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THE INFLUENCE OF LIQUIDITY, COMPANY SIZE, AND SOLVENCY ON FINANCIAL PERFORMANCE

(Case Study on the 10 Largest Banks Listed on the Indonesia Stock Exchange During the Period 2018-2022)

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ABSTRACT

This study aims to determine the influence of liquidity, company size, and solvency on company performance. The sampling technique used is purposive sampling involving the 10 largest banks listed on the IDX in the years 2018-2021. The data used are secondary data in the form of companies' annual financial reports using multiple regression analysis. All testing in this study used SPSS software version 27. The test results reveal that the coefficient of determination (R2) is 0.427, meaning that the independent variables affect the dependent variable by 42.7%, with the remaining 57.3% influenced by other variables outside the scope of this research. The F-test results show that the independent variables Loan to Deposit Ratio (LDR), Firm Size (SIZE), and Debt to Asset Ratio (DAR) collectively have a positive impact on the dependent variable Return on Assets (ROA). The t-test results show that the variable Firm Size (SIZE) positively affects Return on Assets (ROA). Meanwhile, Loan to Deposit Ratio (LDR) and Debt to Asset Ratio (DAR) have a negative effect on Return on Assets (ROA). The negative sign in the t-value indicates an inverse relationship between the variables LDR and DAR with the variable ROA.

Keywords: Liquidity, Firm Size, and Solvency and Financial Performance

INTRODUCTION

Banks are national financial institutions that contribute to facing the pressure of the current world economic recession. The Minister of Finance (Sri Mulyani Indrawati S.E., M.Sc., Ph.D, 2023) stated that in 2023 there is a possibility of Indonesia experiencing a recession, but currently it is still in good condition. Investment performance and trade balance are also still under control, but the country must always remain vigilant with the possibility of an economic recession in Indonesia. The potential for a national economic recession will certainly have an impact on the business stability of the Indonesian banking institutions.

Banking institutions are institutions that support the country's economy. Where there is 80% of the entire financial system owned by banking institutions (Koyyimah, A. K et all, 2023). Banking institutions have an important role in maintaining the stability of the country's economy and are expected to be able to deal with the impact caused by various economic problems of the country. Banking institutions have the role of collecting and channeling capital to the community to support national development. The greater the role of a banking institution, the greater its influence on the economy of a country.

Financial performance is the impact of the success of financial management in creating various actions (Rosella, N., & Nugroho, D. S., 2023). The income statement and cash flow statement can be used as a financial analysis tool based on the financial data contained in the financial statements. In an effort to improve the company's reputation, it is necessary to improve information technology and science with the aim of maintaining (Rosella, N., & Nugroho, D. S., 2023). Phenomena that occur in Indonesian commercial banks can be analyzed through the annual financial statements of banks listed on the Indonesia Stock Exchange for the 2018-2022 period.

The development of the financial performance of banking institutions cannot be separated from how much receipt of funds in the form of savings, deposits, and demand deposits. But on the other hand, banks cannot maximize profits only through third party funds, but channel funds in the form of credit optimally. Liquidity shows the company's ability to optimally provide credit to the community and optimally fulfill short-term obligations on time (Adaption: Latifah, A. M., et al., 2023). The higher the quality of banking, the better the quality of banking because it has the potential with the higher credit given to the community.

Firm size is a description of the size of the company based on total assets and sales (Dewi, N. G., 2023). Large companies have greater opportunities than small companies because they have easier access to the capital market to provide investment funds, so they can maximize profits. This profit will be one of the benchmarks of financial performance.

Solvency is an indicator in identifying the bank's ability to pay off its long-term obligations or the ability to fulfill its obligations if a bank is liquidated (Dendawijaya, 2009: 120). Solvency value is a buffer against the possibility of loss and maintains customer confidence in banking activities when carrying out its function as an intermediary institution between funds obtained from customers. The increasing profitability ratio will have an impact on improving financial performance because it is directly proportional to asset productivity in generating net profits so that investor confidence and interest in investing will be higher (Prathamy & Moozanah, 2021).

Based on supporting data between variables and differences in the results of previous research related to financial performance, the authors have an interest in conducting further research on a case study entitled "The Effect of Liquidity, Company Size, and Solvency on Financial Performance (Case Study on the 10 Largest Banks Listed on the Indonesia Stock Exchange for the Period 2018 - 2022)".

LITERATURE REVIEW

Decision making is a process of choosing alternative steps using methods that are efficient and in accordance with the circumstances. as with the opinion of (George R. Terry in Setiadi, N. J., 2008) decision making is the selection of certain alternative actions for more than two alternatives found. decision making is a systematic approach to the alternatives faced and then taking the most appropriate action. Through the definition of these experts, it can be concluded that decision making is carried out with the aim of getting the best choice from various alternatives available to find and solve problems.

Signal theory is a decision taken by company management by providing transparency in financial reports so that investors can see the company's prospects. in this theory focuses on a company's management information and external parties can be symmetrical (Brigham & Houston, 2014 in Rochman, I. Y. A., & Andayani, S., 2023). Signal theory is used in this study because it is in accordance with the research objectives, namely analyzing the effect of liquidity, solvency and company size on financial performance. from the results of this analysis it can be seen whether one of the variables provides a positive or negative signal to investors.

Financial performance refers to a series of financial activities within a certain period that are documented in monthly, quarterly, and annual financial reports. These financial statements are then used as an evaluation of the company's financial condition, providing information about the past, present, and future. In analyzing financial performance, there are several types of ratios used, such as liquidity ratios, solvency ratios, activity ratios, and profitability ratios (Koyyimah, A. K., et al., 2023).

Liquidity is the company's ability to carry out short-term financial obligations at maturity (S. Munawir, 2007 in Hidayati, at all., 2023). In general, liquidity has two main aspects. First, is an estimate of the income of funds obtained with the aim of channeling funds into various financing commitments. Second, is the strategy or method used by banks to meet their liquidity needs. (Koyyimah, A. K., at al., 2023). Based on this statement, so that a company can obtain funds quickly but still within reasonable cost limits, adequate liquidity potential is needed. Loan to Deposit Ratio (LDR) is a ratio that measures the ratio between total loans disbursed by banks and funds raised by banks from depositors. This ratio is used to assess the bank's ability to pay its debt obligations and return funds to depositors, as well as to meet proposed credit requests.

Company size is a scale to measure how large or small a company is seen in the value of the company's total assets on the balance sheet (Rosella, N., & Nugroho, D. S., 2023). Company size can be calculated using the natural logarithm measurement scale of total assets. Total assets are the total assets owned by the company in order to run its business, the category of large or small companies is based on the total assets owned. The greater the company's assets, it is directly proportional to the size of the company.

Solvency is an indicator that can be used to analyze the ability of banking institutions to meet their long-term obligations in the event of bank liquidation. Debt to Equity Ratio (DER) is a ratio that shows the ability of bank management to pay off some or all of its debts using funds from the bank's own capital.

RESEARCH METHOD

This study uses an explanatory research design with a quantitative approach. Quantitative research method is a research methodology based on the philosophy of positivism, used to test a hypothesis through research on populations and samples collected through research instruments. (Sugiyono, 2013: 8).

The data source used is secondary data, the secondary data is in the form of financial reports that have been published by the Indonesia Stock Exchange (IDX) or the official banking website. The data used in this study are annual financial report data on the 10 largest banks in Indonesia for the period 2018-2022.

The population used in this study are all annual financial reports of 47 Indonesian banks listed on the Indonesia Stock Exchange during the period 2028-2022. The sample in this study was selected based on the national banking population listed on the Indonesia Stock Exchange during the 2018-2022 period. Sampling was carried out based on a nonprobability approach with a purpose sampling method. purpose sampling is a method of determining the sample by considering in advance several criteria so that the sample formed can represent the properties of the population. The samples in this study are the 10 largest banking institutions in Indonesia.

The data analysis method used in this research is Data Analysis Technique: Multiple Regression Analysis (Coefficient of Determination), Classical Assumption Test (Autocorrelation Test, Multicollinearity Test, and Etheroscedasticity Test), and Hypothesis Test (Normality Test, t Test, and f Test).

RESULTS

Table 1. Regression without covid period using dummy variables

	Persamaan 1			**Persamaan 2**		
Model	Coefficients B	t	Sig.	Coefficients B	t	Sig.
(Constant)	-0,006	-0,199	0,843	-0,023	-0,769	0,447
Dummy Waktu				0,005	2,963	0,005
LDR1	-0,029	-2,667	0,011	-0,022	-2,132	0,040
SIZE1	0,006	4,025	0	0,007	4,612	0,000
DAR1	-0,087	-2,628	0,013	-0,079	-2,617	0,013
Adjusted R Square			0,458			0,555
F Hitung			12,007			13,147
Sign. F Test			0,000			0,000
Durbin-Watson			1,967			1,903
Asymp. Sig. (2-tailed)			0,200			0,200
Heterocedasticity F ≠ sig			0,328			0,353
Collinearity Statistics =						
Tolerance			Mendekati angka 1			Mendekati angka 1
VIF			<10			<10

Source: Data Processed SPSS 27, 2024

Table 1, using remedial data p Based on Durbin-Watson d Statistic by using the formula $\hat{\rho}$ = 1- d/2 so that the data used in this study amounted to 40 data. The results of the time dummy are positive and significant to ROA so that it can be concluded that during the period without covid the resulting return is higher than the covid period. So this study uses table 1, Regression without covid period.

LDR is a ratio that measures the bank's ability to issue credit from third party funds collected at the bank. Based on the results of hypothesis testing, the T-count> T-table of -2.132> - 2.02809 and a significance value of 0.04 <0.05 indicates a negative coefficient direction. So it can be said that the first hypothesis (H1) of the LDR (Liquidity) variable has a negative and significant effect on ROA (Financial performance). Based on these results it can be concluded that the higher the LDR, the profit earned by the bank will decrease, based on this assumption the bank's ability to distribute credit will have an impact on decreasing profitability.

Based on the results of hypothesis testing, the T-count> T-table of 4.612> 2.02809 and a significance value of 0.00 <0.05 indicates a positive coefficient direction. So it can be said that the second hypothesis (H2) of the Company Size variable has a positive and significant effect on financial performance. This indicates that the greater the SIZE, the Company's profitability will increase.

Based on the results of hypothesis testing, obtained T-count> T-table of -2.617> - 2.0280 and a significance value of 0.013 <0.05 indicates a negative coefficient direction. So it can be said that the third hypothesis (H3) of the DAR variable has a negative and significant effect on financial performance. These results indicate that the higher the debt, the lower the profitability.

Based on the results of hypothesis testing, the F-count> F-table is 13.147> 2.87 and the significance value of 0.00 <0.05 indicates a positive coefficient direction. So it can be said that the fourth hypothesis (H4) of the Liquidity, Solvency, Company Size variables has a positive and significant effect on financial performance.

DISCUSSION

This study was conducted with the aim of knowing the effect of Liquidity, Company size, and Solvency on the Financial Performance of the 10 largest banks in Indonesia in the 2018-2022 period. Based on the results of calculations on multiple linear regression analysis conducted in this study, it can be seen that: The results of this study indicate that simultaneously the Liquidity, Solvency, Company Size variables have a positive and insignificant effect on Financial Performance. Partially the results of this study indicate that: Liquidity has a negative and significant effect on financial performance, Company size has a positive and significant effect on financial performance, Solvency has a negative and significant effect on financial performance.

CONCLUSION

Based on the above conclusions, the following are some suggestions that are expected to provide benefits for the financial performance of banking companies in Indonesia.

1. For further researchers, they can develop this research by using other variables that have not been mentioned in this study, so that they can obtain different research results. This is based on the obtained R Square value of 55.5% so that the research

potential for other variables in research with financial performance orientation is 44.5%.

2. For further researchers, they can add and update the research period year to get more accurate data, this is based on the period taken in this study passing two years of the covid 19 crisis which had an impact on banking financial performance data.
3. For further researchers, they can use other company research objects other than banking to be used as research samples. This is based on differences in the financial ratios of banking companies and ordinary companies.
4. Investors who invest in banking companies should pay attention to the priority scale of factors that affect financial performance.

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