banks have traditionally played the key role in the financial system by acting as financial intermediaries between ultimate savers and borrowers (Llewellyn, 1999).

Financial Management

Brigham and Houston (2010:5) stated that financial management, also called corporate finance, focuses on decisions relating to how much and what types of assets to acquire, how to raise the capital needed to buy assets, and how to run the firm so as to maximize its value. While Keown (2005:4) stated that financial management deals with the maintenance and creation of economics value or wealth by focusing on decision making with an eye toward creating wealth. Lasher (2008:5) stated that financial means the management and control of money and money-related operations within a business.

Firm Performance

Shah et al. (2010) explained that firms are defined by a network of relationships representing contractual arrangements for financing, capital structure, managerial ownership and compensation.

Financial Performance

Finance is the art and science of handling money (Lasher, 2008:2). Brigham and Houston (2007:19) stated that finance is, in a real sense, the cornerstone of the enterprise system—good financial management is vitally important to the economic health of business firms, hence to the nation and the world.

Financial Statement

Horngren et al. (2009:46) stated that financial statements are business documents that report on a business in monetary terms. While Reeve et al. (2009:15) stated that financial statements are the accounting reports providing this information.

Ratio Analysis

Altman (1968) stated ratio is a predictor of bankruptcy. In general, ratios measuring profitability, liquidity, and solvency prevailed as the most significant indicators. While Najjar (2013) stated a ratio is to compare one number to another-mathematically, a simple division problem.

Financial Ratio Analysis

David (2012:139) explained that financial ratios are computed from an organization's income statement and balance sheet. Computing financial ratios is like taking a picture because the results reflect a situation at just one point in time. Finch (2005) stated that financial ratios are one of the most common tools of managerial decision making.

Previous Researches

Haneef (2012) found that domestic banks perform better as compared to foreign banks. All regression models are significant which provide the proof of better performance compare to foreign banks, also the auto correlation approve the hypothesis. Yammessri (2003) found a positive relationship between controlling ownership to firm performance. It was also found that the firm with controlling ownership had higher performance than those who did not have ownership control in Thailand. Bolbol et al. (2004) found that the broad conclusion that emerges is that ownership concentration is an endogenous response to poor legal protection of investors, but seems to have no significant effect on firms' performance. Wahid and Rehman (2009) showed that local controlled commercial banks in Pakistan are more profitable than foreign controlled ones as far as the volume of the profit is concerned which is reflected in their earnings per share but the foreign controlled commercial banks in Pakistan. The bank efficiency of the foreign controlled commercial banks in Pakistan is much better than local controlled commercial banks. Azam and Siddiqui (2011) found that the better capability in explaining the variability of domestic banks' profitability (ROE and ROA) than foreign ones.

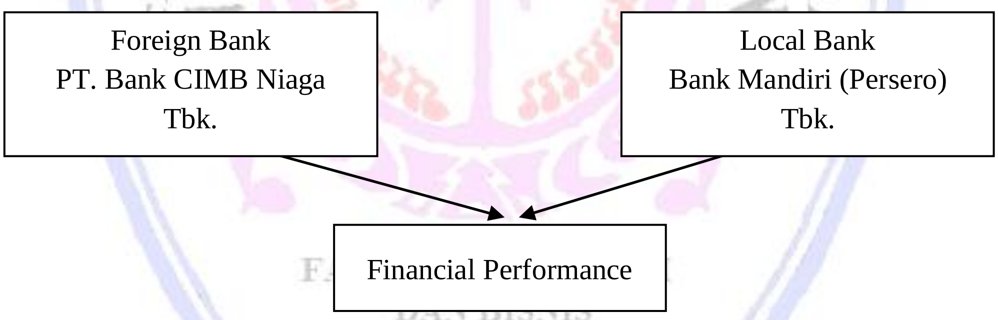

Figure 1. Conceptual Framework

Source: Literature Review

Research Hypotheses

Based on the research problems, the hypotheses are there is a significant difference based on:
H1 : CAR between go public foreign and local bank.
H2 : NPL between go public foreign and local bank.
H3 : ROA between go public foreign and local bank.
H4 : ROE between go public foreign and local bank.
H5 : LDR between go public foreign and local bank.

RESEARCH METHOD

Type of Research

This research is classified in to comparative design and observation method. The researcher is gathering data by act as nonparticipant-observer. It means by collecting the data without becoming an integral part of the organization. This study uses quantitative methods to obtain data.

Place and Time of Research

The object of this research is a financial performance of foreign and local bank listed in IDX from 2009 until 2012 by collecting data from Bank Publications issued by IDX itself.

Population and Sample

Population is an identifiable group of elements (for example, people, products, organizations) of interest to the researcher and pertinent to the information problem (Hair et al., 2010:131). Population of this research is banks that go public and listed in IDX. The sample size is 2 banks with details: 1 bank with foreign ownership structure, and 1 bank with local ownership structure.

Data Collection Method

This research used secondary data to sources data. Secondary Data is information previously collected for some other problem or issue. And the researcher collects data from browse information through internet, financial books, financial journals, and articles.

Operational Definition of Research Variables

The variables that are used in this research are the companies' value financial performance that measured by financial ratios analysis and ownership structure. The definitions of primary variables used in this research are as follows:

1. CAR (Capital Adequacy Ratio) is the ratio that can used to measure the modal that owned by bank to support risk assets.
2. NPL (Non Performing Loan) this ratio is to measure the credit risk.
3. ROA (Return on Asset) defines the ability of company to gain income from the processing of assets. Return on assets is good to measure the performance profitability of a company.
4. ROE (Return on Equity) is a ratio to measure the ability of bank management in managing existing capital to get net income.
5. LDR (Loan to Deposit Ratio) is an indicator of the ability of the bank to convert deposits into loans.

Data analysis Method

Independent Sample t-test Model

Independent sample t-test is run in order to see the significant differences in the means between two groups in the variable (Sekaran and Bougie, 2010:345). It is used to test the two means from two independent or unrelated samples. Results from decision step are to test whether to accept the H0 or to reject H0. The step to accept or reject H0 is by seeing the probability score compared to the alpha (α) that used with some criteria, which are: if the P-value (significance) > 0.05 (α) then H0 is accepted and if the P-value (significance) < 0.05 (α) then H1 is accepted. If the H0 is accepted, it means there is no difference in financial performance between PT. Bank CIMB Niaga, Tbk and Bank Mandiri (Persero), Tbk and if the H1 is accepted instead, that there is significant difference in financial performance between both companies.

RESULTS AND DISCUSSION

Result

Independent Sample T-Test

Table 1. Independent sample t-test result (2009-2012)

		t-Test For Equality Means	
		t	**Sig (2-tailed)**
CAR	Equal variances assumed	-1.394	.213
	Equal variances not assumed	-1.394	.214

Source: Data Processed, 2013

Table 1 indicates there is no difference in financial performance between PT. Bank CIMB Niaga, Tbk and Bank Mandiri (Persero), Tbk. It is shown by the value of t-count for CAR using the Equal Variances Assumed is -1.394 with significant at the 0.213. Therefore, the value of sig. (2-tailed) t-count > t-table (0.213 > 0.05), it can be concluded the hypothesis or H1 from the test hypothesis testing which stated that "there is a significant differences in financial performance based on CAR between go public foreign and local bank" is rejected.

Table 2. Independent sample t-test result (2009-2012)

		t-Test For Equality Means	
		t	**Sig (2-tailed)**
NPL	Equal variances assumed	4.544	.004
	Equal variances not assumed	4.544	.016

Source: Data Processed, 2013

Table 2 indicates there is a difference in financial performance between PT. Bank CIMB Niaga, Tbk and Bank Mandiri (Persero), Tbk. It is shown by the value of t-count for NPL using the Equal Variances not Assumed is 4.544 with significant at the 0.016. Therefore, the value of sig. (2-tailed) t-count < t-table (0.016 < 0.05), it can be concluded H2 from the test hypothesis testing which stated that "there is a significant differences in financial performance based on NPL between go public foreign and local bank" is accepted.

Table 3. Independent sample t-test result (2009-2012)

		t-Test For Equality Means	
		t	**Sig (2-tailed)**
ROA	Equal variances assumed	-2.402	.053
	Equal variances not assumed	-2.402	.069

Source: Data Processed, 2013

Table 3 indicates there is no difference in financial performance between PT. Bank CIMB Niaga, Tbk and Bank Mandiri (Persero), Tbk. It is shown by the value of t-count for ROA using the Equal Variances Assumed is -2.402 with significant at the 0.053. Therefore, the value of sig. (2-tailed) t-count > t-table (0.053 >

0.05), it can be concluded H3 from the test hypothesis testing which stated that “there is a significant differences in financial performance based on ROA between go public foreign and local bank” is rejected.

Table 4. Independent sample t-test result (2009-2012)

		t-Test For Equality Means	
		t	**Sig (2-tailed)**
ROE	Equal variances assumed	-2.625	.039
	Equal variances not assumed	-2.625	.058

Source: Data Processed, 2013

Table 4 indicates there is a difference in financial performance between PT. Bank CIMB Niaga, Tbk and Bank Mandiri (Persero), Tbk. It is shown by the value of t-count for ROE using the Equal Variances Assumed is -2.625 with significant at the 0.039. Therefore, the value of sig. (2-tailed) t-count < t-table (0.039 < 0.05), it can be concluded the H4 from the test hypothesis testing which stated that “there is a significant differences in financial performance based on ROE between go public foreign and local bank” is accepted.

Table 5. Independent sample t-test result (2009-2012)

		t-Test For Equality Means	
		t	**Sig (2-tailed)**
LDR	Equal variances assumed	5.093	.002
	Equal variances not assumed	5.093	.007

Source: Data Processed, 2013

Table 5 indicates there is a difference in financial performance between PT. Bank CIMB Niaga, Tbk and Bank Mandiri (Persero), Tbk. It is shown by the value of t-count for LDR using the Equal Variances Assumed is 5.093 with significant at the 0.002. Therefore, the value of sig. (2-tailed) t-count < t-table (0.002 < 0.05), it can be concluded the H5 from the test hypothesis testing which stated that “there is a significant differences in financial perform based on ownership structure between go public foreign and local bank” is accepted.

Discussion

CAR (Capital Adequacy Ratio) is as a measure of financial strength and securities in a firm mostly in banks. It is expressed as percentage ratio of a bank's capital to its assets or risks. Capital adequacy ratio is applicable in banks and other financial institutions and used to protect depositors and promote the stability and efficiency of financial systems around the world. Best standard of CAR based on Bank Indonesia is 8%. The average of CAR value for Bank CIMB Niaga is 13.92% and for Bank Mandiri is 14.85, result shows that there is no significant difference between Bank CIMB Niaga and Bank Mandiri in CAR ratio and the result showed that both banks have higher CAR and above from standard set by Bank Indonesia. And financial performance of the two banks can be said to be still in a good standard or two banks is healthy.

NPL (Non Performing Loan) is a ratio to measure the credit risk. NPL is the company's ability to extend credit where according to Bank Indonesia's total non-performing loans that could not be more than 5%. NPL is total non-performing loans divided by total loans that already distributed to the public. From the NPL calculations can be seen that the total loans it is a total credit lent fluently which is means that, if the value of NPL is lower or decrease it will show the company's fluently credit or the bank is healthy. The average of NPL value for Bank CIMB Niaga is 1.36% and for Bank Mandiri is 0.5%, it can be seen that there is a significant difference between the two banks in NPL ratio. Significantly differences between the two banks, Bank CIMB

Niaga and Bank Mandiri Bank CIMB Niaga caused just deal with mergers which resulted in the instability of their financial performance. And economic conditions also have a major influence on the ability of the debtor to pay off his debts. But 2009 was also a year full of challenges and rewards for Bank CIMB Niaga. Whereas in 2009, Bank Mandiri have done the achievement of the second phase of the Market Outperform and has been successfully resolved. The achievement is to make the Bank Mandiri as the Indonesia's Most Admired and Progressive Financial Institution. Bank Mandiri also remained focused on improving the quality of assets during 2009, resulting in net NPL rate to 0.4%. And this results show that financial performance of Bank Mandiri is better than Bank CIMB Niaga in term of asset quality.

ROA (Return on Assets) defines the ability of company to gain income from the processing of assets. Return on assets is good to measure the performance profitability of a company. This ratio indicates the number of money earned on each of assets. Thus higher values of return on assets show that business is more profitable. This ratio should be only used to compare companies in the same industry. The reason for this is that companies in some industries are most asset-insensitive i.e. they need expensive plant and equipment to generate income compared to others. Their ROA will naturally be lower than the ROA of companies which are low asset-insensitive. An increasing trend of ROA indicates that the profitability of the company is improving. Conversely, a decreasing trend means that profitability is deteriorating. Best standard of ROA based on Bank Indonesia is 1.5% higher is better. The average of ROA value for Bank CIMB Niaga is 2.72 and for Bank Mandiri is 3.32%. It can be seen that the differences are not significant, and the results of ROA ratio of both banks is still above from the standards set by Bank Indonesia.

ROE (Return on Equity) is a ratio to measure the ability of bank management in managing existing capital to get net income. Return on equity is an important measure of the profitability of a company. Higher values are generally favorable meaning that the company is efficient in generating income on new investment. ROE is more than a measure of profit; it's a measure of efficiency. A rising ROE suggests that a company is increasing its ability to generate profit without needing as much capital. It also indicates how well a company's management is deploying the shareholders' capital. In other words, the higher the ROE the better. Falling ROE is usually a problem. Best standard of ROE ratio set by Bank Indonesia is 12% higher is better. The average of ROE value for Bank CIMB Niaga is 19.05% and for Bank Mandiri is 22.78%. From the result showed a significant different between both banks. This is because in 2009 Bank CIMB Niaga occurred the slow performance was mainly due to high interest rates and a lack of confidence in the market. While Bank Mandiri showed a good performance. Condition of national banks that conducive, providing a fairly good foundation for the performance of Bank Mandiri. Bank Mandiri managed to obtain some important milestones. The bank also noted an increase in primary ratios such as ROA and ROE reached 22.6%. And this results show that financial performance of Bank Mandiri is better than Bank CIMB Niaga in term of profitability.

LDR (Loan to Deposit Ratio) is an indicator of the ability of the bank to convert deposits into loans. From a liquidity point of view a high loan to deposit ratio indicates a bank's ability to manage with a low level of cash and marketable investment. A commonly used statistic for assessing a bank's liquidity by dividing the banks total loans by its total deposits. This number, also known as the LDR, is expressed as a percentage. If the ratio is too high, it means that banks might not have enough liquidity to cover any unforeseen fund requirements; if the ratio is too low, banks may not be earning as much as they could be. Best standard of LDR set by Bank Indonesia is 85-110%. The average of LDR value for Bank CIMB Niaga is 93.15 and for Bank Mandiri is 70.80 %. From the result showed a very significant different between both banks. Bank Mandiri to be more careful in other banking indicators. Loan to Deposit Ratio (LDR) has a tendency to decline. At the end of 2009, the position of national LDR is at 61.4%, while at the end of 2010 to 67.6% this indicator. However, despite an increase in the value of LDR Bank Mandiri is still below the standard set by Bank Indonesia. While for Bank CIMB Niaga After experiencing a slowdown for most of 2009 mainly due to an international liquidity crisis, the banking sector grew fairly well in 2010 showed an improved loan to deposit ratio (LDR) of 88.04%. And this results show that financial performance of Bank CIMB Niaga is better than Bank Mandiri in term of liquidity.

CONCLUSION AND RECOMMENDATION

Conclusions

The conclusions of this study are;

1. There is no significant different in financial performance based on CAR between go public foreign and local banks.
2. There is a significant different in financial performance based on NPL between go public foreign and local banks.
3. There is no significant different in financial performance based on ROA between go public foreign and local banks.
4. There is a significant different in financial performance based on ROE between go public foreign and local banks.
5. There is a significant different in financial performance based on LDR between go public foreign and local banks.

Recommendation

There recommendations in this research:

1. Generally, in terms of profitability, capital financial performance of Bank Mandiri is better than Bank CIMB Niaga. But, there is a lower ratio of Bank CIMB Niaga, which is liquidity ratio (LDR). To improve this ratio, the bank should consider: Liquidity ratio (LDR) can be enhanced by pressing the increase of funds channeled through bank financing or loans to customers. So, the financial performance of LDR ratio analysis can be improved.
2. This research concludes that the financial performance of Bank CIMB Niaga in terms of credit or loans is better than Bank Mandiri. However there are some lower ratios of Bank CIMB Niaga, which the ratio of asset quality (NPL) and profitability (ROE). To improve these ratios, Bank CIMB Niaga needs to pay attention to the following matters: Asset quality ratios (NPL) could be improved by more careful in lending to customers to reduce the amount of non-performing loans. If banks want to increase the stock return, the bank should increase the profitability ratios (ROE) as well as increasing dividend payments, in order to give high confidence to investors, about bank prospects in the future. It means that bank should be more efficient in their operations in order to increase bank profits so as to increase the stock return. And after the global crisis, bank should further improve its performance, in order to obtain the maximum profit.
3. For the further research should do research in more specific categories. And because this research uses only five ratios to measure the financial performance of Bank CIMB Niaga and Bank Mandiri, the future researchers should use more ratios to measure performance. In addition, future researchers should also reproduce the sample, so the results are more generalized.

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