

# The Impact of External and Internal Factors on The Financial Performance of BPRS In the East Java Region

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**Abstract-** Improving financial performance is a process of achieving the main objectives of BPRS through effective and efficient operational activities. Financial performance is important to evaluate in the continuity of operational activities of Islamic banks in maximizing profits. The existence of BPRS has an influence on the development of Micro, Small and Medium Enterprises (UMKM) around remote areas because the procedures and financing schemes adjust to the relatively simple conditions of the community. Factors that become problems of competition, capital, poor management and so on that cause the level of financial performance to decline. Maximum Islamic bank financial performance can be achieved with internal factors and external factors. The results of this study indicate that CAR, FDR, and inflation have no significant effect on ROA. The BOPO variable has a significant effect on ROA. The NPF variable is able to mediate FDR, BOPO, inflation against ROA. Meanwhile, the NPF variable does not mediate CAR on ROA.

**Keyword:** Financial Performance, Internal Factors, External Factors.

## INTRODUCTION

The development of banking in Indonesia is very dynamic which influences changes in the country's economy. The existence of banking really supports the smooth running of economic development (Agent of Development) in a country, because institutions that function as financial intermediaries (Financial Intermediaries) between parties have excess funds with shortages of funds (Capriani & Dana, 2016)<sup>1</sup>. Islamic People's Credit Bank (BPRS) is a type of bank that has activities to serve micro, small and medium-sized communities in rural or remote areas. The success of the growth of Islamic Rural Banks (BPRS) cannot be separated from financing to the community to be used as additional capital or business (Capriani & Dana, 2016). Islamic banking operational activities are based on sharia principles or profit sharing (Soemitra, 2018)<sup>2</sup>. The existence of BPR or BPRS influences the development of Micro, Small and Medium Enterprises (UMKM) around remote areas. In addition, easy service procedures with financing schemes adapted to the conditions of society are relatively simple compared to commercial banks which have standard service procedures with large-scale financing and are located in urban areas (Fauzi, 2019)<sup>3</sup>.

In the table below the ratios in the last 4 years it can be compared that the financial ratios of BPRS have fluctuated up and down. Research by Smaoui & Ghouma (2019)<sup>4</sup> states that through regular reviews and evaluations in improvement to measure the level of effectiveness of banking performance is profitability. Profitability is a specific measure for estimating bank performance that must be achieved from managing the company by maximizing the value of returns and reducing existing risks (Hijriyani & Setiawan, 2017)<sup>5</sup>. According to Niode and Chabachib (2016)<sup>6</sup> profitability is able to see management's ability to generate profits. Islamic bank financing is inseparable from risks, one of which is profitability.

**Table 1.1 BPRS Financial Ratio**

NO.	RATIO	2018	2019	2020	2021
1	CAR	19,33%	17,99%	28,60%	23,79%
2	FDR	111,67%	113,59%	108,78%	103,38%
3	BOPO	87,66%	84,12%	87,62%	87,63%
4	NPF	9,30%	7,05%	7,24%	6,95%
5	ROA	1,87%	2,61%	2,01%	1,73%

Source: SPS January, 2023.

Based on Table 1.1 BPRS Financial Ratios, in measuring the level of financial performance, the quality of financing is an important indicator of the bank. In BPRS the measuring instrument used is the level of capital which is an important option. The ratio used to measure the effectiveness of capital is the Capital Adequacy Ratio (CAR). CAR describes the level of bank capital management for its operational activities (Almaqtari et al, 2020)<sup>7</sup>. From 2020 to 2021, the CAR ratio will decrease by 28.60% to 23.79%, the same as ROA in 2020 of 2.01% and in 2021 of 1.73%. The CAR level must be stable because if it is too high it will have an impact on the amount of outgoing funds. If the CAR condition is too low, the bank does not face capital risk (Sudarsono, 2018)<sup>8</sup>. This is in line with the theory which states that CAR has a positive effect on ROA, but the data obtained is from 2018-2021. From the findings of Arshed & Kalim (2021)<sup>9</sup> banks in Europe maintain their capital levels well so that they contribute and compete in the banking market, because the level of capital is an important thing in bank operations.

**Table 1.2 Annual Inflation**

2018	2019	2020	2021
3,13%	2,72%	1,68%	1,87%

Source: Bank Indonesia, 2021.

External factors really need to be considered, one of which is unstable inflation which will have an impact on bank performance. This study adds inflation as an independent variable to see whether external factors influence the dependent variable directly and indirectly. According to Basher in Anto and Ghafur (2012)<sup>10</sup>, inflation has a negative effect on the profitability of Islamic banks. The emergence of inflation based on the quantity theory of money is the spread of the high amount of money circulating in society. In Table 1.2 above, inflation has fluctuated up and down to increase by 1.87% in 2021. In contrast to ROA in Table 1.1 which has fluctuated up and down drastically by 1.73%. This is a data gap that is not in accordance with existing theories related to the influence of macroeconomic conditions.

The development of Provincial BPRs/BPRS, especially BPRS in East Java, is still quite good with a Capital Adequacy Ratio (CAR) of 22%, Third Party Funds (DPK) of 20%, Financing of 22%, and loans of 2 to 3%. It was recorded that in 2018 the number of BPRS decreased to 28 BPRS and again decreased in 2021 to 25 BPRS which are operating healthily. In general, BPRS in the East Java region is a solution for the community or UMKM that need a bribe of funds. However, from an operational perspective, it still has many weaknesses (Rahman & Dean, 2013)<sup>11</sup>. The Indonesian Sharia Economic Masterplan (2019)<sup>12</sup> has problems faced by Islamic banking in Indonesia, namely the strategy in developing banking performance is not matched by a market share where the majority of Indonesian people are Muslim. Researchers Oppong & Masahudu (2014)<sup>13</sup> on Ghana, challenges facing global competition and management. Broadly speaking, the problems faced by BPRS in the East Java region are competition, capital, poor management and so on.

## LITERATURE REVIEW

### *Entity Theory*

The concept of the company as a legally distinct organization that is separate from the owners. This includes transactions that are maintained throughout between his personal and business affairs. But an investor or owner can get the condition of his company. In the accounting literature initiated by a professor Paton from the University of Michigan that there is an entity theory, the company and its owners are separate. Ownership of company assets between liabilities and equity holders by investors has different rights, and is formulated in the financial position stating assets and total liabilities plus owner's equity (Suwardjono, 2010: 117)<sup>14</sup>. Owners and investors will need financial reports to see information from company developments in making the right decisions. This concept is the basis that needs to be implemented in the determination of policy to reduce the risk of BPRS financial performance.

### *Commercial Loan Theory*

Commercial Loan Theory theory only provides short-term credit which is very easy to disburse or liquid (Short Term, Self Liquidating) through installments from credit as the source. Short-term loans are in the form of working capital loans so that debtors are able to repay their loans so that they can increase company profits. This theory is also related to credit risk and bank profitability, if the greater the credit risk experienced, the credit given will be smaller and the opportunity to get profit will not be optimal. So that the bank will remain liquid if the bad credit is low and it is likely to get the maximum profit.

### *Contingency Theori*

Contingency theory or Contingency Theory was first introduced by Lawrence and Lorsch in 1967. According to Lee and Miller (1996:784)<sup>15</sup>, and Child (1997:75) that the theory states that the fit between strategy and the external environment will directly determine the life and performance of the company. . In implementing this theory, it explains that if the strategy can meet the demands of the environment, if not, then the suitability of the implementer of the strategy against the external environment will cause performance to decline resulting in a company crisis (Elenkov, 1997: 300)<sup>16</sup>. Contingency theory states that there is no system that companies use in various environments. The success of the company's performance adjusts to environmental conditions (Fisher, 1995)<sup>17</sup>. Companies rely heavily on the internal and external environment by establishing an optimal management system (Fiedler, 1994)<sup>18</sup>.

Uncertainty in the company as the inability of individuals to predict something (Milliken, 1997)<sup>19</sup>. Uncertainty of the company's environment is an individual's perception of the uncertainty that comes from the external environment that contributes to the company (Gregson, et al., 1994)<sup>20</sup>. According to Max (1980:49) and Chong and Chong (1997:43)<sup>21</sup> explaining the uncertainty of the external environment has an influence on the design of management accounting systems and company performance. The condition of external factors in the BPRS will affect operational activities so that it can cause a decrease in interest in transactions at the BPRS which results in reduced income for the community. Reduced public income causes a decrease in demand and experience difficulties in paying for financing at the BPRS. This has an impact on the income generated by the bank. So that it will cause the performance and financial condition of BPRS to be unhealthy or unstable. Contingency factors create uncertainty in BPRS so that internal parties cannot estimate the risks that will occur. This will affect the quality of BPRS performance, so adjustments are needed in determining strategies or policies to reduce the risk of sub-optimal financial performance of BPRS.

### *Populasi Ecology*

The population ecology theory is expected that companies can adapt to the environment in which the company is located, which can survive, multiply or even support the growth of the company. According to Wiklund (1999:53)<sup>22</sup> the population ecology theory model with the approach that the external environment has a direct influence on company performance regardless of the choice of strategy that the company will run.

**Corporate Business Environment**

The environment faced by companies is divided into internal and external environments (Wheelen and Hunger, 2012:8-9)<sup>23</sup>. In this research, the internal environment is a variable that comes from within the company, such as the financial ratios of the BPRS. While the external environment is a variable that comes from outside that is not involved in controlling the company, namely inflation used in this study. Another meaning of the internal environment is sourced from company elements. The external environment comes from outside the company related to company activities.

In management theory there are two components, namely the macro environment and the industrial environment. According to Wheelen and Hunger (2012: 8-9) The macro environment comes from economic, political and legal forces, and social and cultural forces. Impacts in the macro environment have an influence on the company's prospects, but indirectly affect the industrial environment (Suwarsono, 2000:23)<sup>24</sup>. This happens if one of the macro components affects the industrial environment before the company. The factors contained in the industrial or micro environment are called the task environment which need to be considered more closely in the company's business.

**Financial Performance**

Good performance within the company is a form of the company's goals in obtaining optimal profits (Isti Fadah et al, 2021)<sup>25</sup>. Overall financial performance is the achievement of the bank in its operational activities in one period. From the company's financial performance or parties who need information about financial statements, they can find out whether the company's profits have reached high or not. Hery (2018:25)<sup>26</sup> performance measurement is an attempt to evaluate the efficiency and effectiveness of a company in generating profit and cash position for a period.

Assessment of the soundness of banks is regulated by Bank Indonesia in Bank Indonesia Regulation No.13/1/PBI/2011 concerning the assessment of the soundness level of commercial banks, it is obligatory to increase the soundness level of banks with the principle of prudence. Because the assessment is necessary to determine the achievements of the company in a certain time. This study uses the financial performance ratios Capital Adequacy Ratio (CAR), Financing to Debt Ratio (FDR), Operating Expenses Operating Income (BOPO), Return on Assets (ROA), and Non Performing Finance (NPF).

**Capital Adequacy Ratio (CAR)**

According to the OJK (2019) CAR is usually used to measure the level of adequacy of BPRS capital in absorbing losses to meet the stipulated Minimum Capital Requirement (KPMR) regulations. CAR shows the bank's ability to cover the risk of loss from capital distribution activities formed by other financing in fulfilling its operational activity capital (Ferry, 2008:69)<sup>27</sup>. CAR calculation can be calculated by the following formula.

$$CAR = \frac{\text{Modal Sendiri}}{\text{Aktiva Tertimbang Menurut Resiko (ATMR)}} \times 100\%$$

According to the Financial Services Authority (2019)<sup>29</sup> the determination of CAR criteria can be understood if it increases, the BPRS is declared healthy and vice versa. If the CAR is less than 8%, then the SRB is in an unhealthy condition or unable to meet its short needs. It can be seen in the following table of criteria in the CAR rating.

**Table 1.3 Matrix of CAR Rating Criteria**

Rating	Description	Criteria
1	Very healthy	CAR ≥ 15%
2	Healthy	13,5% ≤ CAR < 15%
3	Healthy Enough	12% ≤ CAR < 13,5%
4	Unwell	8% ≤ CAR < 12%
5	Not healthy	CAR < 8%

Source: Appendix SE OJK NUMBER 28/SEOJK.03/2019.

**Financing to Debt Ratio (FDR)**

The Financing to Debt Ratio (FDR) is defined as the ratio used to see the liquidity of the BPRS which will be paid back for withdrawals made by depositors by utilizing financing as a source of liquidity. BPRS must be able to utilize and manage the funds they have by optimizing financing so that it remains stable. The higher the FDR value, the greater the funds given to Third Party Funds (DPK), but the lower the liquidity capacity. The large distribution of DPK will cause the BPRS' revenue to increase. The calculation is with the formula to calculate the FDR ratio as follows.

$$FDR = \frac{\text{Total Pembiayaan}}{\text{Total Dana}} \times 100\%$$

**Table 1.4 Matrix of FDR Rating Criteria**

Rating	Description	Criteria
1	Very healthy	50% < FDR ≤ 75%
2	Healthy	75% < FDR ≤ 85%
3	Healthy Enough	85% < FDR ≤ 100%
4	Unwell	100% < FDR ≤ 120%
5	Not healthy	FDR > 120%

Source: SE BI 6/23/DPNP/2011.

### Operating Expenses Operating Income (BOPO)

The ratio of Operating Expenses to Operational Income (BOPO) is used to maximize BPRS activities whose principal principal is credit, because the profit-sharing system for credit is the largest income in a bank. So that it is necessary for the bank as the biggest revenue contributor for BPRS. BOPO is a comparison for measuring the level of availability in fulfilling the handling of bank operational funds (Warta, 2020)<sup>29</sup>.

The smaller the operational expenses, the more efficient the bank's BOPO is in operating its operational activities. Bank Indonesia (BI) stipulates that the BOPO ratio does not exceed 90%, if more than the percentage value is categorized as inefficient and uncontrolled costs causing revenue and financing to decline. BPRS performance must run optimally in generating revenue. The following is the BOPO calculation formula below.

$$\text{BOPO} = \frac{\text{Beban Operasional}}{\text{Pendapatan Operasional}} \times 100\%$$

**Table 1.5 Matrix of BOPO Rating Criteria**

Rating	Description	Criteria
1	Very healthy	BOPO ≤ 94%
2	Healthy	94% < BOPO ≤ 95%
3	Healthy Enough	95% < BOPO ≤ 96%
4	Unwell	96% < BOPO ≤ 97%
5	Not healthy	BOPO > 97%

Source: SE BI 6/23/DPNP/2011.

### Return on Assets (ROA)

The ROA ratio aims to measure a bank's ability to obtain profitability or profit levels compared to its assets (OJK, 2019). According to Kasmir (2013: 236)<sup>30</sup> ROA in large companies will also get large profits, then asset management is stated to be good. The higher the ROA, the better so that the condition of the bank's health level will be high (Tandelilin, 2010: 372)<sup>31</sup>. ROA can be calculated by the following formula.

$$\text{ROA} = \frac{\text{Laba Sebelum Pajak}}{\text{Total Aset}} \times 100\%$$

Analysis of the factor components determines the ROA ranking criteria stated in the calculations in the table as follows.

**Table 1.6 Matrix of ROA Rating Criteria**

Rating	Description	Criteria
1	Very healthy	ROA > 7%
2	Healthy	1,215% < ROA ≤ 1,450%
3	Healthy Enough	0,999% < ROA ≤ 1,215%
4	Unwell	0,765% < ROA ≤ 0,999%
5	Not healthy	ROA ≤ 0,765%

Source: Appendix SE OJK NUMBER 28/SEOJK.03/2019.

### Non Performing Finance (NPF)

NPF is a measurement of the proportion of bad credit financing compared to the total financing provided. Bad credit is categorized as substandard or doubtful in its payment. Another understanding of delays or defaults causes financing problems which will impact on decreasing financing so that it affects a decrease in profits which disrupts bank performance and worsens bank health (Veithzal and Andria, 2008: 476)<sup>32</sup>. The formula for calculating NPF can be calculated as follows.

$$\text{NPF} = \frac{\text{Jumlah Pembiayaan Bermasalah}}{\text{Jumlah Pembiayaan}} \times 100\%$$

Rating criteria for NPF The Financial Services Authority issued a circular saying that the higher the NPF, the healthier the bank's soundness, but if the NPF is low, the soundness of the bank is healthy.

**Table 1.7 Matrix of ROA Rating Criteria**

Rating	Description	Criteria
1	Very healthy	NPF ≤ 7%
2	Healthy	7,% < NPF ≤ 10%
3	Healthy Enough	10% < NPF ≤ 13%
4	Unwell	13% < NPF ≤ 16%
5	Not healthy	NPF < 16%

Source: Appendix SE OJK NUMBER 28/SEOJK.03/2019.

### Macroeconomics

Macroeconomics is a branch of science that studies the overall or aggregate economy which can affect a country's consumption, investment, trade balance and balance of payments (Nazamuddin, 2020:3)<sup>33</sup>. From a macro perspective, it affects the economy in large numbers, such as the impact of government debt or the unemployment rate or other factors that contribute to national economic growth. According to Nugroho et al. (2017)<sup>34</sup> macroeconomic conditions have had a positive effect on working capital financing for BPRS in Indonesia. BPRS in relation to macroeconomics is able to support operational activities in financing. One of the factors

commonly called external factors. External factors are factors that are not directly related to the company but can affect the condition of the company, especially in terms of financial performance. External factors such as inflation, BI rate, stock price index, foreign exchange and so on. Inflation is an option that is considered by researchers to have an impact on BPRS.

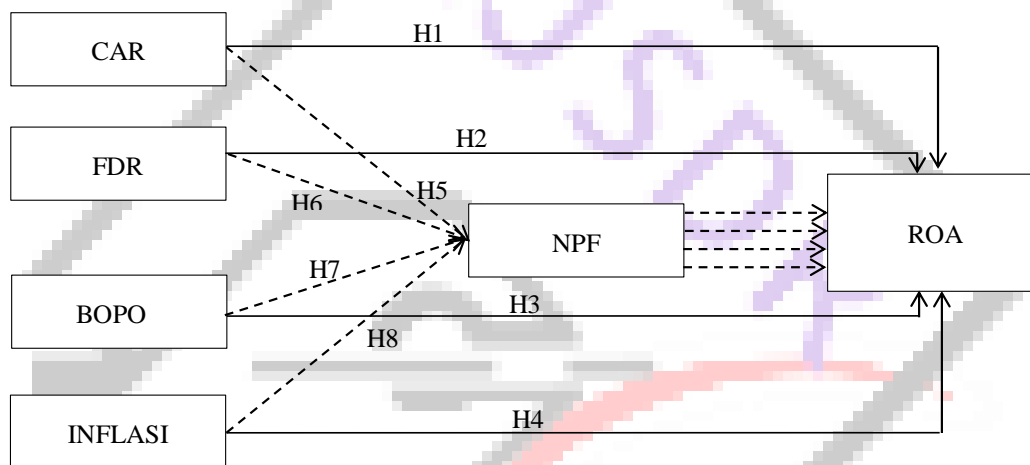
**Inflation**

Inflation is a continuous increase in prices or a decrease in the purchasing power of money. A situation in which purchasing power is weakening is followed by a decrease in the real value of a country's currency (Mukri and Gustiawati, 2020: 65)<sup>35</sup>. Mankiw (2011)<sup>36</sup> states that the tendency for prices to rise in general is continuous. The increase in question is an increase in various sectors. The existence of inflation will arise the problem of imbalance between demand and supply at BPRS. High inflation rates make it difficult for customers to pay off loans because they are more likely to meet their daily needs. Febrianti's research (2015)<sup>37</sup> said that if there is inflation, it will be difficult for the debtor to return the loan because the dependents are getting heavier while income tends to decrease. Rising commodity prices are not in accordance with production procurement programs, pricing, printing money and so on with the level of income generated by the community (Putong, 2013: 147)<sup>38</sup>.

In general, inflation includes price increases in the balance of flows of money and goods (Gilarso, 2013: 200)<sup>39</sup>. The inflation rate is calculated by the Central Bureau of Statistics (BPS) from the percentage change in the Consumer Price Index (CPI) in a comparison with the CPI of the previous period. CPI is a comparison of the price of a package of goods or services compared to the price of goods and services in the base year expressed in percent (Gilarso, 2013: 201).

**Research Conceptual Framework**

A framework that explains how the theory relates to various factors that have been identified as important issues (Sugiyono, 2019:108)<sup>40</sup>. This research is to explain and analyze the financial performance and inflation factor in BPRS in the East Java region mediated by NPF. The financial performance used is CAR, FDR, BOPO, NPF and ROA. While the external factor used is inflation. So after compiling the background and theory a conceptual framework is formed as follows:



**Figure 1.1 Research Conceptual Framework**

Information:  
 : direct effect →  
 : indirect influence -.-

Figure 1.1 explains the effect of financial performance on profitability or ROA through inflation or without inflation. Financial performance will be a variable, namely CAR, FDR, BOPO and Inflation. Financial performance is a measure of the company's ability. If the financial performance is high, then the profitability or ROA is also high so that the company is able to attract investors to invest. The better the financial performance, the higher the return generated. Inflation is an external factor that affects the profitability of a bank's performance. Inflation causes a tendency to periodically increase prices that occur in society. This situation affects the financial performance of banks, of course, has an impact on Islamic banking profits. While financial performance and external factors will prove whether there is an influence on profitability through NPF mediation to produce BPRS financial performance in making decisions.

**Research Hypothesis Development**

a. Effect of Capital Adequacy Ratio (CAR) on Return On Assets (ROA) of BPRS in the East Java region  
 The bank's management strategy must maintain or increase CAR in accordance with Bank Indonesia's minimum of 8% because sufficient capital can make business expansion safer in increasing ROA. This theory is supported by the research of M. Kabbir Hassan (2004), Sudin Haron (2004), Yuliani (2007), Ponco (2008), Setiawan (2009), Muhammad Farhan Akhtar (2011) and Hanimas (2012) which results in CAR having a positive effect on ROA or bank profitability. In line with the research conducted by Andrianto & Sadikin (2017), Putri & Dewi (2017) and Sofyan (2019), the CAR has a significant positive effect on bank ROA. Another study conducted by Pinasti & Mustikawati (2018) states that CAR has a negative effect on ROA. This is in contrast to research conducted by Harun (2016), Fajari & Sunarto (2017) and Cahyono (2018) that CAR has no effect on ROA. Based on theoretical and empirical studies, the research hypothesis is as follows:

**H1: CAR has a significant effect on the ROA of BPRS in the East Java region**

b. Effect of Financing to Debt Ratio (FDR) on Return On Assets (ROA) of BPRS in the East Java region

The Financing to Debt Ratio (FDR) is a ratio that reflects a bank's ability to assess the proportion of the amount of financing provided to the amount of its own capital. The FDR ratio is also referred to as the bank's ability to repay depositors' funds by controlling credit as a source of liquidity (Dendawijaya, 2009:116). The higher the FDR value, the greater the funds given to Third Party Funds (DPK). A high FDR ratio indicates lower BPRS liquidity, because the amount of funds needed for financing is getting bigger.

Conversely, if the FDR ratio is low, it indicates a lack of bank effectiveness in financing. So the higher the FDR within certain limits, the bank's profit will increase, assuming that the funds channeled are in the form of effective financing. Increased profit will be followed by an increase in ROA because profit is a component of ROA. This is supported by research by Ponco (2008) and Setiawan (2009) that FDR has a positive effect on ROA. From other studies, such as Darsita (2020), Fachri & Mahfudz (2021), and Yuliana & Listari (2021) also state that the relationship between FDR and ROA is positive. However, in the research of Rifai & Suyono (2019), Wahyudi (2020) and Rahmawati et al (2021) that there is no effect of FDR on ROA. Findings in Karim & Hanafia's research (2020) state that there is a negative effect of FDR on ROA. Based on theoretical and empirical studies, the research hypothesis is as follows:

**H2: FDR has a significant effect on the ROA of BPRS in the East Java region**

c. Effect of Operating Expenses Operating Income (BOPO) on Return On Assets (ROA) of BPRS in the East Java region

In Abbosoglu & Aysan (2007:107) the efficiency factor states that companies are better off having an increasing market share and having good profitability. The higher the BOPO value, the lower the profitability, which means that BOPO has a negative effect on ROA. In other words, the more efficient the bank has a positive effect on profitability or ROA. This explanation is supported by Rafel Bautusta Mesa (2013) who states BOPO has a positive effect on ROA. Previous research stated the negative effect of BOPO on ROA of Islamic banks from researchers Helle et al (2019), Darsita (2020), Azizah & Manda (2021) and Fachri & Mahfudz (2021). Meanwhile, other studies contradict the results of Gusmawanti et al (2020) and Gunawan et al (2020) that there is no effect of BOPO on ROA in BPRS. Based on theoretical and empirical studies, the research hypothesis is as follows:

**H3: BOPO has a significant effect on the ROA of BPRS in the East Java region**

d. The Effect of Inflation on the Return On Assets (ROA) of BPRS in the East Java region

Inflation is a macro environment that has an indirect influence on the industrial environment (Suwarsono, 2000:23). The uncertainty of the external environment has an influence on the design of accounting systems and company performance (Max and Chong-chong, 1997). If uncertainty makes internal parties unable to predict, then it is likely that it will occur precisely which will affect the quality of BPRS performance. If inflation is high, people's purchasing power decreases and interest rates increase which affects ROA. Research conducted in Albania by Duraj and Moci (2015) inflation has a negative and significant effect on banking ROA. The results of other studies by Sahara (2013) and Alim (2014) show that inflation has an influence on ROA. Based on theoretical and empirical studies, the research hypothesis is as follows:

**H4: Inflation has a significant effect on the ROA of BPRS in the East Java region**

e. NPF mediates the influence of the Capital Adequacy Ratio (CAR) on the Return On Assets (ROA) of BPRS in the East Java region

Research conducted by Almunawwaroh & Marlina (2018) found that CAR has a positive and significant effect on profitability because banks will get greater profits if a sufficient number of funds and bank capital levels will be more flexible in providing financing and reducing financing risks. In having access through channeling funds, banks will channel funds to large projects with the risk that the NPF will decrease in line with the increase in the resulting capital adequacy ratio and profitability. Based on this argument, if the CAR ratio increases, the BPRS in channeling funds will be more vigilant by channeling funds to financing that has a large profit rather than a small NPF risk. So it can be concluded that CAR has an effect on ROA through NPF as mediation. Based on theoretical and empirical studies, the research hypothesis is as follows:

**H5: NPF mediates CAR for BPRS ROA in the East Java region**

f. NPF mediates the influence of the Financing to Debt Ratio (FDR) on the Return On Assets (ROA) of BPRS in the East Java region

Research from Ahmad (2015) and Ramlan & Adnan (2016) states that ROA is influenced by FDR because banks can manage the funds well collected to expand the distribution of funds so as to increase profitability, namely ROA. Banks increase in line with the increase in profit-sharing income received by BPRS and public trust to save some of their funds. If the Financing to Debt Ratio (FDR) increases, the NPF will decrease, because in accordance with banking policies that expand financing channels does not always lead to an increase in net present value, so that financing contracts for effective and optimal financing can improve the performance of Islamic banks or BPRS. Aprilianto (2020) stated that a lot of funds collected by Islamic banks will be more careful in disbursing financing.

Based on the previous statement, FDR has a significant effect both directly and indirectly on NPF-mediated ROA. So the effect of FDR on NPF determines if FDR has a negative effect on NPF. Research on the effect of FDR on ROA determines if FDR has a positive effect on ROA. So that it can be concluded that when FDR increases, NPF will decrease and ROA will increase. Based on theoretical and empirical studies, the research hypothesis is as follows:

**H6: NPF mediates FDR against ROA of BPRS in the East Java region**

g. NPF mediates the influence of Operational Income Operating Expenses (BOPO) on the Return On Assets (ROA) of BPRS in the East Java region

Operational Expenses Operating Income (BOPO) is closely related to BPRS operational activities in raising funds and channeling funds. BOPO has increased, meaning that the operational costs incurred are the result of non-performing financing that is greater than the operating income received from the sharing of financing that has been provided. BPRS operating costs that are too large do not provide benefits to the bank. High operating income with low operating costs can put BOPO in a healthy position, meaning that problem financing has decreased (Auliani, 2016). Research by Riyadi (2014), Auliyani (2016), Supriani (2018) resulted in BOPO having a significant positive effect on NPF. Mirawati et al (2020) stated that NPF significantly mediated BOPO to ROA. Based on theoretical and empirical studies, the research hypothesis is as follows:

#### H7 : NPF mediates BOPO against ROA BPRS in the East Java region

h. NPF mediates the effect of inflation on the Return On Assets (ROA) of BPRS in the East Java region  
Price increases that occur continuously in a certain period is called inflation. Before inflation occurs, the debtor is considered capable of fulfilling his obligations to the bank. However, after inflation, all goods and services experienced a high increase, on the other hand, income remained unchanged, so this affected the debtor's ability to pay his obligations. High inflation causes difficulties in fulfilling obligations to banks. So that the higher the inflation will cause financing problems.  
Empirical studies conducted by Soebagio (2005) and Roslan (2018) show that inflation has a significant effect on NPF. This theory has an impact on ROA, if the NPF is higher, the ROA will be lower and vice versa. In line with Agustingsih's research (2017) inflation has a positive effect on NPF. Yulia (2020) in her research stated that NPF mediates the effect of inflation on ROA. Contingency theory sees that conformity with the strategy and the external environment will determine the survival and performance of the BPRS (Lee Miller, 1996). Based on theoretical and empirical studies, the research hypothesis is as follows:

#### H8 : NPF mediates inflation on ROA of BPRS in the East Java region

### RESEARCH METHODS

#### Research design

This study was designed to analyze the financial performance or internal factors and external factors of BPRS in the East Java region mediated by NPF. The variables used are the independent variables in the form of CAR, FDR, BOPO and inflation. While the dependent variable is ROA. The mediating variable in this study is NPF. In this preparation, researchers use financial reports for 2018-2021 obtained from the Financial Services Authority (OJK) website. Meanwhile, inflation data was obtained from the Bank Indonesia website. Judging from the type and purpose of this research, it is a descriptive research type with a quantitative approach.

#### Population and Sample

This study uses BPRS in the East Java region which are registered with the Financial Services Authority (OJK) from 2018-2021 which are still operational. The determination of the sample in this study used a saturated sampling technique, meaning that the entire population was sampled. The samples in this study were 22 BPRS samples which were still actively operating and developing. Saturated samples obtained from the Financial Services Authority (OJK) are shown in the table below BPRS in the East Java region which are still operating as follows:

Table 1.8 Research Sample

No	County Town	BPRS Name
1	Surabaya	PT. BPRS Karya Mugi Sentosa
2	Sidoarjo	PT. BPRS Baktimakmur Indah
3		PT. BPRS Annisa Mukti
4		PT. BPRS Unawi Barokah
5	Gresik	PT. BPRS Amanah Sejahtera
6		PT. BPRS Mandiri Mitra Sukses
7	Mojokerto	PT. BPRS Mojo Artho Kota Mojokerto
8	Jombang	PT. BPRS Lantabur Tebuireng
9	Sampang	PT. BPRS Bhakti Artha Sejahtera Sampang
10	Pamekasan	PT. BPRS Sarana Prima Mandiri
11	Pasuruan	PT. BPRS Daya Artha Mentari
12	Magetan	PT. BPRS Magetan (Perseroda)
13	Kota Kediri	PT. BPRS Tanmiya
14	Kediri	PT. BPRS Artha Pamenang
15		PT. BPRS Rahma Syariah
16	Kota Malang	PT. BPRS Mitra Harmoni Kota Malang
17	Malang Kabupaten	PT. BPRS Bhakti Haji
18		PT. BPRS Bumi Rinjani Kepanjen
19	Ponorogo	PT. BPRS Al Maburr Babadan
20		PT. BPRS Mitra Mentari Sejahtera
21	Lamongan	PT. BPRS Madinah
22	Situbondo	PT. BPRS Situbondo

Source: Processed data, 2023.

**Data Analysis Method**

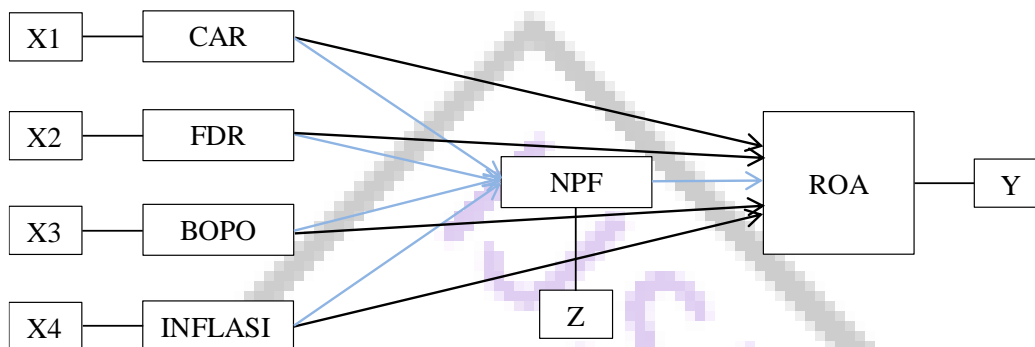
The data analysis method used in this study is a quantitative analysis approach with the Structural Equation Modeling (SEM) equation based on Partial Least Square (PLS). The path analysis smartPLS program that uses observed variables does not require measurement models to test validity and reliability, so structural model estimation is directly used (Ghozali and Latan, 2015)<sup>41</sup>. This study uses observed variables or variables that can be measured directly based on the scale values indicated by the measuring instrument, so this research is only a direct model measurement on the estimation of the structural model (inner model). In accordance with the hypothesis that has been formulated in this study, it is then measured using the Smart PLS (Partial Least Square) software.

**Structural Model (Inner Model)**

Structural model or inner model is a specification between latent variables called inner relations in describing the relationship between latent variables in the substantive theory of research. The relationship in the clause is estimated by bootstrapping with the T-statistic test parameter (Abdillah and Hartono, 2015: 193)<sup>42</sup>. In testing the inner model consists of R-square and F-square.

**Path Diagram Construction**

In this study, the construction of the path diagram is described below as follows:



**Figure 1.2 Path Diagram Construction**

Information:

- : Direct influence
- : Indirect influence
- X : Vector of exogenous or independent observed variable, namely CAR, FDR, BOPO and Inflation.
- Y : Vector of the observed endogenous or dependent variable, namely ROA.
- Z : Mediating or intervening variable, namely NPF.

**Converting Path Diagrams To Systems of Equations**

The system of equations in this study has two path equation models, namely substructure 1 and substructure 2. In substructure 1 the dependent variable is Return on Assets (ROA) denoted by Y. Based on the construction of the path diagram in the figure above, substructure 1 is obtained as follows:

$$Y_{it} = \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 Z_{it} + \epsilon_{it}$$

Information:

- $Y_{it}$  : ROA i at time t
- $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$  : Path coefficient of independent variables
- $X_{1it}$  : CAR i at time t
- $X_{2it}$  : FDR i at time t
- $X_{3it}$  : BOPO i at time t
- $X_{4it}$  : Inflation i at time t
- $Z_{it}$  : NPF i at time t
- $\epsilon_{it}$  : Banking term of error i at time t
- I : Banking
- t : Time

In substructure 2 the mediating variable is NPF denoted by Z. Based on the construction of the path diagram in the figure above, substructure 2 is obtained as follows:

$$Z_{it} = \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \epsilon_{it}$$

Information:

- $Z_{it}$  : NPF i at time t
- $\beta_1, \beta_2, \beta_3, \beta_4$  : Path coefficient of independent variables
- $X_{1it}$  : CAR i at time t
- $X_{2it}$  : FDR i at time t
- $X_{3it}$  : BOPO i at time t
- $X_{4it}$  : Inflation i at time t
- $\epsilon_{it}$  : Banking term of error i at time t



i : Banking  
t : Time

**RESEARCH RESULTS AND DISCUSSION**

*Structural Model (Inner Model)*

**R-square**

The R-square value is used to predict the ability of the construct model. The effect of exogenous variables on endogenous variables has a substantive effect when viewed from changes in the R-square value. R-square values of 0.75, 0.50 and 0.25 indicate strong, moderate and weak models (Ghozali and Latan, 2015).

**Table 1.9 R-Square Test Results**

	<b>R-Square</b>	<b>Strong Relationship</b>
NPF (Z)	0,435	Moderate
ROA (Y)	0,075	Weak

Source: Appendix 2 (Processed data).

Based on the R-Square results table it is known that the NPF (Z) is 0.435 which means that CAR (X1), FDR (X2), BOPO (X3) and Inflation (X4) are able to explain the NPF variable of 43.5%. The R-Square value for the ROA variable (Y) is 0.075 which means that CAR (X1), FDR (X2), BOPO (X3) and Inflation (X4) mediated by NPF (Z) are able to explain the ROA variable (Y) of 7.5 %.

**F-square**

F-square is used to assess the goodness of the model. The F-square value of 0.02 means small, 0.15 means medium, and 0.35 means big. based on the SmartPLS test results are generated as follows:

**Table 1.10 F-Square Test Results**

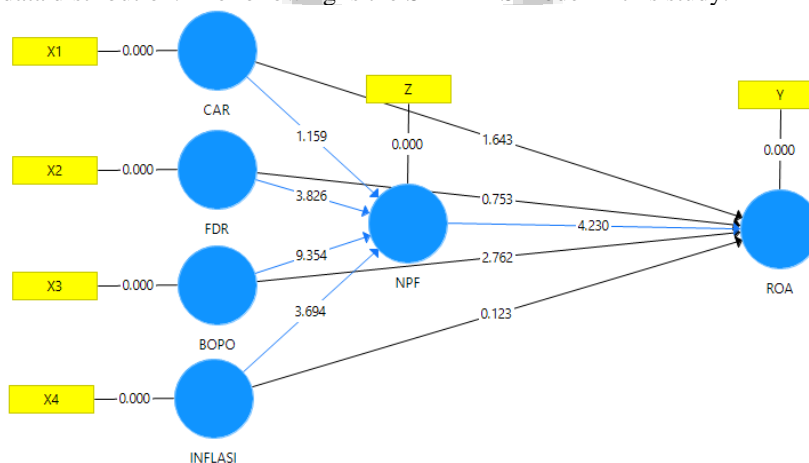
<b>Variabel</b>	<b>Effect Size</b>	<b>Rating</b>
<b>NPF (Z)</b>		
CAR	<b>0,002</b>	Small
FDR	0,066	Small
BOPO	<b>0,657</b>	Large
INFLASI	0,025	Small
<b>ROA (Y)</b>		
CAR	<b>0,009</b>	Small
FDR	<b>0,001</b>	Small
BOPO	0,052	Small
INFLASI	<b>0,000</b>	Small
NPF	0,023	Small

Source: Appendix 2 (Processed data).

Based on the table above, it explains that the BOPO variable shows a large category of influence and the CAR, FDR, and inflation variables are included in the small category in influencing NPF. CAR, FDR, BOPO, Inflation and NPF variables have a small category effect on ROA.

**Path Diagram Construction**

The SEM-PLS method predicts a complex model with the number of constructs, indicator variables, and structural paths without imposing assumptions on data distribution. The following is the SEM-PLS model in this study.



**Figure 1.3 Structural Model (Path Coefficient)**

Information:

- : Direct influence
- : Indirect influence

- X : Vector of exogenous or independent observed variable, namely CAR, FDR, BOPO and Inflation.  
 Y : Vector of the observed endogenous or dependent variable, namely ROA.  
 Z : Mediating or intervening variable, namely NPF.

### Convert Path Diagram to System of Equations

In this study, the system of equations has two path equation models, namely substructure 1 and substructure 2. In substructure 1 the dependent variable is ROA denoted by Y. Based on the construction of the path diagram in Figure 4.1, the equation of substructure 1 is as follows:

$$Y_{it} = 1.643X_{1it} + 0.753 X_{2it} + 2.762 X_{3it} + 0.123 X_{4it} + 4.230Z_{it}$$

The substructural equation of the 2 mediating variables is NPF which is denoted by Z. Based on the construction of the path diagram in the picture above, the equation is as follows:

$$Z_{it} = 1.159X_{it1} + 3.826X_{it2} + 9.354X_{it3} + 3.694X_{it4}$$

### Hypothesis test

The hypothesis in this study was tested statistically using the bootstrap method on SmartPLS. Hypothesis testing is done by looking at the p-value. The specified significance level is  $\alpha = 0.05$ . If the resulting level of significance (p-value) is less than the specified level, then  $H_0$  is rejected and  $H_1$  is accepted. The partial test results are explained in the table below as follows:

Table 1.11 T-test results

Model	Expected Sign	Original Sample (O)	t-Statistik	p-value	Information	Conclusion
CAR -> ROA	+	0.095	1.643	0.101	Not significant	Rejected
FDR -> ROA	+	0.033	0.753	0.452	Not significant	Rejected
BOPO -> ROA	+	-0.311	2.762	0.006	Significant	Accepted
INFLASI -> ROA	+	-0.008	0.123	0.903	Not significant	Rejected
CAR -> NPF -> ROA	+	-0.008	1.008	0.314	Not significant	Rejected
FDR -> NPF -> ROA	+	0.038	3.189	0.002	Significant	Accepted
BOPO -> NPF -> ROA	+	0.131	3.356	0.001	Significant	Accepted
INFLASI -> NPF -> ROA	+	0.025	2.605	0.009	Significant	Accepted

Source: Appendix 2 (Processed data).

In the previous prediction, the coefficient values of CAR, FDR, BOPO, inflation, NPF, and ROA showed a positive direction. However, CAR, FDR and inflation are not significant to ROA. BOPO is significant to ROA. And the NPF plays a role in mediating the relationship between FDR, BOPO, inflation and ROA. But NPF does not mediate the relationship between CAR and ROA.

## DISCUSSION

### Effect of Capital Adequacy Ratio (CAR) on ROA in BPRS in the East Java region for the 2018-2021 period

This study found that CAR has no significant effect on ROA with a positive coefficient. The CAR relationship does not have a significant effect on ROA. These results do not prove the hypothesis (H1) of this study. Contextually, the influence on BPRS is that there are contingency factors that must be considered to reduce the risk of loss of company performance. These results contradict Fisher's theory (1995) that successful company performance adjusts to environmental conditions. The corporate environment referred to is internal and external which refers to an optimal management system (Fiedler, 1994). Based on research results from phenomenal financial report data in the study period including before and during the recovery period from the Covid-19 pandemic, this caused CAR to increase but ROA to decrease. However, if the CAR is low, the bank is not optimal in dealing with capital risk (Sudarsono, 2018), while other studies state that the higher the CAR, the better the condition of the bank (Tarmidzi and Kusumo, 2003)48. Implementation of CAR is expected to overcome competition problems by maintaining capital in accommodating risks from bank operations. According to Isti Fadiah et al (2021) good financial performance is the goal of obtaining optimal profit. Based on Bank Indonesia's soundness assessment as stated in Bank Indonesia Regulation No.13/1/PBI/2011 concerning the rating of the soundness level of commercial banks, it is necessary to adhere to the precautionary principle. Determination of CAR criteria if it increases, the BPRS will be declared healthy and vice versa. If the CAR is less than 8%, then the SRB is in an unhealthy condition or unable to meet its short needs. The results of this study stated that it was inversely proportional to the research gap and was in an unhealthy position, but in line with the research conducted by Taufik Zulfikar (2012), Didik and Bambang (2013) who stated that CAR had no significant effect on ROA. The CAR research results do not have a significant effect on ROA as evidenced by a p-value of  $0.101 > 0.05$ , so  $H_1$  is rejected. The reason for this is the global pandemic and the fact that banks are still not maximally channeling funds for credit, causing profits to decline.

### Effect of Financing to Debt Ratio (FDR) on ROA in BPRS in the East Java region for the 2018-2021 period

This study found that FDR has no significant effect on ROA with a positive coefficient. The FDR relationship does not significantly affect ROA. These results do not prove the hypothesis (H2) of this study. Based on the contingency theory, it is necessary to adjust decisions by taking into account contingency factors to minimize the risk of loss. The uncertainty encountered comes from the individual's ability to predict something (Milliken, 1997). Contingency factors cause uncertainty in BPRS so that internal parties cannot estimate the risks that occur. BPRS in population ecology theory is expected to be able to adapt to the environment in which it can survive, increase or even support the growth of company performance. The success of company performance adjusts to

environmental conditions (Fisher, 1995). This was due to the uncertainty of the BPRS which resulted in a decrease in the company's performance.

This decrease was due to a decrease in credit or financing growth which also caused the funds provided to Third Party Funds (DPK) to decrease. The results of the study stated that BPRS could not manage their funds so that they continued to optimize financing because the financial report data during the study period included before and during the recovery period from the Covid-19 pandemic. Based on the assessment of bank soundness contained in Bank Indonesia Regulation No.13/1/PBI/2011 it is mandatory to increase the soundness level of banks with the principle of prudence. The liquidity ratio is a measure of the level of performance effectiveness of a bank, namely FDR so that the bank can manage its funds. If the FDR is higher, the bank's ability will be better, which means that the bank can manage the intermediation function optimally. On the other hand, if the FDR is low, the BPRS will be more liquid, which will show a lot of idle funds, thereby reducing the opportunity to generate profits because they cannot manage their intermediary function properly.

The results of this study contradict the research gap that FDR in BPRS is less effective in financing. These results are in line with research by Dewi (2010), Suryani (2011), and Mokoagow and Fuady (2015) FDR has no effect on ROA. The higher the FDR gives an indication of low BPRS liquidity due to the greater amount of funds used for financing. So the higher the FDR in the BPRS is not a benchmark for getting large profitability. Based on the results of the FDR study, it did not have a significant effect because the p-value was  $0.452 > 0.05$ , so H2 was rejected. This states that BPRS in the Java region for the 2018-2021 period cannot manage their intermediary function optimally.

### **Effect of Operational Income Operating Expenses (BOPO) on ROA at BPRS in the East Java region for the 2018-2021 period**

This study found BOPO had a significant effect on ROA with a positive coefficient. A significant BOPO relationship can affect ROA. These results prove the hypothesis (H3) of this study. These results are in line with research by Isti Fadiah et al (2021) that good financial performance is the goal of obtaining optimal profits. Population ecology theory describes if the survival and success of a company is determined by the environment in which the company stands (Child, 1997:75). The corporate environment has the role of developing a strategy to win the competition because the company is in control in obtaining profits. A strategy used in adapting or shaping the main factors of performance in the company (Yeoh and Jeong, 1998). Company performance as an effort to evaluate the efficiency and effectiveness of the company to generate profits.

The implementation of BOPO is expected to maximize the main activities of the BPRS, especially credit, because the profit sharing system becomes income for the BPRS so that this ratio is expected to be implemented optimally. Based on the assessment of the health of the bank contained in Bank Indonesia Regulation No.13/1/PBI/2011 the assessment is to find out the achievements of the company in a certain time. Financial report research data for the 2018-2021 period includes before and the recovery period from the Covid-19 pandemic, but BPRS are able to reduce operational costs. BOPO is a comparison for measuring the level of availability in fulfilling the handling of bank operational funds (Warta, 2020).

This study is not in accordance with the research gap which states that the BOPO theory has a negative and significant effect on ROA. Rafel Bautusta Mesa (2013) and Imam et al. (2020) stated that BOPO had a significant positive effect on ROA. This means that the level of efficiency of the BPRS in carrying out its operations affects the level of income or earning generated. The lower the BOPO means the more efficient the BPRS is in controlling operational costs so that it will get a large profit. Based on the results of the BOPO study, it has a significant effect on ROA because the p-value is  $0.006 < 0.05$ , so H3 is accepted. This means that BPRS in the Java region for the 2018-2021 period can reduce operational costs so that they will increase revenue.

### **Effect of Inflation on ROA at BPRS in the East Java region for the 2018-2021 period**

This study found that inflation has no significant effect on ROA with a positive coefficient. Inflation relationship does not significantly affect ROA. These results do not prove the hypothesis (H4) of this study. The contingency theory view states that the suitability between strategy and the external environment will directly determine the life and performance of the company Child (1997:75). The research results are not in line with the theory that companies depend on the internal and external environment that determines the optimal management system (Fiedler, 1994). In this study, external factors had no effect on operational activities which could lead to reduced interest in transactions. These results also contradict the population ecology theory that the external environment has a direct influence on company performance regardless of the strategy used by the company (Wiklund, 1999:53).

Inflation has no effect on ROA, meaning that high or low inflation has no effect on ROA in BPRS. Because the BPRS uses the principle of profit sharing which is carried out when conducting a financing agreement. So that the percentage will be received if the financing runs. The research results are in contrast to the research gap that has been described. This research supports research conducted by Wibowo and Syaicu (2018), Syah (2018) and Imam et al. (2020) stated that inflation is not significant to ROA. Based on the research results, inflation on ROA is not significant because the p-value is  $0.903 > 0.05$  which is due to the BPRS system not adhering to an interest system, so the managed money does not experience too much movement when experiencing fluctuating inflation like other banks.

### **The influence of Non Performing Financing (NPF) mediates the Capital Adequacy Ratio (CAR) to ROA in BPRS in the East Java region for the 2018-2021 period**

This study found that NPF could not mediate CAR on ROA with a positive coefficient. The NPF relationship does not significantly affect CAR on ROA. These results do not prove the hypothesis (H5) of this study. In contingency theory, the factor that must be minimized is the risk of loss of company performance. The results of the study contradict Fisher's theory (1995) that successful company performance adjusts to environmental conditions. Changes in the corporate environment also conflict with research results that have no effect and cannot be mediated. Based on research results from phenomenal financial report data for the 2018-2021 period including before and the recovery period from the Covid-19 pandemic, this caused CAR to increase but NPF and ROA to decrease.

This causes banks to be unable to meet their capital requirements due to a declining NPF which has an impact on unstable income or ROA. So that BPRS do not have access to channeling funds, banks cannot channel funds to large projects with the risk that the NPF will increase which is not in accordance with the decrease in the capital adequacy ratio and profitability which is not optimal.

The results of this study are in accordance with researchers by Ahmad Hakimul et al. (2022) that NPF does not mediate CAR on ROA. This is because banks are unable to maintain their capital adequacy so they cannot overcome the risk of losses arising from problematic or bad financing. Based on the research results, the p-value is  $0.314 > 0.05$ , so H5 is rejected. This means that the NPF cannot mediate CAR against ROA at BPRS in the East Java region for the 2018-2021 period due to the condition of the financial reports during the pandemic.

#### **The influence of Non Performing Financing (NPF) mediates the Financing to Debt Ratio (FDR) to ROA at BPRS in the East Java region for the 2018-2021 period**

This study found that NPF mediates FDR on ROA with a positive coefficient. The significant NPF relationship affects FDR on ROA. These results prove the hypothesis (H6) of this study. Based on the ecological theory, the company's population must be able to survive or even develop more advanced. This is also in line with the theory of Commercial Loan Theory which only provides short-term loans which are very easy to disburse or liquid (Short Term, Self Liquidating) through installments from credit as the source. Short-term loans are in the form of working capital loans so that debtors are able to repay their loans so that they can increase company profits. The results of this study are also related to credit risk and bank profitability, if the greater the credit risk experienced, the credit given will be smaller and the opportunity to get profit will not be optimal. So that the bank will remain liquid if the bad credit is low and it is likely to get the maximum profit.

This is also in accordance with good financial performance which is the goal of getting optimal profits (Isti Fadah et al, 2021). These results are in line with Aprilianto (2020) that a lot of funds accumulated in Islamic banks will be more careful in distributing their financing. The increase in the number of banks was followed by an increase in profit-sharing income received by the BPRS and public trust to save some of their funds. The results of this study are supported by research by Ahmad Hakimul et al. (2022) that NPF mediates FDR against ROA. If the FDR is higher, the BPRS will be more capable of channeling funds for financing. The same thing was done by Aryani (2016) and Pradana (2018) that FDR on NPF has a positive influence on NPF. In addition, Yusuf's research (2017) stated that FDR has a significant positive effect on ROA. Based on the research results, the p-value is  $0.002 < 0.05$ , so H6 is accepted. So when FDR increases, NPF will decrease and ROA will increase, meaning that NPF can mediate CAR against ROA at BPRS in the East Java region for the 2018-2021 period.

#### **The effect of Non Performing Financing (NPF) mediating Operational Revenue Operating Expenses (BOPO) on ROA at BPRS in the East Java region for the 2018-2021 period**

This study found that NPF mediates BOPO on ROA with a positive coefficient. The significant NPF relationship affects BOPO to ROA. These results prove the hypothesis (H7) of this study. Appropriate empirical studies show that good financial performance is the goal in obtaining optimal profit (Isti Fadah et al, 2021). These results are also consistent with the population ecology theory that the survival and success of a company is determined by the environment in which the company is located (Child, 1997:75). The corporate environment develops strategies to overcome competition so that companies increase profits. Yeoh and Jeong (1998) stated that strategy is used in adapting or forming the main factors of performance in the company. Optimal company performance reduces costs and increases revenue. Small operational costs will provide benefits to the bank because income increases. Increased income will position BOPO healthy, so problem financing decreases (Auliani, 2016).

The results of this study are in accordance with the research of Mirawati et al. (2020) NPF mediates BOPO against ROA. This is in line with research by Riyadi (2014), Auliyani (2016), Supriani (2018) stating that BOPO has a significant positive effect on NPF. These results are also in line with research conducted by Mirawati et al. (2020) NPF can mediate BOPO against ROA. Based on the research results, it proves that the p-value is  $0.001 < 0.05$ , so H7 is accepted, meaning that the NPF mediates BOPO against ROA at BPRS in the East Java region for the 2018-2021 period.

#### **The Effect of Non Performing Financing (NPF) Mediating Inflation on ROA at BPRS in the East Java Region for the 2018-2021 Period**

This study found that NPF mediates inflation on ROA with a positive coefficient. The significant relationship between NPF and Inflation on ROA. These results prove the hypothesis (H8) of this study. Based on the results of this study, it is contrary to the contingency theory which states that the strategy meets environmental demands, if not, then the suitability of the implementer of the strategy in the external environment will have an impact on decreased performance which causes a company crisis to arise (Elenkov, 1997: 300). High inflation causes difficulties in fulfilling obligations to banks. So that the higher the inflation will cause financing problems. Contingency theory sees that conformity with the strategy and the external environment will determine the survival and performance of the BPRS (Lee Miller, 1996).

The results of the study are in accordance with the research gap used by researchers. Higher inflation will have an impact on problematic or non-performing financing, as has been done by Soebagio (2005) and Roslan. Inflation is significant for NPF. In theory, the higher the NPF, the lower the ROA or vice versa. This is in line with Agustningsih (2017) inflation has an effect on NPF. Another empirical study, Yulia (2020) proves that NPF can mediate inflation against ROA. Based on these results and empirical studies, this study proves that with a p-value of  $0.001 < 0.05$ , H8 is accepted. So it can be concluded that the NPF mediates inflation against ROA at BPRS in the East Java region for the 2018-2021 period.

## CONCLUSION

1. The results of testing the CAR hypothesis have no significant effect on ROA at BPRS in the East Java region for the 2018-2021 period. This proves that there is a global pandemic factor and banks are still not optimal in channeling funds for credit, causing profits to decline.
2. The results of testing the FDR hypothesis have no significant effect on ROA at BPRS in the East Java region for the 2018-2021 period. This proves that the BPRS cannot manage its intermediary function optimally.
3. The results of testing the BOPO hypothesis have a significant effect on ROA at BPRS in the East Java region for the 2018-2021 period. This states that the efficiency level of BPRS is healthy which can reduce operational costs by increasing revenue.
4. The results of testing the inflation hypothesis have no significant effect on ROA at BPRS in the East Java region for the 2018-2021 period. This proves that BPRS that do not adhere to the interest system will not experience turmoil if they experience fluctuating inflation.
5. The results of testing the NPF hypothesis do not mediate CAR on ROA at BPRS in the East Java region for the 2018-2021 period. This is evidenced that the BPRS is unable to maintain its capital adequacy which causes it to be unable to overcome the risk of problematic financing.
6. The results of testing the NPF hypothesis mediate FDR on ROA at BPRS in the East Java region for the 2018-2021 period. This is evidenced that the BPRS policy that expands financing does not always lead to an increase in net present value, but to financing contracts to optimize BPRS performance.
7. The results of testing the NPF hypothesis mediated BOPO to ROA at BPRS in the East Java region for the 2018-2021 period. This is evidenced that decreasing operational costs will increase the BPRS' revenue which positions profits so that problem financing decreases.
8. The results of testing the NPF hypothesis mediated inflation against ROA at BPRS in the East Java region for the 2018-2021 period. This is evidenced that the inflation rate has an impact on problematic financing that causes customers to default or be delayed.

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