


Factors Affecting Corporate Profitability

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Article Info	ABSTRACT
<p>Keywords: Capital Adequacy Ratio, Non-Performing Loan, Liquidity, Leverage, Profitability, Return On Assets</p>	<p>This study aims to examine the influence of Capital Adequacy Ratio (CAR), Non-Performing Loans (NPL), Liquidity, and Leverage on Profitability. The research methodology used in this study is quantitative. The data utilized is secondary data obtained from www.idx.co.id. The population in this study consists of banking companies listed on the Indonesia Stock Exchange for the period 2018-2022, with a sample size of 23 companies. Data analysis for hypothesis testing is conducted using Multiple Linear Regression with the assistance of SPSS version 26 software. The results of the study indicate that Non-Performing Loans (NPL) and Leverage have a negative and significant effect on Profitability or Return on Assets (ROA), while Capital Adequacy Ratio (CAR) and Liquidity have no effect on Profitability or Return on Assets (ROA).</p>
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INTRODUCTION

The involvement of banks in collecting funds from the public and then redistributing them in the form of credit or other services is one of the contributions of the banking sector to a country's economy. In Law Number 7 of 1992 Article 4 concerning Banking, it is explained that the purpose of Indonesian banking is to support the implementation of national development to improve equity, economic growth, and national stability toward enhancing the welfare of the people.

The sources of bank funds can come from the bank itself in the form of shareholder capital deposits and retained earnings, from the general public (customers), or from other institutions. The primary and most important source of funds is the funds obtained from the public, which consist of savings deposits, current accounts, and time deposits. These public funds are the most crucial as they serve as a measure of a bank's success if it can sustain its operational activities and indicate public trust in the bank.

One way to assess a bank's performance is through profitability indicators, which are the most important measures of a bank's performance (Sofyan and Eka, 2018). Profitability is one of the main objectives of any company, including banks. The higher the level of profitability shown, the better the bank's financial performance. Good performance allows the amount of funds successfully collected by the bank to increase.

According to OJK data from November 2022, bank credit grew by 11.6 percent (yoy) and third-party funds (DPK) grew by 8.78 percent (yoy). Bank capitalization is also strong, with a CAR of 25.49 percent. Credit risk is tending to decline, as reflected in the NPL ratio,

with a gross NPL of 2.65 percent and a net NPL of 0.75 percent, while the Loan at Risk (LAR) is 15.12 percent. This indicates a growth rate exceeding pre-pandemic COVID-19 levels with well-maintained banking risk indicators and improved quality of restructured credit due to the impact of COVID-19.

Banking risk arises as a result of various decisions, such as credit disbursement decisions, fund acceptance, foreign exchange transactions, collection services, and various other financial decisions that could result in losses for the bank (Shadrina and Vembrianto, 2019). Although these risks are inevitable for banks, they need to be managed to reduce excessive impacts that could destabilize the banking sector or Indonesia's economy. Risk Management is a series of methodologies and procedures used to identify, measure, monitor, and control risks that arise from all banking business activities (POJK No 18/POJK.03/2016). There are various types of banking risks according to POJK, including Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Legal Risk, Reputational Risk, Strategic Risk, and Compliance Risk.

The Capital Adequacy Ratio (CAR) is a capital adequacy ratio that serves as a buffer against potential losses faced by banks. According to Bank Indonesia Regulation No 14/18/PBI/2012, the minimum capital requirement is set at a minimum of 8 percent of Risk-Weighted Assets (RWA). The higher the CAR value, the better the bank's ability to bear the risk of losses, such as non-performing loans, meaning that this ratio can make a significant contribution to a bank's profitability. Previous research (Diana and Taswan, 2019) and (Nanik and Purbawangsa, 2019) proved that CAR has a positive and significant effect on ROA, one of the profitability ratios. Meanwhile, (Sofyan and Eka, 2018) concluded that partially, CAR has no significant effect on the ROA ratio, with an impact of only 10.3 percent. However, other studies concluded that CAR does not affect bank profitability (ROA), as found by (Pricilla and Nur, 2021), (Luh and Ni, 2015), (Dwi and Arief, 2016), and (Medina and Rina, 2018).

Non-Performing Loans (NPL), or bad loans, are one of the factors used to assess a bank's health. Various factors contribute to NPL, such as a debtor's inability to repay the loan, inadequate credit analysis by the bank, or external factors like economic recession or financial crises. According to Bank Indonesia Regulation No. 23/2/PBI/2021, the required NPL ratio for total gross loans/financing must be less than 5 percent. The higher the NPL ratio, the more it negatively impacts a bank's profitability. As demonstrated by previous research (Sofyan and Eka, 2018), NPL significantly affects profitability by 74.3 percent. Meanwhile, (Silviana, 2011), (Nanik and Purbawangsa, 2019), and (Pricilla and Nur, 2021) concluded that NPL has a negative and significant effect on profitability.

Liquidity is a crucial ratio for banks, as their ability to meet short-term obligations is closely tied to customer transaction demands, particularly credit requests. Excessively high liquidity can result in lower profitability. Previous research (Risal, Pristin, and Hasya, 2022) found that liquidity has a positive and significant effect on profitability. Meanwhile, (Dewa, Surya, and Rusmala, 2015) found that liquidity has no significant effect. Other researchers, such as (Syukhandri and Melinda, 2022) and (Nur and Tiara, 2019), found that liquidity has a negative and significant effect on profitability.

METHODS

This study employs a quantitative approach as the data analyzed consists of numerical values, and statistical methods are used for data processing. A quantitative approach is considered appropriate because it allows for a structured and objective analysis of financial data. The use of statistical techniques ensures that the results obtained are valid and reliable, providing a clear understanding of the relationships between financial variables in the banking sector.

The data source in this research consists of banking companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022. The total population includes 47 banking companies, which were selected because of their significant role in the financial system and economic stability. The banking sector serves as a fundamental intermediary in financial markets, facilitating the flow of funds between savers and borrowers. Understanding the financial performance of banks is crucial in assessing economic health, risk exposure, and profitability trends within the industry.

The selection of banking companies as the research population is based on the important role of the banking sector in a country's economy. Banks contribute by mobilizing savings, providing credit, and facilitating various financial transactions that support both businesses and individuals. Additionally, banks play a critical role in monetary policy implementation, ensuring economic growth and stability. Their financial strength and performance indicators, such as profitability and risk management, directly impact the overall economic environment.

Furthermore, the banking industry has undergone significant transformations over the years. With advancements in technology, regulatory changes, and shifts in consumer behavior, banks have adapted their business models to remain competitive. The period from 2018 to 2022 is particularly important as it includes the economic disruptions caused by the COVID-19 pandemic, which affected global financial markets, loan disbursement policies, and risk management strategies. Analyzing this period provides valuable insights into how banks have navigated economic challenges and adapted to changing conditions.

By focusing on the banking sector and analyzing financial variables quantitatively, this research aims to contribute to a better understanding of the factors influencing profitability, risk management, and financial performance in the industry. The findings are expected to be relevant for policymakers, investors, and banking professionals, providing insights into effective financial strategies and risk mitigation measures. Ultimately, this study will help assess how banks contribute to economic growth and how their financial decisions impact overall economic stability.

RESULTS AND DISCUSSION

The Influence of Capital Adequacy Ratio on Return On Assets

The first hypothesis states that "Capital Adequacy Ratio (CAR) is suspected to affect Return On Assets (ROA)." Based on the test results, this hypothesis was rejected. This is because, based on partial testing (t-test), the significance value obtained for the CAR variable was $0.104 > 0.05$, with a beta coefficient value of -0.018 . These results indicate that CAR (Capital Adequacy Ratio) does not significantly affect ROA (Return On Assets) with a negative relationship direction.

In general, if a company's liquidity increases, it has more capability to take advantage of profitable investment opportunities, which in turn can improve ROA. However, if the company's liquidity is too high, it may indicate that the company is not utilizing its assets efficiently and might experience excess liquidity that does not generate an optimal return. These research results align with the study conducted by Nur Salma and Tiara Januar Riska (2019), which states that liquidity does not significantly affect Return On Assets.

The Influence of Leverage on Return On Assets

The third hypothesis states that "Leverage is suspected to affect Return On Assets (ROA)." Based on the test results, this hypothesis was rejected. This is because, based on partial testing (t-test), the significance value obtained for the Leverage variable was $0.009 < 0.05$, with a beta coefficient value of -0.090 . These results indicate that Leverage significantly affects ROA (Return On Assets) with a negative relationship direction.

Every bank is required to maintain its CAR value in accordance with Bank Indonesia's minimum regulatory standard of 8%, which is one of the reasons why CAR does not affect profitability. These research findings are consistent with studies conducted by Sofyan Marwansyah and Eka Dyah Setyaningsih (2018), as well as Pricilla Febryanti Widyastuti and Nur Aini, which state that CAR does not significantly affect Return On Assets.

The Influence of Non-Performing Loans on Return On Assets

The second hypothesis states that "Non-Performing Loan (NPL) is suspected to affect Return On Assets (ROA)." Based on the test results, this hypothesis was accepted. This is because, based on partial testing (t-test), the significance value obtained for the NPL variable was $0.001 < 0.05$, with a beta coefficient value of -0.098 . These results indicate that NPL (Non-Performing Loan) significantly affects ROA (Return On Assets) with a negative relationship direction.

The higher the NPL level, the greater the credit risk faced by banking companies. This can lead to a decrease in interest income and an increase in recovery costs, potentially harming the profitability of banking companies. Therefore, these research findings are in line with the study conducted by Sofyan Marwansyah and Eka Dyah Setyaningsih (2018), which states that NPL significantly affects Return On Assets.

The Influence of Liquidity on Return On Assets

The third hypothesis states that "Liquidity is suspected to affect Return On Assets (ROA)." Based on the test results, this hypothesis was rejected. This is because, based on partial testing (t-test), the significance value obtained for the Liquidity variable was $0.493 > 0.05$, with a beta coefficient value of -0.626 . These results... (text incomplete, please provide the rest).

CONCLUSION

This study aims to examine the influence of Capital Adequacy Ratio (CAR), Non-Performing Loans (NPL), Liquidity, and Leverage on Return On Assets (ROA). Based on the analysis and hypothesis testing, the findings indicate that Capital Adequacy Ratio (CAR) does not have a significant effect on Return On Assets (ROA). This suggests that a bank's capital adequacy alone does not necessarily translate into increased profitability. Conversely, Non-Performing Loans (NPL) exhibit a negative and significant effect on ROA, implying that higher levels of

problematic loans adversely impact a bank's financial performance. Furthermore, the results reveal that Liquidity does not significantly influence ROA, indicating that fluctuations in liquidity levels do not necessarily determine a bank's profitability. Lastly, Leverage has a negative and significant effect on ROA, suggesting that higher levels of financial leverage can reduce profitability due to increased financial risk and interest obligations. These findings provide insight into the financial factors influencing banking sector profitability and highlight the importance of effective credit risk management and leverage control to maintain financial stability and optimal performance.

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