

The 2nd International Conference on Business and Banking Innovations (ICOBBI)
“Nurturing Business and Banking Sustainability”
Surabaya, 14th - 15th August 2020

Proceeding Book of
The 2nd International Conference on Business and Banking Innovations
(ICOBBI) 2020
“Nurturing Business and Banking Sustainability”
Surabaya, 14 - 15th August 2020

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Indonesia**

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FOREWORD

Alhamdulillah, praise be to Allah Subhanahu Wa Ta'ala for granting us the opportunity to organize and publish the proceedings of the 2nd International Conference on Business and Banking Innovations (ICOBBI) with the topic “*Nurturing Business and Banking Sustainability*”. This proceeding contains several researches articles from many fields in Marketing, Management Technology, Finance, Banking, Human Resources Management, Information System Management, and Islamic Economics.

The 2nd International Conference on Business and Banking Innovations was held on 14th – 15th August 2020 by virtual (online) meeting and organized by the Master Management Study Program of STIE PERBANAS Surabaya in Collaboration with six Higher Education Institutions in Indonesia and five Universities from Asia countries. Keynote speakers in this conference were: Prof. Angelica M..Baylon, Ph.D (Director of the Maritime Academy of Asia and the Pacific, Philippines), Chonlatis Darawong, Ph.D. (Head of the Master of Business Program Sripatum Chonburi University - SPU Graduate School Bangkok, Thailand), Prof. Madya Dr. Reevany Bustami (Director of Centre for Policy Research and International Studies Universiti Sains Malaysia), Associate Prof. Dr. Elisha Nasruddin (Graduate School of Business Universiti Sains Malaysia), Associate Prof. Pallavi Pathak Ph.D. (School of Management Sciences, Varanasi, India) and Prof. Dr. Tatik Suryani (Head of the Master of Management Study Program of STIE Perbanas Surabaya, Indonesia).

I would like to give high appreciation to the Rector of STIE Perbanas Surabaya for his support at this event. Acknowledgments and thank you to all the steering and organizing committees of the ICOBBI for the extra ordinary effort during the conference until this proceeding published. Thank you very much to all presenter and delegates from various Universities. Beside it, I would like to express our gratitude to the six universities, namely Universitas 17 Agustus Surabaya, Universitas Surabaya, Universitas Dr. Soetemo Universitas Dian Nuswantoro Semarang, STIE 66 Kendari, Institut Institut Bisnis dan Keuangan Nitro Makassar which has been the co-host of this event.

Hopefully, the proceeding will become a reference for academics and practitioners, especially the business and banking industry to get benefit from the various results of the research field of Business and Banking associated with Information Technology. Proceedings also can be accessed online on the website <https://pascasarjana.perbanas.ac.id>.

Chair of the Master Management Study Program
STIE Perbanas Surabaya

Prof. Dr. Tatik Suryani, M.M.

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A Systematic Literature Review of Liquidity, Asset Quality, Size, Solvability, and Efficiency of Profitability on National Private Commercial Banks Go Public

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ABSTRACT

An assessment of the performance of National Private Commercial Banks Go Public can be done by analyzing its financial statements. Financial performance of foreign banks in Indonesia when viewed from Profitability has not been satisfactory. The aim of this study is to analyze whether the Liquidity, Asset Quality, Size, Solvability and Efficiency have significant influence simultaneously and partially to Profitability National Private Commercial Banks Go Public. The paper is conceptual and qualitative in nature. This study examines 9 previous studies that discussed the effect of liquidity, asset quality, size, solvability and efficiency of profitability in banks. The Study followed a descriptive research design and used secondary data obtained from the company annual reports and partly from the foreign bank. There are one basic theory about signaling theory and previous research found some propositions : 1) Liquidity have significant effect to Profitability, 2) Asset Quality have significant effect to Profitability, 3) Size have significant effect to Profitability, 4) Solvability have significant effect to Profitability, 5) Efficiency have significant effect to Profitability. The implication of this research can be used as input for banks in managing business risk in an effort to obtain the expected level of profit.

1. INTRODUCTION

The banking sector of a country has enormous influence. Complex effects and impacts on other industrial sectors cause the risks faced are even greater for a country's economy. Banking has always evolved to meet people's need. That is why banking products and services continue to grow as the grow. This has become a demand for banks because the public wants bank products and services that can facilitate their needs and service quickly and efficiently. The most important banking activity is to buy money by assembling public funds [1]. Based on RI Law Number 10 of 1998, a bank is a business entity that collects funds from the public in the form of deposits and distributes them to the public in the form of credit and or other forms in order to improve the lives of many people. Replacing the money market, which is a process that conforms to the international economic openness of countries. The more globalizing the financial markets makes it easier and the greater the volume of interstate economic activity; otherwise, the more liberal world economic system accelerates the process of financial globalization because of the greater funding needs for production and investment activities. According to [1] Globalization has positive and negative impacts. The positive effects of globalization such as an increase in national income because it has a comparative advantage, access to global capital, the spread of technology, the spread of human rights and increased employment opportunities so as to improve the welfare of a country's society. On this basis, international trade organizations and many economists argue that globalization is driving economic growth and reducing poverty and income inequality. While the negative impact of globalization is the weakening of the position of countries lacking skills and capital, weak management in international trade by poor countries, exploitation of workers in poor countries, the risk of unstable global capital markets, weakening of national cultural stability, national economic autonomy is undermined by capital market openness, and poorer countries must accept policies made by richer countries. Of course, the presence of foreign banks has advantages compared to local or domestic banks. One thing that can be seen is to have technological innovations and risk management that is far better and wider access in the financial markets.

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The central bank still carries the interest of the lower interest and the lower interest on the lower interest rate and the lower interest on the lower interest rate. There are 28 National Private Commercial Banks Go Public that can be seen on table 1 is the following.

Table 1 shows that the profitability of National Private Commercial Bank Go Public through the ROA ratio during the 2015-2019 period tended to increase, as indicated by an average trend of 0.02. But apparently there are still many National Private Commercial Banks Go Public that during the period profitability tends to decline. This suggests that there is still a problem on National Private Commercial Banks Go Public profitability. Theoretically, the factors that affect profitability in a bank can be seen through bank performance, namely liquidity, asset quality, size, solvency and efficiency. Profitability can be seen in the extent of effectiveness that the banking operations have achieved. The company will be good if it makes a high profit, which can be measured by an profitability ratio.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

Profitability. explains that profitability is the company's ability to earn profits in relation to sales, total assets, and own capital.

Return on Asset. According to [1] ROA is a ratio used to measure banks' overall profitability. Profit obtained from earning before tax obtained by a bank is the net profit derived from operational activities which makes pre-tax returns. Total asset is the average volume of business or assets over the past twelve months. ROA can be calculated by using this following formula:

$$\text{Return on investment/Asset} = \frac{\text{earning before tax}}{\text{Total asset}} \times 100\%$$

Liquidity. Liquidity is a measure of ability and ease an asset that can convert into cash. Liquid assets are those who can be converted into cash quickly if needed to meet a financial obligation; Liquid assets generally include cash, central bank reserves, and government debt. To remain viable, financial institutions must have sufficient liquid assets to meet their short-term obligations, such as withdrawals by depositors [5].

Loan to Deposit Ratio (LDR). According to [5], the LDR is a ratio used to measure the composition of the amount of credit given compared to the amount of public funds and own capital used. LDR can be calculated by using this following formula:

$$\text{Loan to Deposit Ratio} = \frac{\text{total loans}}{\text{total deposit to equity}} \times 100\%$$

Quality Asset. Asset Quality is all total assets owned by banks with the intention to obtain the expected income. According to [16], asset quality shows the quality of assets in relation to credit risk faced by banks due to the provision of credit and investment of bank funds in different portofolio.

Non Performing Loan (NPL). NPL is one of the key indicators to assess the performance of bank functions, because high NPL is an indicator of banks failing in managing business, including liquidity problems (inability to pay third parties), profitability (debt cannot be billed), and solvency (reduced capital). NPL can be calculated by using this following formula:

$$\text{Non Performing Loan} = \frac{\text{non performing loans}}{\text{total loans}} \times 100\%$$

Size. According to [17], size is a tool to describe the size of a company indicated by total assets, total sales, average level of sales, and average total assets. Size can be calculated by using this following formula:

$$\text{Size} = \text{total assets} + \text{total sales} + \text{average level of sales} + \text{average total assets}$$

Solvability. According to [2] this ratio is used to determine the company's ability to pay off its entire

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debt which is guaranteed by the amount of the company's assets.

Capital Adequacy Ratio (CAR). CAR is the ratio of bank performance to measure the capital adequacy of banks to support assets that contain or generate risk, for example loans and the risks that will occur in trading securities. CAR can be calculated by using this following formula:

$$\text{Capital Adequacy Ratio} = \frac{\text{Equity Capital} - \text{Fixed Assets}}{\text{Total Loans} + \text{Securities}} \times 100$$

Efficiency. According to [1], efficiency is the ability of bank management to use all of its production factors, as well as measuring bank efficiency in spending expenses.

Operating expenses and operating income (BOPO). BOPO is the ratio used to measure efficiency within a bank in order to compare operating cost with the operating income earned. BOPO can be calculated by using this following formula:

$$\text{BOPO} = \frac{\text{Operating cost}}{\text{Operating income}} \times 100$$

From the explanation of the foundation of banking theory that will be examined and the results of previous studies that are used as a reference that has been obtained the results of a research framework on the effects of independent variables which in this study used five variables including Liquidity, Assets Quality, Size, Efficiency and Solvability which can be seen more clearly in Figure 2 about the framework that will be used in the research conducted this time.

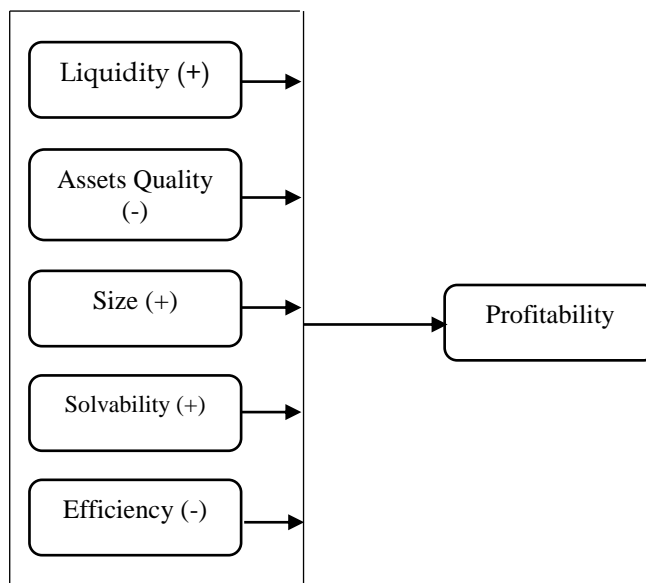


Figure 1. Framework

The effect of liquidity on bank profitability is supported by previous research conducted by [14], and [10] who obtained results that liquidity has significant positive impact on bank profitability. The effect of assets quality on bank profitability is supported by previous research conducted by [8], [9], [10], [11] who obtained results that assets quality has significant negative impact on bank profitability. The effect of size on bank profitability is supported by previous research conducted by [5], who obtained results that size has significant positive impact on bank profitability. The effect of solvability is supported by previous research conducted by [14], [12], [9] who obtained results that solvability has significant positive impact on bank profitability. The effect of efficiency on bank profitability is supported by previous research conducted by [12], [11], [10], and [13] who obtained results that efficiency has significant negative impact on bank profitability.

Based on the background, methods, framework of thought and discussion, the hypotheses proposed are:

- H1:** Liquidity has a significant positive effect to profitability.
- H2:** Asset quality has a significant negative effect to profitability.
- H3:** Size has a significant positive effect to profitability
- H4:** Solvability has a significant positive effect to profitability
- H5:** Efficiency has a significant negative effect to profitability.

3. RESEARCH METHOD

The data analysis used in this research includes descriptive analysis and statistical analysis. Descriptive analysis is used to describe how the variables in the study come from the research results, while statistical analysis is a panel data regression analysis which is a combination of time series data and cross section data.

The data used in this study are secondary data obtained from the IDX in 2015 to 2019. The data collection method used is the documentation method, as the data used is obtained from the financial reports of National Private Commercial Banks Go Public in 2015 to 2019.

The sampling technique used was purposive sampling method by setting certain criteria on the research sample. The sample criteria in this study are:

- 1) National Private Commercial Banks Go Public for the period 2015 to 2019
- 2) National Private Commercial Banks Go Public with complete data related to research variables contained in the annual reports for the period 2015 to 2019
- 3) National Private Commercial Banks Go Public from 2015 to 2019, which uses the rupiah currency in the company's financial statements.

4. DATA ANALYSIS AND DISCUSSION

4.1 The Effect of Liquidity to Profitability

Loan to Deposit Ratio (LDR) has a positive impact on Return On Asset (ROA). Loan to Deposit Ratio (LDR) improves the increase, then indicates an increase in the amount of credit given by banks by a greater percentage than the percentage increase in third party funds, as a result an increase in interest income that is greater than an increase in interest costs, increases income and Return On Asset (ROA) of a bank will increase. The influence of Loan to Deposit Ratio (LDR) on Return on Asset (ROA) has proven that [11] and [10] with Loan to Deposit Ratio (LDR) research results showed a positive effect on Return On Asset (ROA).

4.2 The Effect of Assets Quality to Profitability

Non Performing Loan (NPL) has a negative impact on Return On Asset (ROA). This can happen if the Non Performing Loan (NPL) increases, an increase in non-performing loans with a percentage level greater than the percentage increase in total credit, as a result an increase in fees reserved is greater than the increase in income, so that bank profits decline and Return On Asset (ROA) of a bank will also decrease. The influence of Non Performing Loan (NPL) on Return On Asset (ROA) has been proven by [10] and [11] with Non Performing Loan (NPL) research results negatively affecting Return On Asset (ROA).

4.3 The Effect of Size to Profitability

Size has a positive impact on Return On Asset (ROA). This can happen if the total assets of a bank are large, it can increase market confidence and large assets can be used in bank operations, especially in credit giving. The larger the size of the company, the higher the profitability. The influence of size on Return On Asset (ROA) has proven that [5] with size research results showed a positive effect on Return On Asset (ROA).

4.4 The Effect of Solvability to Profitability

Capital Adequacy Ratio (CAR) has a positive influence on Return On Asset (ROA). A bank that has sufficient capital translates into higher profitability. the higher Capital Adequacy Ratio (CAR) achieved by the bank shows the bank's performance is getting better so company profits are increasing. In the results of this

study a Capital Adequacy Ratio (CAR) has a positive and significant effect on Return On Asset (ROA). The effect of Capital Adequacy Ratio (CAR) on Return On Asset (ROA) has been proven by [12] with the results of Capital Adequacy Ratio (CAR) research having a positive effect on Return On Asset (ROA).

4.5 The Effect of Efficiency to Profitability

Operating Expenses and Operating Income (BOPO) has a negative impact on Return On Asset (ROA). This can happen if the Operating Expenses and Operating Income (BOPO) increases, an increase in operational costs is greater than the increase in bank operating income, this causes the costs incurred by the bank is greater than the income received by the bank, resulting in decreased bank profits and Return On Asset (ROA) of a bank also decreases. The effect of Operating Expenses and Operating Income (BOPO) on Return On Asset (ROA) has been proven by [12] and [11] which results in Operating Expenses and Operating Income (BOPO) having a negative effect on Return On Asset (ROA). Research conducted by [10] and [13] produced a Operating Expenses and Operating Income (BOPO) that had a significant negative effect on Return On Asset (ROA).

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

From the discussion above, it can be seen how important profitability is to the financial performance of banks. the globalization of the financial market which the process took place simultaneously with the economic openness of the countries in the world (the implementation of the world free trade system). The increasingly globalized financial markets make it easier and greater the volume of economic activity between countries; conversely the more liberal world economic system accelerates the process of financial globalization because of the greater funding needs for production and investment activities.

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TABLE 1
POSITION RETURN ON ASSET (ROA) ON NATIONAL PRIVATE COMMERCIAL BANKS GO PUBLIC
PERIOD 2015-2019
(IN PERCENT)

No	Banks Name	Tahun								Mean Tren	
		2015	2016	Tren	2017	Tren	2018	Tren	2019		Tren
1	Bank Artha Graha Internasional, Tbk	0,33	0,35	0,02	0,31	-0,04	0,27	-0,04	-0,3	-0,57	-0,16
2	Bank Bukopin, Tbk	0,75	0,54	-0,21	0,09	-0,45	0,22	0,13	0,13	-0,09	-0,16
3	Bank Bumi Arta, Tbk	1,33	1,52	0,19	1,73	0,21	1,77	0,04	0,96	-0,81	-0,09
4	Bank Central Asia, Tbk	3,8	4	0,2	3,9	-0,1	4	0,1	4	0	0,05
5	Bank China Construction Bank Indonesia, Tbk	1,03	0,69	-0,34	0,54	-0,15	0,86	0,32	0,71	-0,15	-0,08
6	Bank CIMB Niaga, Tbk	0,47	1,09	0,62	1,7	0,61	1,85	0,15	1,99	0,14	0,38
7	Bank Danamon Indonesia, Tbk	1,7	2,5	0,8	3,1	0,6	3,1	0	3	-0,1	0,33
8	Bank Ganesha, Tbk	0,36	1,62	1,26	1,59	-0,03	0,16	-1,43	0,32	0,16	-0,01
9	Bank Harda Internasional, Tbk	-2,82	0,53	3,35	0,69	0,16	-5,06	-5,75	-1,87	3,19	0,24
10	Bank IBK Indonesia, Tbk	0,17	0,15	-0,02	-0,2	-0,35	-0,77	-0,57	-3,87	-3,1	-1,01
11	Bank Ina Perdana, Tbk	1,05	1,02	-0,03	0,82	-0,2	0,5	-0,32	0,23	-0,27	-0,21
12	Bank JTRUST Indonesia, Tbk	-5,37	-5,02	0,35	0,73	5,75	-2,25	-2,98	0,29	2,54	1,42
13	Bank Maspion Indonesia, Tbk	1,1	1,67	0,57	1,6	-0,07	1,54	-0,06	1,13	-0,41	0,01
14	Bank Mayapada Internasional, Tbk	2,1	2,03	-0,07	1,3	-0,73	0,73	-0,57	0,78	0,05	-0,33
15	Bank Maybank Indonesia, Tbk	1,01	1,6	0,59	1,48	-0,12	1,74	0,26	1,45	-0,29	0,11
16	Bank Mega, Tbk	1,97	2,36	0,39	2,24	-0,12	2,47	0,23	2,9	0,43	0,23
17	Bank MNC Internasional, Tbk	0,1	0,11	0,01	-7,47	-7,58	0,74	8,21	0,27	-0,47	0,04
18	Bank Nationalnobu, Tbk	0,38	0,52	0,14	0,48	-0,04	0,42	-0,06	0,52	0,1	0,04
19	Bank of India Indonesia, Tbk	-0,77	-11,15	-10,38	-3,39	7,76	0,24	3,63	0,6	0,36	0,34
20	Bank OCBC NISP, Tbk	1,68	1,85	0,17	1,96	0,11	2,1	0,14	2,22	0,12	0,14
21	Bank Panin Indonesia, Tbk	1,31	1,69	0,38	1,61	-0,08	2,16	0,55	2,08	-0,08	0,19
22	Bank Permata, Tbk	0,2	-4,9	-5,1	0,6	5,5	0,8	0,2	1,3	0,5	0,28
23	Bank QNB Indonesia, Tbk	0,87	-3,34	-4,21	-3,72	-0,38	0,12	3,84	0,02	-0,1	-0,21
24	Bank Rakyat Indonesia Agroniaga, Tbk	1,55	1,49	-0,06	1,45	-0,04	1,54	0,09	0,31	-1,23	-0,31
25	Bank Sinarmas, Tbk	0,95	1,72	0,77	1,26	-0,46	0,25	-1,01	0,23	-0,02	-0,18
26	Bank Tabungan Negara, Tbk	1,61	1,76	0,15	1,71	-0,05	1,34	-0,37	0,13	-1,21	-0,37
27	Bank Victoria Internasional, Tbk	0,65	0,52	-0,13	0,64	0,12	0,33	-0,31	-0,09	-0,42	-0,19
28	Bank Woori Saudara Indonesia, Tbk	1,94	1,93	-0,01	2,37	0,44	2,59	0,22	1,88	-0,71	-0,02
	Mean Tren	0,69	0,32	-0,38	0,68	0,37	0,85	0,17	0,76	-0,09	0,02

SOURCE : WWW.IDX.CO.ID