International Journal of Psychosocial Rehabilitation, Vol. 24, Issue 02, 2020
ISSN: 1475-7192

Increase Profitability through the Company's Internal Factors: A Study in West Java, Indonesia

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Abstract---*The purpose of this study is to analyze loan to deposit ratio, operational efficiency and firm size and return on equity of the companies in West Java, Indonesia. This type of research uses descriptive verification. The population is a bank registered on the Indonesian stock exchange and sampling uses purposive sampling. This research has tested the classical assumptions and then processed using Eviews 10. This study found that loan to deposit ratio, operational efficiency and firm size loan to deposit ratio, operational efficiency and firm size affects the return on equity (ROE). This research provides insight to investors in investing funds or investing in banks that need to pay attention to information about the loan to deposit ratio, operational efficiency, and firm size because it can also increase income so that reciprocity to investors will be good and beneficial.*

Keywords---*Loan to deposit ratio, Operational efficiency, Firm size, Return on equity.*

I. INTRODUCTION

A bank is a place for government agencies, agencies, companies, and individuals to save their funds or borrow funds. Funds collected in a bank are not left idle but are channeled back to various stakeholders' needs in the hope of gaining profit. Fund injections from investors are certainly very useful for the survival of a bank because they can be used for various bank needs.

Profitability is a ratio to measure the overall effectiveness of management as indicated by the size of the profits obtained in relation to sales and investment, the profitability of a company is measured by the success of the company and the ability to use its assets productively so that the profitability of a company can be determined by comparing the profits earned a period with total assets or total capital of the company (Munawir, 2010).

In a Bank Indonesia Circular Letter No. 6/23/DPNP/2004, It is said that the condition of banks that are generally healthy so that they are considered to be able to face significant negative effects of changes in business conditions and other external factors have a high enough profit or an ROE ratio of more than 5%. That way banks with ROE values below 5% can be considered to have unhealthy conditions. In 2018 the average ROE was a decrease of 0.7% from the previous year, size there was an increase of 0.04%, LDR had an increase of 1.01%, and BOPO there was a decrease of 0.43% from the previous year.

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DOI: 10.37200/IJPR/V24I2/PR200571
Received: 30 Dec 2019 | Revised: 13 Jan 2020 | Accepted: 25 Jan 2020

Banks must compete in getting funds as bank capital from investors in society. Investors will certainly invest in banks that can provide high profits. Based on this, bank management needs to improve performance for the prosperity of capital owners in order to maintain trust, which in turn will make it easier to obtain funding sources (Kurnia & Mawardi, 2012).

Findings found related to the relationship between loan to deposit ratio and return on equity, where the ratio of loan to deposit ratio increased in the 2014-2015 period by 0.74%, while return on equity decreased by 2.51%. In 2016-2017 when the average loan to deposit ratio decreased by 1.9%, what happened on the average return on equity was an increase of 3.95%. In 2017-2018 when the average loan to deposit ratio increased by 1.01%, the average return on equity decreased by 0.7%. From these findings, there are differences with the theory which should when the loan to deposit ratio increases it will reduce the level of liquidity, from the level of liquidity that falls has an impact on increasing return on equity. These findings also contradict the results of research conducted (Abugamea, 2018) which states that loan to deposit ratio has an effect on return on equity.

The researcher found several findings related to the relationship between operational efficiency and return on equity. In 2017-2018 when the operational efficiency average decreased by 0.43%, which occurred in the average return on equity also decreased, where the decline was 0.7%. From these findings found differences with the theory listed above where when operational efficiency has decreased it shows the increasingly efficient condition of the company which generally affects the return on equity which also increases. The findings also contradict the results of research conducted (Jaouad & Lahsen, 2018) who stated that operational efficiency had an effect on return on equity (Kheyfets & Chernova, 2019).

There are a number of findings related to the relationship between firm size and return on equity, including in 2014-2015 when the average return on equity decreased by 2.51%, which occurred in the film size was an increase of 0.1%. Then in 2015-2016 when the average ROE decreased by 5.09%, what happened to SIZE was an increase of 0.09%. In 2017-2018 when ROE decreased by 0.7%, firm size increased by 0.04% from the previous year. From this, it actually illustrates the negative effect of firm size on return on equity. The findings contradict the results of a study conducted (AlMaqtari et al.,2018) which states that firm size has an effect on return on equity.

II. LITERATURE REVIEW

Banks that have large total assets have the opportunity to channel loans to borrowers in larger quantities so that they get high profits (Prasanjaya & Ramantha, 2013). Loan to Deposit Ratio is a comparison between credit provided with funds received by the bank (Miadalyni & Dewi, 2013; Prasanjaya & Ramantha, 2013; Saudi et al., 2018). Loan to Deposit Ratio is a traditional measurement that shows time deposits, current accounts, savings that are used to fulfill the loan requests of customers. Credit is the total credit given to third parties (Prasanjaya & Ramantha, 2013; Taunay, 2007).

H1: Loan to Deposit Ratio affects Return on Equity

An efficient bank is a bank that is able to reduce operating costs and increase operating income to obtain high profits and avoid the condition of troubled banks (Kurnia & Mawardi, 2012; Prasanjaya & Ramantha, 2013). Operational efficiency is a comparison between operating costs and operating income. This ratio is used to measure the level of efficiency and ability of banks to carry out their operations. This ratio is used to determine the level of efficiency and ability of banks in carrying out their operational activities (Lukman, 2009). The more efficient a bank certainly makes investors more confident about the bank, because efficient conditions can create greater profits (Prasanjaya & Ramantha, 2013)

H2: Operational efficiency affects Return on Equity

The condition of a strong company is certainly capable of making large profits, it is an attraction for investors. It becomes common place when the larger the size of the company is directly proportional to the greater return on equity produced (Abugamea, 2018; Jaouad and Lahsen, 2018).

H3: Firm Size as a control variable affects Return on Equity

III. RESEARCH METHODOLOGY

This type of research is descriptive verification, as a form of research based on data collected systematically on the facts of the object under study which will then be interpreted based on theory and literature (Sekaran, 2013). The population is a bank registered on the Indonesian stock exchange. Sampling uses purposive sampling. This research has tested the classical assumptions and then processed using Eviews 10.

IV. RESULT AND DISCUSSION

Dependent Variable: ROE				
Method: Least Squares				
Date: 07/05/19 Time: 10:32				
Sample: 1 155				
Included observations: 155				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	13.116378	5.942289	3.379425	0.0049
LDR	0.294971	0.394009	3.541235	0.0040
BOPO	0.456416	0.139881	3.886102	0.0000
Size	0.394099	0.405343	4.412946	0.0000
R-squared	0.634424	Mean dependent var		2.993132
Adjusted R-squared	0.627161	S.D. dependent var		1.058700
S.E. of regression	0.646448	Akaike info criterion		1.990820
Sum squared resid	63.10214	Schwarz criterion		2.069360
Log likelihood	-150.2885	Hannan-Quinn criter.		2.022721
F-statistic	87.34888	Durbin-Watson stat		1.885397
Prob(F-statistic)	0.000000			

The results loan to deposit ratio on return on equity produced a significance value 0.0040 < 0.05, resulted that loan to deposit ratio affected return on equity. This research is in line with (et al., 2013; Prasanjaya & Ramantha, 2013) saying that there is an influence, meaning the bank's performance in channeling credit to third parties is good. The more credit channeled, the income received by the bank will increase along with the increase in return on equity.

The results operational efficiency produced a significance value 0.0040 < 0.05, resulted that operational efficiency affected return on equity. This research is in line with (Rafelia, 2013; Berliano, 2017; Kusnaini 2017) saying banks in running their operations efficiently, the income earned by banks will increase and also offset by an increase in return on equity (Hussain et al., 2018).

The results of the firm size on return on equity resulted with a significance .000 < 0.05, so it was found that firm size affected return on equity. The results of this study are in line with (Abugamea, 2018; Jaouad and Lahsen, 2018) which states that the size of the company affects the return on equity where the increase in firm size also adds to return on equity.

V. CONCLUSION

Based on the results of the analysis conducted, it shows that loan to deposit ratio, operational efficiency and firm size affect the return on equity. In investing funds or investing in banks, it should pay attention to information related to the loan to deposit ratio, operational efficiency and firm size, indicating that the increasing variable will also increase bank income and reciprocity to investors are also good.

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DOI: 10.37200/IJPR/V24I2/PR200571
Received: 30 Dec 2019 | Revised: 13 Jan 2020 | Accepted: 25 Jan 2020

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DOI: 10.37200/IJPR/V24I2/PR200571
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