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The Effect of Financial Performance on Return on Asset Venture Capital Industry in Indonesia

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Abstract---*This study aims to find out which financial performance influences the profitability of the venture capital industry in Indonesia. The data used are secondary data from the Indonesian finance Institution statistics source from the Venture Capital Company Monthly report from 2015-2018 with internal performance used are operational efficiency ratio, Investing and financing to Assets Ratio, Gearing Ratio and non-performing financing while profitability uses return on assets. The results of the study indicate that only Investing and Financing to assets ratio has a positive effect on return on investment in the venture capital industry. The results of this study are useful for the government how venture capital increases its profitability to help many business / micro, small, medium enterprises that are not yet bankable to obtain business funds , business guidance and technical assistance. This research is also useful for the financial services authority in making policies regarding the limits of investing and asset ratio venture capital industry, as well as useful for venture capital practitioners in investing and financing to increase return on assets and useful for growing investment to investee companies, expanding, gaining extra profits and accompaniment, guidance and interchanging expertise in managing businesses from venture capital companies.*

Keywords---*Venture capital, Return on Assets, Operational efficiency ratio, Gearing ratio, Investing and financing to asset ratio, non-performance financing, Indonesia*

I. INTRODUCTION

Regulatory venture capital business The financial services Authority (this stands for financial services authority) (OJK) number 35 / POJK.05 / 2015 dated December 21, 2015 is a financial business that helps to develop a business partner (investee company) / debtor within a certain period through capital participation and / or financing. Business entities that run a venture capital business are called venture capital companies whose activities are equity participation, equity participation, financing through the purchase of bonds issued by the investee company at the star-up stage and / or business development and or productive financing, and can also do fee-based activities and or other businesses with financial services authority approval. Venture capital companies are expected to contribute to the national economy because they have specificity, namely helping companies or individuals who become investee companies including micro, small and medium enterprises and cooperatives and can also conduct business assistance (participate in running businesses).

The importance of venture capital business for the government isventure capital is unique to (i) the development of a new invention; (ii) the development of companies or individual businesses which is (a) the initial stages of

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financial difficulties, (b) the stage of development or business setbacks (iii) the development of micro, small, medium enterprises and cooperatives. (iv) Development of research and engineering projects (v) development of new technology and transfer of technology (vi) assisting in the transfer of ownership of the company. The interests of the government are stated in the obligation to channel funds for a minimum investment of 5% and when channeling up to 40% more receive special treatment in gearing ratios. The uniqueness of venture capital business is very useful in industry 4.0 where one of them helps the development of new inventions, new technologies and technology transfer The development of venture capital companies, investee companies and venture capital financing / placements, assets, liabilities, equities are as follows:

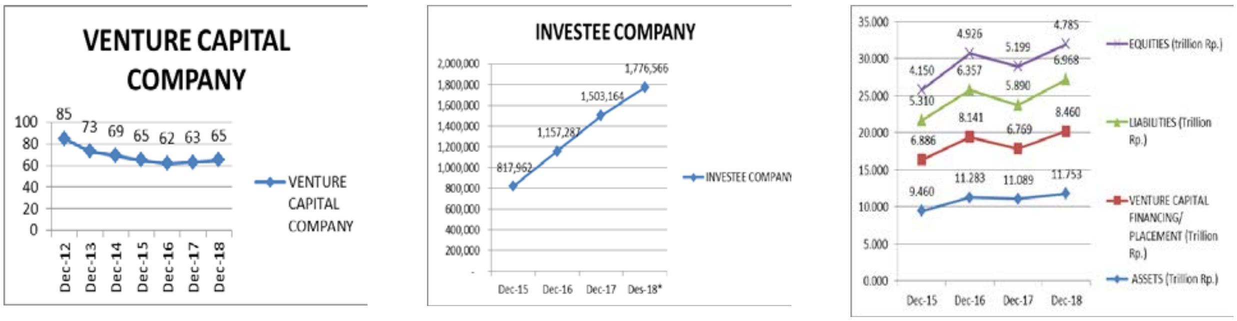

Figure 1:*Venture Capital Company, Investee Company and Venture Capital Financing / Placement, Assets,Liabilities, Equities*

Source: 2012-2018 Indonesian finance institution Statistics and Indonesian finance institution report.

From figure 1, there is a downward trend in the number of venture capital companies because there are revoked licenses, new proposals, mergers, while the investee company has experienced an increase as well as venture capital financing / placements, assets, liabilities and equities. on asset (ROA) as seen in figure 2

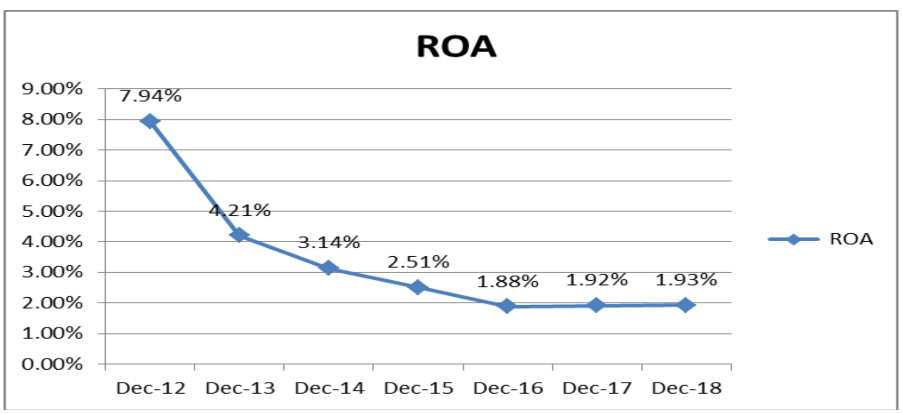

Figure 2:*Return on Assets (ROA)*

Source: 2012-2018 Indonesian finance institution Statistics and Indonesian finance institution report

This raises research problems, namely the results of Memba et al (2012) stating that venture capital has an impact on the growth of small and medium enterprises financed, research conducted in developed countries and should have a large role in helping other companies and micro, small and medium enterprises (UMKM) (micro, small, medium enterprises ,) but the increase in assets, venture capital financing / placement, investee company does not affect the profitability of venture capital companies / industries that can be seen from return on assets (Kheyfets & Chernova, 2019).

Venture capital is a high-risk industry seen from the purpose of the establishment of Venture Capital where it starts from the courage / interest in the investee company that has a productive business and or new and different ideas / ideas in productive business development, supported by the belief that the investee company will grow and get a profit within a predetermined period of time.

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The research objective of this research is to look for the performance of venture capital industry that has an effect on return on investment. Based on OJK regulations number 35 / POJK.05 / 2015 the financial performance of venture capital companies can be seen from the Operational Efficiency ratio (BOPO), Investing and Financing to Asset Ratio (IFAR), Gearing ratio (GR) and Nonperformance financing. (NPL) (Hussain et al., 2018).

This venture capital institution eases the burden of the government in helping startups / MSMEs / Cooperatives in the form of funds and transfer of knowledge, guidance and business assistance in improving the country's economy. This research result is useful for the financial services Authority to make policies / regulations regarding venture capital industry. For venture capital practitioners, this research is useful for improving financial performance of venture capital, whereas for investee companies, this research is useful for increasing profitability so that venture capital company revenues increase in the form of dividends, interest and profit sharing (Saudi, 2018).

This research was conducted to fill the vacuum of research on venture capital which has been dominated by legal aspect research and the development of the investee company after obtaining funds, guidance, and business assistance from venture capital.

II. LITERATURE REVIEW

The existence of venture capital in Indonesia began with the government regulation number 18/1973 regarding the establishment of the first venture capital company in Indonesia, namely PT. Bahana Development of Indonesian Business, and continued with the Presidential Decree number 61/1988 regarding Financing institutions revoked based on Presidential Regulation number 9/2009 concerning Financing Institutions, then issued Financial Minister Regulation No.18 / PMK.010 / 2012 followed by financial service authority regulations number 35 / POJK.05 / 2015. The change in regulations has resulted in changes in the definition of venture capital companies in Indonesia, namely business entities that carry out venture capital activities, management of venture funds, fee-based service activities and other business activities with the approval of financial services authorities. In carrying out its activities the venture capital company has an obligation to show the level of health. with healthy minimum conditions based on article 4 of the financial services authority regulation number 35 / POJK.05 / 2015 concerning business ventures of venture capital companies. The financial soundness of venture capital companies follows the Circular of the Financial Services Authority number 7 / SEOJK.05 / 2018 dated 7 March 2018.Financial performance of venture capital industry can be seen in the circular of financial services authority number 7 / SEOJK.05 / 2018. Return on Assets (ROA) is a ratio used to measure the ability of venture capital companies to generate profits from assets used to support the operations and capital of venture capital companies. The gearing ratio (GR), which is a comparison of equity with a high paid capital gearing ratio, shows the greater equity that can be used for investment and financing that venture capital companies can do. With the greater equity distributed to investing and financing, it is expected that the greater the income / profit / return on assets. Akhtar, Ali and Sadaqat (2011), conducted research on Pakistani banking, where the results of his research showed that the gearing ratio had a positive effect on return on assets, while the Ruspandi and Asma (2014) study had no effect on Return on Assets in finance companies. Operational efficiency ratio (BOPO) is a ratio tomeasure the efficiency and ability of venture capital companies in carrying out their operations .The greater operational efficiency ratio (BOPO) shows the inefficient management of venture capital companies that will be seen in earnings and return on assets (Saudi et al., 2018). Akhtar, Ali and Sadaqat (2011), conducted research on Pakistani banking, where the results of his research showed that Operating efficiency had a negative effect on return on assets as well as research by Suyono (2005), Mahardian (2008), and Ronal (2009) Martani Bhatia, Muhajan and Chander (2012), Hutagalung (2013), Ruspandi and Asma (2014) and Operating efficiency have a negative effect on profitability (Kosmidou, 2008; Ramlall, 2009; Sufian and Habibullah, 2009).Non Performance Investment and Financing (NPIF / NPF) are productive assets of investment and financing which are categorized as substandard, doubtful and loss compared to total investment and financing. Higher non-performance Investment and financing requires a reserve of funds that will reduce profits and result in return on Assets. Akhtar, Ali and Sadaqat (2011), conducted research on Pakistani banking, where the results showed that the NPL ratio had a negative effect on assets on assets as well as the opinion of Mahardian (2008), Bhatia, Muhajan and Chander (2012), Hutagalung, Djumahir, Ratnawati (2013).Investment and Financing to Asset Ratio (IFAR), namely the value of investment, participation or value of receivables derived from business activities compared to the total assets. Venture capital company is required to have 40% IFAR related to the main purpose of a capital venture company. The research is still limited using IFAR financial performance since the regulations are still new and not widely known yet, however, there is no IFAR influence on return on Assets

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III. METHODOLOGY

This study used the monthly Indonesian finance institution statistic this research 2015-2018.The method used verification research using multiple regression. The population of all venture capital industries are used saturated sampling collected by the financial services authority from a monthly venture capital company report.

III.I. Research Model

ROA = $\beta_0 + \beta_1$*Operational efficiency ratio*+ β_2*Investment and Financing to Asset Ratio* + β_3*Gearing ratio* + β_4*Non Performance Financing*+ ε

Where β_0 : Intercept

β_1 = coefficient Operational Efficiency Ratio

β_2 = coefficient Investment and Financing to Asset Ratio

β_3 = coefficient Gearing Ratio

β_4 = coefficient Non Performance Financing

ε = Error

Hypotheses of this research were as follows:

F Test

H1 Operational efficiency ratio, investment and financing to assets ratio, gearing ratio, nonperformance financing simultaneously effected return on investment t Test

H2 Operational efficiency ratio effected return on investment

H3 Investment and financing to assets ratio effected return on investment

H4 Gearing ratio effected return on investment

H5 Nonpperformance financing effected return on investment

The significant level of $\alpha = 0.10$

IV. RESULT AND DISCUSSION

The research data collected is described as follows:

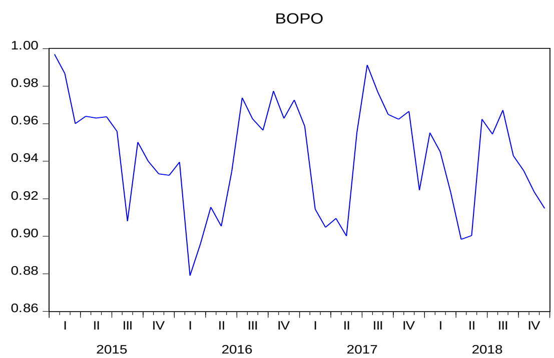

Figure 3:*Operating Efficiency*

Sources : Proceed Data

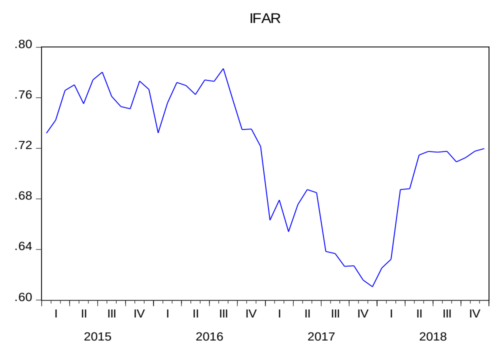

Figure 4:*Investment and Financing to assets ratio*

Sources : Proceed Data

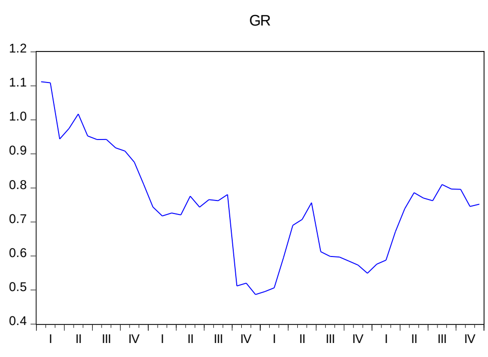

Figure 5:*Gearing Ratio*

Sources : Proceed Data

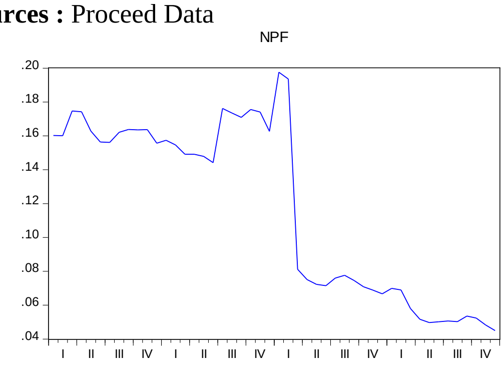

Figure 6:*Non Performance Financing*

Sources: Proceed Data

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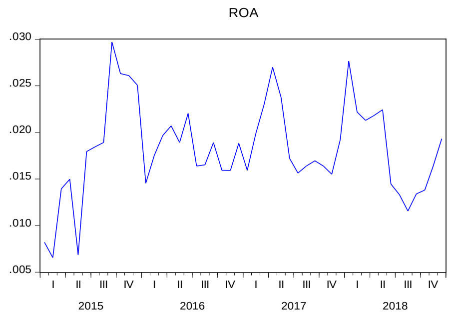

Figure 7:*Return On Investment*

Sources: Proceed Data

Figure 3,4,5,6,7 illustrates the movement of the operating efficiency ratio (BOPO), investment and financing to assets ratio (IFAR), gearing ratio (GR), non-performance financing (NPF) during the research period which will affect the movement of return on assets. (ROA).

After doing data processing and classic Assumption test, the results in Table 1 show that the research model formed shows a good model (Fit model). This can be seen from the F test which shows the Prob F statistic 0.07, this is a smaller significant level of α. = 0.10 and at t test, Investment and Financing to asset ratio shows prob 0.0255, this value is smaller than the significant level of α = 0.10. so the null rejected hypothesis affects the return on assets in a positive direction .The model has R-squared of 18.01%, which means that the movement of return on investment is influenced by operating efficiency, investment and financing to assets ratio, Gearing Ratio and non-performance financing by 18.01% and 81.99% influenced by variables not in the model. There are many factors that affect return on assets, including financial and non-financial performance factors, both from internal and external venture capital industries and this research model uses only 4 independent variables, it is very reasonable if the R-square is low.

Table 1:*R square, F test and T test*

Financial Performance	Coefficient	Prob.
C	-2.07E-05	0.9735
D(BOPO)	-0.026776	0.2888
D(IFAR)	0.076268	0.0255
D(GR)	-0.015092	0.1577
D(NPF)	-0.046796	0.1852
R-squared	0.180141	
F-statistics	2.307072	
Prob (F-statistic)	0.073828	

Sources: Data processing result

From table 1, it appears that operating efficiency (BOPO) of Gearing Ratio (GR), non-performance financing (NPF) has no effect on return on assets, because the column Prob is greater than the significant level of α = 0.10 means the increase or decrease in costs and operating income, the amount of equity, the amount of paid-in capital, the amount of non-performance financing does not have an effect in increasing the measured profitability of return

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on investment. This research has different results for operating efficiency with Akhtar's research, Ali and Sadaqat (2011), Suyono (2005), Mahardian (2008), and Ronal (2009) Martani Bhatia, Muhajan and Chander (2012), Hutagalung (2013), Ruspandi and Asma (2014). This study has different results for gearing ratio with Akhtar, Ali and Sadaqat (2011) research conducted in Pakistani banking and has similarities with the research of Ruspandi and Asma (2014) conducted in finance companies in Indonesia. This study has different results for non-performance financing with Akhtar, Ali and Sadaqat (2011), Mahardian (2008), Bhatia, Muhajan and Chander (2012), Hutagalung, Djumahir, Ratnawati (2013).

The investment and financing to asset ratio is the ratio that affects the return on assets. Changes in investment, financing and total assets affect changes in return on assets. Therefore, the value of investment and financing to assets ratio must be increased to obtain a high net profit by taking into account the prescribed limits such as channeling funds to micro, small, medium enterprises of at least 5%, gearing limits to a minimum ratio of 10 x, Investment and Financing to assets ratio of 40%, operating efficiency of 80%, and Non Performance Financing of 5% .Investment and financing to assets ratio have not been widely used and cannot be compared with previous studies.

V. CONCLUSION

Venture Capital Company helps to improve micro, small and medium enterprises and cooperatives in funding and assistance. At present the small micro business sector absorbs 116 million workers and contributes to 60% of gross domestic product / GDP. The micro, small and medium enterprises sector is very reliable in the economic crisis. The decline in return on assets of the venture capital industry in Indonesia shows that the venture capital industry in Indonesia has not yet gotten the best rate at this time, it is necessary to increase investment and financing to asset ratios because venture capital business activities are investment in the form of equity participation and quasi equity participation and financing in the form of purchase of debt securities issued by the investee company at the start-up stage and / or business development and / or productive business financing.

There is still limited research that uses the Investment and Financing to Asset Ratio (IFAR) variable in Indonesia because there are improvements to the regulation on the implementation of Venture Capital in 2015 and only in 2018 a circular was issued about the level of financial soundness of venture capital companies.

This research is useful for the financial services authority (OJK) in making venture capital policies and regulations, and the government as a micro, small, medium enterprise driver to be able to contribute to the state and investee company to increase business profits that will benefit venture capital companies. Suggestions to advance the researchers are to use other variables that can be used to look for factors that influence the return on assets of the venture capital industry.

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