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INTERNAL FACTORS CONTRIBUTION TO THE PROFITABILITY OF PRIVATE BANK

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Abstract

Company performance is the result of the process carried out by the company, and further on can be used by the company to evaluate and making improvement in order to achieve a better performance. The credit performance of the private bank in Kepri Province growth around 8.50% at the end of 2016. Normally, the development of private bank in Kepri Province will support the stability of the financial services sector and build optimism to improve the welfare of society. However based on existing growth percentage, the improvement of private bank will still required to continue. Private bank profitability is a crucial factor that need to be consider, so that it can contribute well in creating local economic growth (Kepri Province) as well as nationally. Therefore, the authors are interested in conducting a research of, "Internal Factors Contribution to the Profitability of Private Bank". This study uses data sources from the OJK website using one dependent variable, which is Return on Assets (ROA) as an indicator to measure company profitability. In addition, this study also use four independent variables such as company size, capital ratio, deposit ratio, and liquidity. The results of the study show that the variable of company size, capital ratio, and liquidity have significant effect on profitability, while the deposit ratio variable did not have any significant effect on profitability.

Keywords: Company size, capital ratio, deposit ratio, liquidity, profitability.

INTRODUCTION

Banks are financial institutions that play a role in supporting economic activity in an area. According to Law No. 10 of 1998 concerning banking, banks are financial institutions that collect funds from the public in the form of deposits and channel them back in the form of loans (credit) and or other forms, with the aim of improving the lives of many people. OJK said the Private bank is one of the financial institutions that contribute to the national economy. In 2017, the assets of private banks throughout Indonesia were recorded at IDR 115.2 trillion or grew 10.8% compared to the same period the previous year. Although the market share of BPR assets is still relatively small at 1.7% of the total assets of the national financial industry, IDR 115 trillion is not a small number, if maximized, it will provide large benefits. The government wants private bank in Indonesia to be like local post in Indonesia, which currently has a lot of cooperation with banks. The number of private bank currently reaches 1,621 units. Although the number of assets is growing, there are still internal problems such as limited capital, governance, quality and quantity of human resources, the high cost of funds that have an impact on interest rates, and products and services that have not varied. While from the external side, the challenges faced are increasing competition (Laucereno, 2017).

The performance of the private bank in Kepri Province growth of around 8.50% at the end of 2016. The development of existing private banks in Kepri Province can support the stability of

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the financial services sector and build optimism to improve the welfare of the community. The growth of private banks in Kepri Province is indeed a lot of factors that support its growth, partly because the higher minimum wage obtained by the community create the intention for deposit in Bank, and turn out as a source of funding for banks so that economic growth in Kepri Province is also good (Suandi, 2017).

The same statement was expressed by the Chairman of the private bank association (Perbarindo) Joko Suyanto, who predicted that the growth of private Credit Banks in 2018 would reach 10 percent to 12 percent, or increased compared to 2017 which was only 9-10 percent. Private bank growth will continue even though 2018 is a political year, because private are still needed by the community. He said that for the credit sector, which is now a priority for private banks, there still needs to be some improvement. Thus, it can serve Small and Medium Enterprises and develop the potential of the regional economy and banks that empower regional community, thereby increasing profitability and encouraging the development of the national economy (Ris, 2018).

Based on the background above, it can be concluded that private bank profitability is a crucial factor that must be considered, so that economic growth can occur both in its own environment and nationally. Therefore, the authors are interested in conducting a study entitled, "Internal Factors Contribution to the Profitability of Private Bank".

The problems to be examined are as follows:

a. Is there a significant influence between company size on profitability?
b. Is there a significant influence between the ratio of capital to profitability?
c. Is there a significant influence between the ratio of deposits to profitability?
d. Is there a significant influence between liquidity on profitability?

The aim of this research is:

a. To find out the significant effect between company size on profitability.
b. To find out the significant effect between the ratio of capital to profitability.
c. To find out the significant effect between the ratio of deposits to profitability.
d. To find out the significant effect between liquidity on profitability.

The company's financial performance can basically be used as a subjective measurement tool that illustrates the effectiveness of the company's activities in processing assets and capital into profits for the company (Gitman, 2012). Investors will certainly invest their funds in companies with good profits in order to get profits from the funds invested. In the banking sector, profitability is used to measure the bank's performance. Profitability is the main defense in a bank against unexpected losses, such as strengthening the position of capital and increasing future profitability through investment in retained earnings.

According to Taswan (2010), the measurement of profitability at banks is:

a. Return on Assets (ROA)

This ratio is the ratio between net income and total company assets. ROA can be used as an indicator to measure the company's ability to efficiently use the company's total assets to generate profits.

b. Return on Equity (ROE)
This ratio is a measurement of the returns obtained on the investment of the holders of the usual assets in the company. Generally, shareholders expect a high return on their investment.

In fact in Indonesia the banking sector developed rapidly after the regulations in the financial, monetary and banking sectors in 1983. This made the growth of the banking sector like the number of banks in Indonesia and the banking products offered. This encourages the growth of banking companies, both in banking products and the increasing number of banks to reach the public. Bank financial performance has important implications for a country's economic growth which can be seen from the financial statements. Over the time, research is also being conducted to formulate any factors that affect the profitability of the company (Badan dan Lestari, 2015).

Alper and Anbar (2011) conducted research on a sample of Turkish state companies. The purpose of this study is to examine the specific factors of banks and macroeconomics on bank profitability over a period of time from 2002 to 2010. The dependent variable profitability is measured using ROA, while the independent variable is the specific factor of the bank and macroeconomics. Using a balanced panel data panel, the results show that asset size and non-interest income have a positive and significant effect on bank profitability. However, the size of the loan portfolio and the followed up loan have a negative value and a significant impact on bank profitability. With regard to macroeconomic variables, only real interest rates affect bank performance positively. This result shows that banks can increase their profitability through increasing bank size and non-interest income, decreasing the credit/ asset ratio. In addition, higher real interest rates can result in higher bank profitability.

Research on profitability was conducted by the Badan dan Lestari (2015) on a sample of banks listed on the Indonesia Stock Exchange from 2009 to 2013. The independent variables in this study were company size, credit risk, total deposits and interest rates, while the control variables used is operational efficiency, total debt, gross domestic product (GDP) and consumer price inflation rate (CPI). The dependent variable in this study is profitability. Regression results show a significant positive effect between firm size, interest rates, gross domestic product (GDP) on ROA, and credit risk has a significant negative effect on ROA. However, the variable total deposit, operational efficiency, total debt and consumer price inflation rate (CPI) have no significant effect on ROA.

Analysis of factors affecting profitability was also carried out by Menicucci and Paolucci (2016) by using the dependent variable ROA. The independent variables used are company size, capital ratio, debt ratio, deposit ratio, loan lost provisions ratio. The results showed that company size, capital ratio, deposit ratio had a significant positive effect on ROA, the ratio of loan lost provisions had a significant negative effect on ROA, and the debt ratio did not have a significant effect on ROA.

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Based on research by Hirindukawshala and Kushanipanditharathna (2017), there are a number of factors that affect profitability at banks, including the following:

a. Company size
   Most financial literatures use total bank assets which are used as indicators for company size. This indicator is represented by the natural logarithm of total assets. One of the most important questions in the literature is which bank size maximizes bank profitability. The impact of company size on profitability is not uniform. The same thing was stated by Kosmidou (2008).

b. Capital Ratio
   One simple measurement of capital is to compare equity against total company assets. In general, banking companies that have a good source of capital will have large profitability and reduce the risk of financial difficulties. The same statement was expressed by Bourke (1989), Demirguc-Kunt & Huizinga (1999), Pasiouras & Kosmidou, (2007), Ben & Goaied (2008), Kosmidou (2008).

c. Deposit Ratio
   Deposits from customers represent debts from the bank to the customer concerned. The purpose of collecting funds from customers is to fund loans to be given to debtors, which then contribute to the profitability of the company. This is consistent with the results of research by Lee & Hsieh (2013).

d. Liquidity
   Liquidity is the company's capacity in the short term for no more than a year. Maintaining company liquidity is a factor that is no less important than achieving company targets. However, an increase in liquidity will result in a decrease in profitability. The same thing was expressed by Molyneux & G (1992) and Teacher (2002).

The hypothesis formulation based on the above research model is as follows:
H1: Firm size has a significant effect on profitability.
H2: Capital ratio has a significant effect on profitability.
H3: Deposit ratio has a significant effect on profitability.
H4: Liquidity has a significant effect on profitability.

RESEARCH METHODS

The method used in this study is a comparative causal method. Research carried out is directed to determine the causal relationship between two or more variables. The data used in this study is quantitative data presented in the form of figures for the measurement of corporate financial performance variables. The population used is the Private bank of the Kepri Province, where the data obtained are secondary data on the Financial Services Authority (OJK) website. Determination of this sample will use a purposive sampling method, which is to choose a sample randomly and based on the suitability of the characteristics of the sample with the sample selection criteria, namely data from private banks in the Kepri Provinces Province which present consecutive financial statements from 2013-2017.

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The dependent variable in this study is Return on Assets (ROA), this ratio is the ratio between net income and total company assets. ROA can be used as an indicator to measure the company's ability to efficiently use the company's total assets to generate profits. The ROA calculation formula can be formulated as follows:

$$ROA = \frac{\text{Net Income}}{\text{Average Total Assets}}$$

Sources: Hirindu Kawshala and Kushani Panditharathna (2017).

The first independent variable is company size. The size of the company states the size of the company seen from the size of sales and total assets. This study uses the calculation of company size using total assets formulated as follows:

$$\text{Bank Size} = \text{LN (Total Assets)}$$

Sources: Hirindu Kawshala and Kushani Panditharathna (2017).

The second independent variable is the capital ratio, which functions to measure the relationship between bank profits and bank capitalization. The capital ratio calculation formula can be formulated as follows:

$$\text{Capital Ratio} = \frac{\text{Equity}}{\text{Total Assets}}$$

Sources: Hirindu Kawshala and Kushani Panditharathna (2017).

The third independent variable is the deposit ratio, which serves to measure the ratio of deposits from customers to total assets of the company. The deposit ratio calculation formula can be formulated as follows:

$$\text{Deposit Ratio} = \frac{\text{Total Deposits}}{\text{Total Assets}}$$

Sources: Hirindu Kawshala and Kushani Panditharathna (2017).

The last independent variable is Liquidity, which serves to measure the ratio of short-term assets to total assets. The liquidity calculation formula can be formulated as follows:

$$\text{Liquidity Ratio} = \frac{\text{Cash and Cash Equitant}}{\text{Total Assets}}$$

Sources: Hirindu Kawshala and Kushani Panditharathna (2017).

Variable data that has been collected will be further tested to determine the effect of each independent variable on the dependent variable. The first stage is the outlier test is used to see the value of the observation data that deviates quite far from the average, causing research data to be abnormal or outlier, the deviant data can be found using the Studentized Deleted Residual (SDR) value method and assistance SPSS version 21 computer application for Windows. An outlier data is said if it has a score value greater than 1.96 or smaller than 1.96, the outlier data will be issued and not analyzed further. The second stage is the classic assumption test consisting of the F test to test the effect of all independent variables together on the dependent variable. If the probability level <0.05 then the regression model can be used to predict the dependent variable or it can be said that the independent variable as a whole has an influence on the dependent variable. Then the t test is performed to determine the effect of each independent variable in explaining the variation of the dependent variable. If the probability is smaller or equal to 0.05 then the independent variable has a significant effect on the dependent variable. If the probability is greater or equal to 0.05 then the independent variable has no significant effect on the dependent variable. The last test is the determination correlation coefficient test (adjusted R2) is done to find out how much the dependent variable can be explained by the independent variable. While the rest is explained by other factors (Nugroho, 2005).

RESULTS AND DISCUSSION

The data used in this study are secondary data, and the population is the Kepri Provinces Province private bank company that presents financial reports on the OJK website from 2013-2017. Based on the criteria, the total population registered is 38 companies. The number of samples that met the criteria were 28 companies (140 observational data).

Based on the results of the F test for the regression model obtained an F value of 36.334 and a significance value of 0.000. Because the model has a significance value of less than 0.05, it can be said that the regression model can be used to predict capital structure variables, or it can be said that tangible assets, company size, profitability, and liquidity affect the capital structure.

Based on the t test results of the research model shows that the t value of the firm size variable is 0.015 with a significance value of 0,000. The t value of the capital ratio variable is 0.202 with a significance value of 0,000. The t value of the variable deposit ratio is -0.010 with a significance value of 0.483. The t value of the liquidity variable is -0.044 with a significance value of 0.019. T test results prove that the variable company size, capital ratio, and liquidity have a significance value below 0.05 so that it has a significant effect on profitability, and vice versa the deposit ratio has a significance value above 0.05 so that these variables do not have a significant effect significant impact on profitability.

The regression equation formed based on the test results as follows:
ROA = -0,252 + 0,015 Bank Size + 0,202 Capital Ratio - 0,010 Deposit Ratio - 0,044 Liquidity + e
The results of the coefficient of determination test (adjusted R square) in shows that the adjusted R square value of 0.512. This shows that 51.20% of the dependent variable (profitability) can be explained by the independent variables used in this study, namely: company size, capital ratio, deposit ratio, and liquidity; while the remaining 48.80% is explained by other factors outside the independent variables used in this study.

CONCLUSION

Based on the explanation above, it can be concluded that this study uses data sources from the OJK website by using 1 dependent variable, Return on Assets (ROA) as an indicator to measure the company's profitability. In addition, this study also uses 4 independent variables such as: company size, capital ratio, deposit ratio, and liquidity. The results showed the company size, capital ratio, and liquidity variables had a significant effect on profitability, while the deposit ratio variable had no significant effect on profitability.

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