Strategy for Increasing Banking Profitability Listed in Indonesia Stock Exchange

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ABSTRACT

Every company in running a business aims to maximize profits to improve the welfare of its owners or shareholders. Decisions in the management of the company are an important aspect in obtaining maximum profits. This study aims to determine the effect of company size, asset structure, and debt to total assets ratio (DAR) to profitability. The exchange financial institutions listed on the Indonesia Stock Exchange (IDX) for the 2014-2018 period. This type of research is quantitative. The unit of analysis in this study is the issuer of the financial sector with the banking sub sector consisting of 38 banks listed on the Indonesia Stock Exchange. The research methodology used is a statistical analysis method through multiple linear regression and classical assumption tests. Testing the hypothesis by looking at the calculated F value and the calculated t value in the regression test. The results of this study indicate that variable firm size, asset structure, and debt to total assets ratio (DAR) partially or simultaneously have a significant effect on the profitability of stock exchange sector issuers found in the index of the Indonesia Stock Exchange.

Keywords: *Company size, Asset structure, Debt to total assets ratio (DAR), Profitability.*
JEL Classification: *G00; G14; G24.*

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Highlights of this paper

- This study aims to determine the effect of company size, asset structure, and debt to total assets ratio (DAR) to profitability.
- Decisions in the management of the company are an important aspect in obtaining maximum profits.
- The results of this study indicate that variable firm size, asset structure, and debt to total assets ratio (DAR) partially or simultaneously have a significant effect on the profitability of stock exchange sector issuers found in the index of the Indonesia Stock Exchange.

1. INTRODUCTION

A company and organization in carrying out various activities certainly has a goal to achieve the goals previously set. In an effort to achieve a goal, the activities that run on the company are not only immediately without assessment and testing, but need responsibility. In taking responsibility for the company's activities a financial report is needed. The owner of a business will know the financial condition and progress of his business. And from this financial report a company will also see its performance.

Companies are required to be able to carry out operations smoothly and can combine all the resources owned by the company so that it can achieve optimal profit levels and improve the welfare of the owners or shareholders.

The sustainability of a company's life journey can be influenced by several company management policies in obtaining profitability. Profitability is the ability to generate profits / profits for a certain period by using assets or capital, both capital as a whole and own capital (Horne and Machowicz, 2005). Return On Assets (ROA) shows the company's ability to generate profits from assets used (Marcus, 2008). The company's management policies that need to be considered by the management of the company include company size, asset structure, and debt to total assets ratio (DAR), which are derived from the policies of the company's management.

2. LITERATURE REVIEW

In technology theory emphasizes physical capital, economies of scale, and scope as factors that determine the size of the optimal company size and its effect on profitability. This theory focuses on the production process and investment in the physical capital needed to produce output (Kaen and Baumann, 2003).

The competency theory does not assume that small companies are more or less profitable than large companies. One interesting feature of competency theory is that in a small company industry can get the same level of profit as large companies because both have different competencies that allow them to get excess profits (Hadri, 2005).

The sustainability of the company depends not on the size of the company but because of sufficient competency differences (Niman, 2005). Therefore, small companies may be more profitable than large companies because of their unique competencies. The reason that small companies cannot grow rapidly is because of the small market share of their products and or losing their competence (Kaen and Baumann, 2003). So from the above theory it can be concluded that: the relationship of company size to profitability has a positive effect.

Asset structure as a comparison between fixed assets and total assets owned by the company (Pandey, 2004). According to critical theory, the larger the scale of the company, the profitability will also increase, but at a certain point or number of company sizes will ultimately reduce the profit of the company, critical theory emphasizes the control of company owners on company resources such as assets, technology, intellectual property as factors that determine the size of the company (Rajan and Zingales, 2001).

So with the amount of resources owned by the company, a company can make wider investments, both for current assets and fixed assets and also meet demand for products. This will further expand market share. With increasing sales, the company can cover the costs that come out during the production process. That way: Structure of Assets relationship to profitability has a positive effect.

Debt Ratio is a ratio used to measure the level of use of debt to total assets owned. The higher amount of debt used to buy assets will cause higher interest rates on loans that will be borne by the company, so that it will be a problem in the lower amount of profit that you get (Andreani, 2013). Likewise vice versa, the lower the amount of debt used to buy assets will lead to lower interest rates on loans that will be borne by the company, so that it will be the higher the amount of profit that your company gets. That way, the relationship of debt to total assets ratio (DAR) to profitability has a positive effect.

3. RESEARCH METHODS

This type of research is quantitative. The unit of analysis in this study is the issuer of the financial sector with the banking sub sector consisting of 38 banks listed on the Indonesia Stock Exchange. The unit of time used is expressed in years, namely during 2014-2018. In this study, the data used is secondary data. The data is in the form of the issuer's annual financial statements obtained from IDX from 2014-2018. The source used is the scunder data. Secondary data in the form of banking financial statements found at www.idx.co.id. Data analysis used in this study is a quantitative data analysis method. With the testing process of the Classical Assumption Test (1) Autocorrelation Test, (2) Multi collinear Test, and (3) Hetero scedasticity Test. Simple Regression Analysis to test the first, second, and third hypotheses (T Test (Partial Testing), while multiple regression analysis is used to test the fourth hypothesis (Test F (Test together).

4. DISCUSSION

The results of descriptive analysis of three variables are as follows Table 1.

Table-1. Descriptive Analysis.

		Property structure	Company size	DAR	Profitability
N	Valid	190	190	190	190
	Missing	0	0	0	0
Mean		,1879	74,654	,8585	10,626
Std. Error of Mean		,12151	,06782	,03918	,40967
Median		,0200	74,150	,8500	,9300
Mode		,01	7,32	,86	,86
Std. Deviation		167,489	,93484	,54000	564,685
Variance		2,805	,874	,292	31,887
Skewness		,420	-,467	,270	-,221
Std. Error of Skewness		,176	,176	,176	,176
Kurtosis		160,765	11,231	76,620	66,134
Std. Error of Kurtosis		,351	,351	,351	,351
Range		**22,19**	**8,12**	**6,05**	**97,70**
Minimum		,00	,99	,01	-54,70
Maximum		22,19	9,11	6,06	43,00
Sum		35,69	1418,42	163,11	201,89

Source: SPSS Analysis.

Of the 38 issuers for 5 years (n = 190) indexed on the Indonesia Stock Exchange, they showed average trading frequency in each year for asset structure, which was 0.1879, company size was 7.4654, DAR was 0.8585, and profitability was 1.0626 .

From 38 listed companies on the Indonesia Stock Exchange, it is known that for asset structure is 0.00, company size is 0.99, DAR is 0.01, and profitability is -54.70

From 38 listed companies on the Indonesia Stock Exchange, it is known that for asset structure is 22.19, company size is 9.11, DAR is 6.06, and profitability is 43.00.

Table-2. The results of the Normality assumption test analysis.

Variable	Skewness	criteria	Conclusion
Property structure	,420	-0,5 < skewness < 0,5	Normal
Company size	-,467	-0,5 < skewness < 0,5	Normal
DAR	,270	-0,5 < skewness < 0,5	Normal
Profitabilitay	-0,221	-0,5 < skewness < 0,5	Normal

Source: Analysis of 2019 data.

Based on the Table 2 above all variables are normally distributed and can be continued in the next analysis (hypothesis test).

Table-3. Multi collinearity test.

Korelatin	R	Sign	conclution
$\mathbf{R_{12}}$	-0,049	0,880	There is no multi collinearity
$\mathbf{R_{13}}$	0,008	0,910	There is no multi collinearity
$\mathbf{R_{23}}$	0,015	0.892	There is no multi collinearity

Source: Analysis of 2019 data.

The Table 3 above provides information that there is no multi collinearity between independent variables, because all correlations of X1 to X2, X1 to X3, X2 to X3 are not all significant. Thus the relationship between the dependent variables is free between one independent variable and the other independent variables. Deans of other words, between independent variables are mutually independent (independent) or there is no close relationship between the dependent variables.

Table-4. Linearity Test Tables.

Aspects tested	F	Sign	t	Sig	Conclution
$\mathbf{X_1}$ **- Y**	74,327	0.000	6,221	0,000	Linier
$\mathbf{X_2}$ **- Y**	55,794	0,000	7,743	0,000	Linier
$\mathbf{X_3}$ **- Y**	62,633	0,000	10,615	0,000	Linier

Source: Analysis of 2019 data.

By looking at the results of the linear analysis between the independent variables on the dependent variable, all of them can be said to be linear Table 4. So that it meets the requirements for further analysis.

Table-5. Test of Homogeneity of Variances.

Levene Statistic	df1	df2	Sig.
0.041	3	567	0.893

Source: SPSS Analysis.

Based on the results of homogeneity test analysis using the Levene statistical test the coefficient is 0.041 with a synergy of 0.893 so it can be concluded that the distribution of data X1, X2, X3, and Y is homogeneous Table 5. Based on the results of the analysis, it can be observed that the variants of X1, X2, X3, and Y do not have significant differences so that it can be concluded that the variance between variables is homogeneous. With four types of assumption tests it can be understood that, all assumption tests, all assumptions required can be fulfilled, so hypothesis testing can be carried out.

Regression test results for testing the first, second, third and fourth hypotheses can be tabulated as follows Table 6.

Table-6. Summary table of the results of simple and simultaneous Regression Analysis.

	R	R^2	R adj	F	Sign	t	Sig
X_1-y	0,888	0,788	0,781	103,327	0.000	11,214	0,000
X_2-y	0,734	0,539	0,523	31,794	0,000	6,727	0,000
X_3-y	0,973	0,947	0,945	401,633	0,000	21,397	0,000
$X_{1,2,3}$-y	0,721	0,520	0,464	9,383	0,000	26,37	0,000

Source: Analysis of 2019 data.

The first null hypothesis that reads, "There is no significant effect between the structure of assets on the profitability of the stock investment sector indexes indexed on the Indonesia Stock Exchange." The results of the analysis test obtained F coefficient of 103,327 with a significance of 0,000 means the theoretical model is built fit. Furthermore, the R coefficient is 0.788, and R2 is 0.788, so the variable X1 (asset structure) that occurs contributes 78.8%. The remaining 0.212 is very likely to be determined by variables which are not included in this study. When viewed from the value of t obtained by the nose of 11.214 and significance of 0.000, it can be concluded that the null hypothesis is rejected, and alternative Hipothessis says, There is a significant effect between capital structure on profitability of cross-sector investment in listed companies on the Indonesia Stock Exchange , be accepted. Thus, to increase profitability, the issuer must maintain the asset structure.

The second null hypothesis, said, "there is no significant effect between company size on stock profitability in listed companies on the Indonesia Stock Exchange." The results of the empirical data analysis obtained F coefficient of 31,794 with a significance of 0,000. This means that the theoretical model built means fit and feasible for further testing. The amount of R is 0.734 and R2 is equal to 0.539. Thus, the variable size of the company contributed 53.9%. Thus there are still 46.1% contributed by other variables which certainly are not examined through this model. Likewise, based on the t test obtained t coefficient of 6.727, with a significance level of 0.00, it can be ascertained that, the null hypothesis is rejected, and the alternative hypothesis reads, "There is a positive and significant influence between the size of the company on the profitability of the listed companies in Indonesia Stock Exchange, "accepted.

The third null hypothesis built in this study states, "There is no significant effect between DAR on the profitability of shares in listed companies listed on the Indonesia Stock Exchange." The analysis shows that the F coefficient is 401,633 with a significance of 0,000. Thus means, the model is built fit. If you see the value of R, which is equal to 0.973 and R2 0.947, it means that variable DAR affects the profitability of the shares of listed companies on the Indonesia Stock Exchange. It will be even more convincing, when looking at the results of the t test, which is equal to 21,397 with a significance of 0,000, meaning the null hypothesis is rejected, and the alternative hypothesis that reads, "There is a significant influence between DAR on the profitability of investments in capital markets."

The fourth hypothesis compiled in this study states, "There is no significant effect between asset structure, company size, and DAR together on the profitability of investments in the stock market capital market sector which is on the Indonesia Stock Exchange."

The results of the regression analysis simultaneously obtain F count is 8,383 with a significance of 0,000. The F value assumes that the model built in this study is fit and feasible to be tested further. Based on the analysis of the calculated R value which is equal to 0.721 and R2 of 0.520. In other words, the three variables mentioned earlier contribute 52.0% to profitability in the indexed capital markets in the Indonesia Stock Exchange. When looking at the results of the t test obtained t coefficient of 26.37 with a significance of 0,000. This means, no hypothesis is set and alternative hypotheses are accepted. Means, "There is a significant influence between the frequency of asset structure, company size, and DAR, simultaneously on the profitability of investments in the capital market in listed companies on the Indonesia Stock Exchange."

5. CONCLUSION

The results of the analysis and discussion that has been done carefully produce conclusions:

1. The variable size of the company has a positive and significant effect on the profitability of the shares of the exchange sector listed in the Indonesia Stock Exchange
2. Asset structure variables significantly influence the profitability of shares listed in the Indonesian stock exchange sector index
3. Variable debt to total assets ratio (DAR) has a positive and significant effect on the profitability of shares in the exchange sector listed on the Indonesia Stock Exchange
4. Variables of company size, asset structure, and debt to total assets ratio (DAR) simultaneously also significantly influence the profitability of stock exchange sector issuers in the Indonesia Stock Exchange index.

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