The Effect of Liquidity and Solvability on the Profitability of Banking Companies Listed on the Indonesia Stock Exchange in 2017-2019

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Abstract

The purpose of this study was to determine the effect of liquidity and solvability on the profitability of banking companies listed on the Indonesian stock exchange for the 2017-2019 period. The population used in this study is data on loan to deposit ratio, debt to, capital adequacy ratio, and ROA. The sample taken is data from the 2017-2019 period as many as 28 banking companies. The data analysis technique in this study uses multiple linear regression, while the analytical tool used is SPPS version 25. The results of this study state that the projected liquidity variable with the loan to deposit ratio has no significant effect on company profitability. The solvability variable projected by the capital adequacy ratio has no significant effect on the company's profitability. The liquidity variable projected by the loan to deposit ratio, and the solvability variable projected by the capital adequacy ratio simultaneously do not affect the company's profitability, and the most influential variable on profitability is solvability projected by the capital adequacy ratio (CAR).

Keywords: liquidity, solvability, profitability

Abstrak

Tujuan dari penelitian ini adalah untuk mengetahui pengaruh likuiditas dan solvabilitas terhadap profitabilitas perusahaan perbankan yang terdaftar di Bursa Efek Indonesia periode 2017-2019. Populasi yang digunakan dalam penelitian ini adalah data loan to deposit ratio, debt to , capital adequacy ratio, dan ROA. Sampel yang diambil adalah data selama periode 2017-2019 sebanyak 28 perusahaan perbankan. Teknik analisis data dalam penelitian ini menggunakan regresi linier berganda, sedangkan alat analisis yang digunakan adalah SPPS versi 25. Hasil penelitian ini menyatakan bahwa proyeksi variabel likuiditas dengan loan to deposit ratio tidak berpengaruh signifikan terhadap profitabilitas perusahaan. Variabel solvabilitas yang diproyeksikan oleh rasio kecukupan modal tidak berpengaruh signifikan terhadap profitabilitas perusahaan. Variabel likuiditas yang diproyeksikan oleh loan to deposit ratio, dan variabel solvabilitas yang diproyeksikan oleh rasio kecukupan modal secara simultan tidak berpengaruh terhadap profitabilitas perusahaan, dan variabel yang paling berpengaruh terhadap profitabilitas adalah solvabilitas yang diproyeksikan oleh rasio kecukupan modal (CAR).

Kata kunci: Likuiditas, Solvabilitas, Profitabilitas

INTRODUCTION

All businesses in this era of globalization must try their best to compete with other competitors to keep operating by utilizing various available resources to earn profits and also have a good performance within the company to be able to compete with other companies both at home and abroad. overseas. All types of companies will do their best to be able to compete with other competitors by trying to achieve predetermined targets. One of them is having good financial performance, where good financial performance can be seen from several aspects, one of which is company profitability (Widagdo, B., & Sa'diyah, C. 2021). Just like banking companies, where competition occurs, every bank always tries to improve its performance to achieve company goals. Banks are financial institutions that collect public funds in the form of deposits and channel them in the form of a credit to the public, who need funds (Ismail, 2011). Banks are one of the financial institutions that are useful for the community, therefore companies will compete to achieve their targets. The breadth of the distribution network makes banking a source of funds that can be accessed by business actors almost anywhere throughout Indonesia (compared to other sources of funds, the capital market, and other non-bank financial institution products that also provide financing), (koransindo.com 2016).

The strategic role of banking in achieving national development goals requires effective guidance and supervision, with the hope that banks in Indonesia can work efficiently, soundly, fairly, and can properly protect funds entrusted by the public to productive fields for target companies. development. In connection with the above matters, it can be seen the importance of the banking position in improving the economy of a country. Banking is an institution that collects and distributes public funds in the form of lending. Sales bank to be able to generate profits (profitability) that continue to increase through its services (Mulyani & Budiman, 2017). Strategic steps can be taken by banks to win the competition, one of which is by improving financial performance. The analysis is carried out on the financial statements to be the basis for making economic decisions for the company (Sa'diyah, C., & Widagdo, B. 2020). Comparative analysis between financial posts that have a relevant relationship is carried out using financial ratio analysis, including liquidity ratios, solvability ratios, activity ratios, and profitability ratios. Furthermore, the liquidity ratio and solvability ratio can reflect the risks faced by the company both in the short and long term. While the profitability ratios and activity ratios can reflect the profits that the company can achieve in the future (Syahadatina, 2018).

Liquidity is the first factor that has an influence on profitability and will have an impact on the financial performance of a company. Liquidity is the company's ability to meet short-term obligations that must be met immediately. This obligation comes from short-term loans or short-term third-party funds, for example, savings or time deposits with a maturity period of less than 1 year (Mulyani & Budiman, 2017). In the principle of financial management, it is said that the company's ability to liquidity is inversely proportional. This is a problem in companies that are faced with problems of liquidity and company profitability. If the company sets a large asset, the possibility that occurs at the level of liquidity will be safe, but the expectation of getting a large profit will decrease which will then have an impact on the company's profitability or vice versa. The higher the liquidity, the better the company's position in the eyes of creditors because there is a greater possibility that the company will be able to pay its obligations on time (Raymond, 2017). Research conducted by Raymond (2017) on banking companies states that liquidity has a positive but not significant effect on profitability. Research conducted by Wikan Budi Utami and Sri Laksmi Pardanawati (2016) states that liquidity partially has a significant effect on financial performance variables in publicly listed companies listed in Kompas 100 in Indonesia. Research by Asri Nur Wahyuni and Suryakusuma (2019) also states that liquidity has

a significant positive effect on company profitability. Meanwhile, research conducted by Elis Listiana Mulyani and Asep Budiman (2017) states that the liquidity ratio measured using the Loan to Deposit Ratio (LDR) has no significant effect on financial performance. Research conducted by Fuji Harianto and Ika Zutiasari (2019) also states that the Liquidity ratio variable measured using LDR has no significant effect on financial performance (ROA).

The second factor that affects financial performance in terms of profitability is solvability. Solvability is an indication of how much the company's ability to meet its financial obligations (Sa'diyah, C. 2021). The greater the obligation/debt, the lower the ability to pay, and vice versa. Thus, banks must be able to control their solvability so that the ratio between debt and equity is maintained. If the company can control its debt, the risk caused by this failure can be avoided, so the costs that arise can be reduced to 0% (Mulyani & Budiman, 2017). In a study conducted by Raymond (2017) on banking companies listed on the IDX, it states that solvability has a negative and insignificant effect on profitability. Likewise, research conducted by Zakia Fadila (2019) states that solvability partially has no and significant effect on profitability in banking sub-sector companies listed on the Indonesia Stock Exchange for the 2014-2018 period. Based on the phenomenon gap that has been described above, it can be used as a phenomenon in this study, so the researchers made a study entitled "The Effect of Liquidity and Solvability on the Financial Performance of Banking Companies".

LITERATURE REVIEW

Liquidity is the ability of a company to pay off all obligations that must be met immediately (short-term debt) (Sutrisno, 2013). Liquidity is one of the measuring tools to determine the company's activities because low liquidity will result in the difficulty of the company is paying off its obligations, especially short-term obligations. Thus, the company's liquidity level becomes a guideline for managers in making spending policies as well as information for investors about the company's financial ability to meet its short-term debt (Wahyuni & K.H., 2018). Kasmir's research (2013) states that the liquidity ratios commonly used to measure the level of liquidity of a company include: cash ratio, reserve requirement, loan to deposit ratio, loan to asset ratio, non-performing loan, and call money net liability ratio.

According to Sutrisno (2013) solvability is also called the leverage ratio describing the company's ability to pay its long-term obligations. This ratio is intended to measure to what extent the company's assets are financed by debt. This ratio shows an indication of the level of security of the lenders (Banks). This ratio is a comparison between current liabilities and long-term debt and the total assets are known. This ratio shows how much of the total assets are spent by debt (Raymond, 2017). According to Kasmir (2013), solvability can be measured from several ratios, namely: capital adequacy ratio, debt to equity ratio, and long-term debt to asset ratio.

James C. Van Horne (2015) states that profitability is the company's ability to generate profits in a certain period. Profit is often one of the measures of company performance. Where when the company has a high profit means its performance is good and vice versa. The company's profit is not only an indicator of the company's ability to fulfill obligations to its funders, it is also an element in the creation of company value that shows the company's prospects in the future (Raymond, 2017). According to Raymond (2017) several profitability ratios are commonly used, namely: profit margin, net profit margin, return on investment, return on equity, return on total assets.
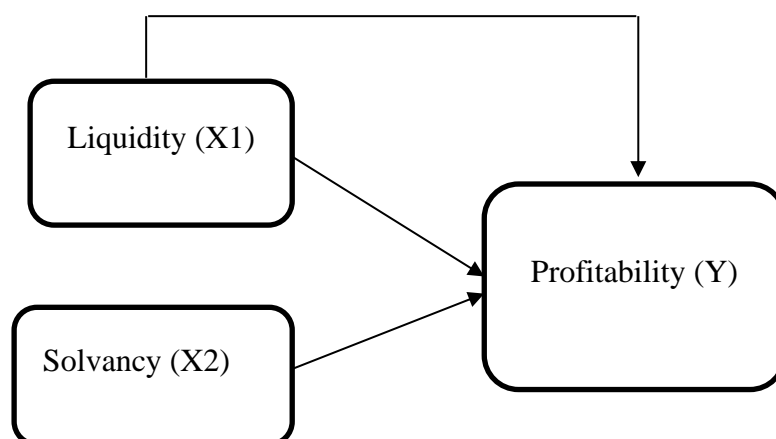
Figure 1. Research Framework

H1: Liquidity and solvability partially have a positive and significant effect on company profitability

H2: Liquidity and solvability simultaneously have a positive and significant effect on company profitability.

H3: The solvability variable has a more significant effect on the company's profitability.

RESEARCH METHOD

The type of research in this study is descriptive quantitative, where this type of research is used to explain the relationship between variables by analyzing numerical data (numbers) using statistical methods through hypothesis testing (Utami & Pardanawati, 2016). The population of this study was 43 banking companies listed on the Indonesia Stock Exchange (IDX). The sample of this research was taken by purposive sampling, where the sample was taken based on certain criteria with the final result as many as 28 samples of suitable banking companies. The data used in this research is secondary data. Secondary sources are sources that do not directly provide data to data collectors (Sugiyono, 2011). The data collection technique in this research is documentation. Documentation is looking for data on variable things in the form of notes or transcripts, books, newspapers, magazines, minutes of meetings, and so on. The method used to analyze this thesis is quantitative data using a multiple regression analysis models, with some testing data originating from the IDX. This regression equation aims to measure the strength of the relationship between two or more variables and shows the direction of the relationship between the dependent variable and the independent variable (Ghozali, 2011).

Normality test aims to test whether the dependent variable regression model, the independent variable or both have a normal distribution or not (Ghozali, 2011). The multicollinearity test aims to test whether the regression model found a correlation between the independent (independent) variables (Ghozali, 2011). The autocorrelation test aims to determine whether in a linear regression there is a correlation between the nuisance error (residual) in period t and the confounding error in period t-1 (previous period) (Singgih Santoso, 2006). The heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residual of one observation to another observation (Ghozali, 2011). Regression analysis in statistics is one method to determine the causal relationship between one variable and other variables. Multiple linear regression equation can be expressed as follows:

$$Y= a +\beta\_1 X\_1+\beta\_2 X\_2+\beta\_3 X\_3+\varepsilon. \tag{1}$$

F statistical test is used to show the effect of the independent variable on the dependent variable simultaneously with significant or not. In addition, the F statistical test is also used to support the results of the coefficient of determination (R2) which determines whether the multiple linear regression model formed is good or not (Ghozali, 2011). The t-test is used to determine whether or not the independent variable significantly affects the dependent variable. (Ghozali, 2011). The dominant test is carried out to find out which independent variable has the most influence on the dependent variable when compared to several other independent variables (Sita Nensia, 2017).

RESULT AND DISCUSSION

The following table of regression analysis results:

Table 1. Results of Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2,352	,691		3,406	,001
	X1	,061	,036	,187	1,725	,088
	X2	,168	,119	,154	1,417	,160

$$Y = 2.352 - 0.061X_1 + 0,168 X_2 \tag{2}$$

$$ROA = 2.352 + 0.061LDR + 0.168CAR \tag{3}$$

The constant value (a) of 2.352 means that if all independent variables are equal to zero, then the ROA is worth 2.352. Loan to Deposit Ratio (X1) has a regression coefficient of 0.061 with a positive value. That is, every time there is an increase of 1 unit load to deposit ratio with the assumption that the other variables are constant, the ROA will increase by 0.061. Capital Adequacy Ratio (X2) has a regression coefficient of 0.168 with a positive value. That is, every time there is an increase of 1 unit of capital adequacy ratio with the assumption that other variables are constant, ROA will decrease by - 0.652.

Table 2. Results of the Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,432[a]	,254	,231	1,23166

In table 2 above, it can be seen that the Adjusted R Square value has a value of 0.231 or equivalent to 23.1%. This proves that the liquidity and solvability variables can explain the company's profitability variable by 23.1%, while 76.9% is explained by other variables outside the variables calculated here.

Table 3. Simultaneous Test Results

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17,232	2	8,616	2,309	,106[b]
	Residual	302,236	81	3,731		
	Total	319,468	83			

Based on table 3 above, it can be proven that the f-count > f-table is 2,309 < 2.4500 and the significance value is more than 0.05, namely the significant value in this study is 0.106 > 0.05. It can be concluded that liquidity and solvability have no significant effect on company profitability.

Table 4. Partial Test Results

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2,352	,691		3,406	,001
	X1	,061	,036	,187	1,725	,088
	X2	,168	,119	,154	1,417	,160

Based on the analysis results above, it can be concluded that liquidity and solvability partially have a positive and significant effect on company profitability. Based on table 4, the t-count value is 1.725 <1.990 and the significant value is 0.088. The significance value of liquidity proxied by LDR which is greater than the expected significance (0.05) indicates that partially the liquidity variable has a positive and insignificant effect on profitability, thus this hypothesis is rejected. Furthermore, the t-count value is 1.417 <1.990 and the significant value is 0.160. The significance value of solvability as proxied by CAR which is greater than the expected significance (0.05) indicates that partially the solvability variable has a positive and insignificant effect on profitability, thus this hypothesis is rejected.

A dominant test was conducted to find the most influential variable on the dependent variable. To find out this dominant variable, you can see the value of the beta coefficient and the significant value in the table of the results of the partial test (t-test) which is the smallest and < 0.05. Therefore, hypotheses three stated that the solvability variable has a significant effect on the company's profitability. The beta coefficient value of the calculated t value for the influence of the liquidity variable projected as a loan to deposit ratio has a value of 0.187, the solvability variable which is projected as a capital adequacy ratio of 0.154 on the company's profitability. So that it can be seen that the largest t-count with a positive value is the liquidity variable projected by the loan to deposit ratio with a value of 0.187. Therefore, the most influential variable on profitability is liquidity projected by the loan to deposit ratio, thus this hypothesis is rejected.

CONCLUSIONS

Based on the results of research on the effect of liquidity and solvability on the profitability of banking companies listed on the Indonesia Stock Exchange in the 2017-2019 period, it can be concluded that the liquidity has no significant effect on the company's profitability. The solvability has no significant effect on the company's profitability. The liquidity and the solvability variable projected by

the capital adequacy ratio simultaneously do not affect the company's profitability. The most influential variable on profitability is liquidity projected by the loan to deposit ratio (LDR).

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