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Effect on Profitability Liquidity Management of Banking Companies in Indonesia Stock Exchange

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Abstract. This study examines the impact of liability (quick ratio) to profitability in banking companies listed in Indonesia Stock Exchange (BEI) to prove its influence on the level of debt repayment banking finance company. The data used in this research is secondary data uses financial statements that have been audited. Data analysis technique used is simple regression analysis. The results indicate that the quick ratio positive effect on the company's financial profitability. The results of this study illustrate that the liability would affect the profitability of companies that are in financial companies to be used effectively and efficiently. This research is important for companies and organizations, in order to better the use or utilization liability. The company is only limited to the banking companies listed in BEI, then further research is recommended to add criteria and indiktor others that have not been addressed in this study, in addition to subsequent authors can also extend the sample population to another company with a different field such as manufacturing or services.

Keywords: quick ratio, profitability

Introduction

Liquidity in Indonesia is generally defined as the possession of sufficient financial resources to meet all maturing liabilities, or in other words the company's ability to meet obligations at the time billed either predictable or unpredictable. We often hear or even see there are companies who can not afford or can not afford to pay all or part of the debt (liabilities) which is due at the time billed. Or sometimes Companies also often do not have the funds to pay its obligations on time because the company did not have sufficient funds to cover maturing debt.

This study aimed to investigate the effect of liquidity management in the banking profitability of financial companies in the Indonesia Stock Exchange since profitability is the most appropriate indicators to measure the performance of a bank (Harahap, 2002). Ability of banks to make profits (profitability) is reflected in the bank's financial statements. This research is the development of research and Rehman Saleem (2011), which examined the impact of liquidity ratios on profitability.

The underlying reasons for the author to take this study because previous studies conducted to examine the effect of liquidity management on the profitability of oil and gas companies, whereas in the study who is now the author wants to examine the influence of the management of liquidity to financial firms banks listed on the Indonesian stock exchange in order to know the possible differences the results using profitability (ROA) and can also be known to the bank's ability to profit from its operations using the profitability. The study period is 5 years ie from 2010 to 2014 in order to avoid many of the financial statements that there are no variables are complete.

The difference of this study with previous research studies conducted Saleem and Rehman (2014) observed the oil and gas sector companies, whereas in this study sample used is banking company (finance)

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that are listed in the Indonesia Stock Exchange in the year 2010 to 2014 observations. This is because researchers want to provide the latest information related to liquidity management influence on the profitability of the banking company (finance).

Literature Review

Trade Off

Trade off theory expressed by Myers (2001) that the company will owe a particular debt to the level, adding to the cost of debt to financial difficulties. So to determine the level of liability the company will facilitate decision-making. Trade off theory has implications that the manager will be thinking in terms of trade-offs between tax savings and cost difficulties in determining the capital structure. Companies with high liquidity would will attempt to reduce the tax by increasing the ratio of debt, so the debt will reduce the additional taxes.

As according Veitzhal (2007) theory of liquidity management is relative almost as old as banking knowledge. There are four known theory of banking liquidity as follows:

1. Commercial Loan theory

This theory is considered the most ancient, the other name of this theory is the real bills doctrine. This theory became known about two centuries ago. This theory study conducted by Adam Smith in his famous book The Wealth of Nations, published in 1776. This theory assumes that the bank can only provide loans with short-term trade letters which can be availed by itself (self liquiditing). Self Liquiditing means implies granting loans for repayment.

2. Shiftability Theory

Shiftability theory theory of assets that can be moved and this theory assumes that the liquidity of a bank depends on the ability of banks to move assets to other people with a price that can be predicted, for example, it is acceptable for banks to invest separately in the open market in a portfolio of short-term assets. If in this situation a number of depositors should decide to withdraw their money, the banks have just stayed sell such investments, take earned (or bought), and paid back to the depositors.

3. Anticipated Income Theory

As a theory known in 1940 that stands out in the United States, namely the theory of expected revenues (the anticipated income theory). This means that all the funds allocated or any attempt to allocate funds to the sector indicated a feasible and worth will be profitable for the bank.

4. The Liability Management Theory

Purpose of this theory is how banks can manage pasivanya liabilities such that it can be a source of liquidity. The liquidity needed for the bank is to face the withdrawal by the customer, meet bank obligations due and to meet the demand for loans from customers.

Profitability

Profitability in this study is return on assets (ROA) is one form of the profitability ratio to measure a company's ability to generate profits by using the existing total assets and after capital costs (the cost of which is used to fund assets) are excluded from the analysis. According to Hanafi and Halim (2003), ROA is the company's financial ratios related to the profitability of the company ability to produce profit or the profit on the level of income, assets and certain share capital. The ratio is the ratio of profitability to assess the company's ability to make a profit (Kashmir, 2011).

Liquidity Management

In banking liquidity management is one of the things that are important in maintaining public confidence in the banks. For every bank that operates very maintain liquidity in order to fund the idle position (excess). Definition of liquidity in Kashmir (2012) is a ratio that illustrates the company's ability to meet obligations (short-term debt). This means that if a company is charged, it will be able to meet the debt (pay) is primarily debt is due. In this study, using a proxy quick ratio which is a ratio used to measure the ability of a company to use liquid assets to cover its current debt. According Sawir (2009) is generally considered good quick ratio is greater this ratio, the better the condition of the company.

Hypothesis Development

Influence of liquidity management in the banking company's profitability is done to see how the company's ability to pay its debts maturing. In this study the authors examine the profitability of financial firms (banks) only uses profitability ROA because other profitability of ROE and ROI have been tested and no significant previous research. In this study, the authors wanted to see how they affect liquidity management on profitability can be seen from the turnover of assets of a company.

The ability of banks to postpone debt payments that are due whether it will affect the profitability or not. Researchers wanted to see whether to postpone debt payments that are due to improve profitability in a given period. In a previous study showed that the management of liquidity (quick ratio) positive effect on profitability (ROA). The hypothesis to be tested are:

H1: Quick Ratio effect on Return on Assets

Research Design

Population and Sample

The sampling technique used in this research is purposive sampling method sampling of the population using certain criteria. The reason researchers use purposive sampling method in this study were researchers expect the samples obtained according to the criteria set by the researchers. The author uses the withdrawal of purposive sampling with the following criteria:

1. All banking financial companies in the Indonesian stock exchange which publishes financial statements during the period 2010-2014
2. Companies that publishes financial statements in the currency IDR
3. Banking financial company that has a complete data related to the variables used in the study.

Table 1 Total Sample Research

Company Indication	Year					N
	2010	2011	2012	2013	2014	
Banking companies listed in BEI	40	40	40	40	40	200
Companies that do not use the currency IDR	(6)	(8)	(9)	(7)	(6)	(36)
Companies that are not dependent variable	(8)	(6)	(5)	(7)	(8)	(34)
Amount	26	26	26	26	26	130

Independent variables used in this study is the Quick Ratio. To measure how liquid a bank in serving its customers used the liquidity ratio. According to the (Kashmir, 2010) the bank's liquidity ratio is the ratio used to measure a bank's ability to meet its short term obligations at the time billed, as follows:

$$\text{Quick Ratio} = \frac{\text{Cash} + \text{Marketable Securities} + \text{Receivables}}{\text{Current liabilities}}$$

The dependent variable in this study is the profitability as measured by ROA. ROA shows how the company's ability to use company assets to be productive. This ratio measures a company's ability to produce a return on total assets employed.

ROA is the company's financial ratios related to the profitability of the company ability to produce profit or the profit on the level of income, assets and certain share capital. This ratio measures a company's ability to produce a return on total assets employed. This ratio can be formulated as follows:

$$ROA = \frac{Net\ Profit\ Before\ Tax}{Total\ Assets}$$

Data Analysis Techniques

Data analysis techniques used in this research is multiple linear regression analysis. Prior to the regression analysis, the data must be qualified classical assumption test. In this study, the classical assumption required is the test for normality and heteroscedasticity test. Once the data passes the classical assumption, then testing the hypothesis on the effect of liquidity management (quick ratio) to profitability (ROA) so the regression model used in this study are:

$ROA = \beta 1 + \beta 2QR + \varepsilon$

Results and Discussion

Based on Table 2, it can be seen that the number of observations in the study (N) was 130. Variable Quick Ratio has a minimum value of 0.08 and a maximum value of 0.28. Overall gained an average of 0.179 and a standard deviation of 0.473 variable. ROA has a minimum value of 0.00, while the maximum value of 0.19. Overall the average ROA of 0.120 and a standard deviation of 0.036.

Table 2 Descriptive Statistics

	N	Min	Max	Mean	Std. Dev
ROA	130	.00	.19	.120	.036
QR	130	.08	.28	.179	.047
Valid N (listwise)	130				

Normality test aims to test whether the regression model, or residual confounding variables have a normal distribution (Ghozali, 2012). Non-parametric statistical test of Kolmogorov-Smirnov (K-S) can be used to test for residual normality. Normality test results can be seen in Table 3.

Table 3 Normality Test

	Unstandardized Residual
Kolmogorov-Smirnov Z	.063
Asymp. Sig. (2-tailed)	.200[c,d]

From Table 3, it can be seen that the value of the variable K-S Quick Ratio ROA of 0.200 which exceeds the 0.05 level of significance so that it can be concluded that all variables have normal distribution.

Table 4 Heteroskidastity Test

Model	Sig
ROA	.000
QR	.924

From Table 4 can be said that the significant value of the variable Quick Ratio of 0.924, which means that the regression model in this study did not happen heteroskedastisitas.

Hypothesis Testing

Hypothesis testing is done by using multiple linear regression analysis and partial test (t statistical test) and test the simultaneous (statistical test F). Multiple linear regression analysis was used to test the effect of two or more independent variables on the dependent variable. The results of multiple linear regression analysis are shown in Table 5.

Table 5 Simple Linear Regression Analysis Return on Asset

Model	Unstandardized Coefficients(B)	T	Sig
Constant	.075	6.332	.000
QR	.251	3.911	.000

Based on Table 5, it can be concluded by simple linear regression equation as follows:

$Y = 0.75 + 0.251(BT)$

ROA test results obtained t count equal to 3.911 with a positive significance of 0.00 or 100%. The significant value below 0.05 so it can be concluded that the hypothesis 1 is supported, which means there is positive between Quick Ratio measured by ROA. Based on the statistical test showed that H1 is significant, because there is a significant positive effect between Quick Ratio ROA. This positive effect shows the influence of the trade-offs between liabilities managed properly which was a contributing factor to the ROA and provide added value to the company.

Table 6 Koefisien Determinasi

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,327a	,107	,100	,03453

Based on Table 6, the coefficient of determination is equal to 0.107 Rsquare. It can be concluded that the Quick Ratio 100% effect on ROA.

Based on the statistical test, a variable quick ratio (liquidity) significant effect on profitability. So this means greater liquidity means more efficient turnover of assets and or the greater the rate of return on its assets so that it will have an impact on profitability or corporate profits will increase measured by ROA. The results of this research together with research studied by Saleem and Rehman (2011) in Pakistan that showed a significant result between quick ratio impact on profitability as measured by ROA in order to know the company's ability to pay short-term obligations by using more liquid assets.

This study is also consistent with studies conducted by Pratiwi (2013), shows that the variable current ratio and cash turnover partially no effect on return on assets at a level significantly more than 5% while variable quick ratio partially significant effect on return on assets. The results of this study are also consistent with studies conducted by Eljelly (2004), the study found a significant positive relationship between company profitability and liquidity levels, as measured by the current ratio. According to research conducted by Arif and Anees (2012) regression results indicate that liquidity risk affecting the bank's profitability significantly, with a gap of liquidity and non-performing as two factors that influence it.

Conclusion

This study aimed to examine the effect of liquidity management is quick ratio on the profitability of financial companies (banks) are listed on the Indonesia Stock Exchange 2010-2014. Profitability is shown by the dependent variable ROA and performed with regression testing shows the results: quick ratio positive effect on return on assets. Results were similar to previous studies that tested by Saleem and Rehman (2011) in Pakistan that showed a significant result between quick ratio impact on profitability as measured by ROA so that it can be seen in the company's ability to pay short-term obligations by using more liquid assets.

This study is also consistent with studies conducted by Pratiwi (2013) which showed that the variables current ratio and cash turnover partially no effect on return on assets at a level significantly more than 5% while variable quick ratio partially significant effect on return on assets. The greater the liquidity of a company means more efficient turnover of assets and or the greater the rate of return on its assets so that it will have an impact on profitability or corporate profits will increase measured by return on assets.

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