THE EFEECT OF NON PERFORMING LOAN AND FIRM SIZE TO PROFITABILITY (SURVEY ON COMMERCIAL BANKS LISTED IN INDONESIA STOCK EXCHANGE PERIOD 2013-2015)

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ABSTRACT

This research was conducted because of the phenomenon that happened about Non Performing Loan and firm size to profitability. When non-performing loans decreases but Also profitability decreases and when firm size increases but decreases profitability. The decreases of non-performing loans should be increase of the profitability and the increases of firm size should be increase of the profitability.

Based on the problem, the purpose of this research was to discover the effect of non-performing loans and firm size to profitability (ROA) on Commercial Banks listed in Indonesia Stock Exchange. The method used in this research is descriptive and verificative analysis method with quantitative approach. Thesample in this research are 16 Commercial Banks listed in Indonesia Stock Exchange period 2013-2015. Purposive sampling technique was used to Determine the sample. The statistical method used in this research is multiple linear regression using SPSS 16.0.

The results Showed that Non Performing Loan has a significant negative effect on profitability (ROA), while firm size has a significant positive effect on profitability (ROA).

***Keywords**: Non-performing loans, Firm Size, Profitability (ROA).*

I. Introduction

Financial institutions both bank and non-bank financial institutions have an important role in economic activity. Bank and non-bank financial institutions are financial intermediaries as the supporting infrastructure is vital to support the economy (Susilo dkk, 2000:7). According to Law No. 10 in 1998 on amendments to the Law No. 7 in 1992, which meant the bank is an entity that collects funds from the public in the form of savings and distribute them to the public in the form of loans or other forms in order to improve the living standards of the people.

Bank in relation to the intermediary function is to facilitate the flow of funds from the excess funds (surplus spending units) to part that lack of funds (deficit spending units) (Koch, 2000:69). To know whole financial condition of the bank, it can be seen through the bank's financial statements. The report also shows the bank's performance during that period (Kasmir, 2008:253). The financial performance is a picture of a company's financial condition at a particular period either in relation to aspects of fund raising and distribution of funds, which is usually measured by indicators of capital adequacy, liquidity and profitability (Jumingan, 2006:239).

Profitability is the ability of the company makes a profit in relation to total sales of assets or equity (Sugiyarso G. and F. Winarni, 2005:118). Measurement of profitability in this research using the ROA (Return on Assets). According to Mardiyanto (2009:196) ROA is the ratio used to measure a company's ability to generate profits derived from investment activities. In addition, Bank Of Indonesia is more concerned with ROA ratings because Bank Of Indonesia prefers the value of profitability of a bank as measured by assets and the fund largely from public savings funds, so ROA more representative to measure of banking profitability levels (Dendawijaya, 2009:119).

According to As. Mahmoedin (2002:111) profitability could be also affected by non-performing loans. Non-performing loans is loans in arrears over 90 days, which the non-performing loans are divided into loans as substandard, doubtful, and loss. Good level of lending, which can significantly affect the level of profits in a bank. NPL is a way to see the comparison between the total NPLs to total loans given to the third-party (Ismail, 2009:226). Implications for banks because of the emergence of non performing loans is the loss of opportunity to earn income from loans, as of reducing profit and affect bank profitability (Leon and Ericson, 2007:95).

PT Bank Artha Graha Tbk has decreased by 13.95% in net profit to 74 billion. As for the non-performing loan ratio decreased 211 bps to 1.64% compared to the same period last year (Galvan Yudistira, 2016). According to Veithzal Rivai (2007:125), "high bad debts, which means the deterioration of asset quality of the banking in turn causes a decreased ability of banks to generate profits".

Other factors that may affect the profitability is firm size. According Djokosantoso Moeljono (2005:14), the size of the company which measure by total assets, investments, capital turnover, means of production, number of employees, breadth of business networks, market shares, production output, great value-added, the amount of taxes paid, and so on. Measurement of the firm size in this research using total assets. More and more companies are capable to gain a positive return, more reflect the company's ability to manage their assets properly (Puspitawati and Supardi, 2008). According to Suudi, Medium Business and Corporate Director of Bank Jatim said PT Bank Pembangunan Daerah Jawa Timur Tbk obtained decreased profit by 5.8%, while total assets increased by 12.65% to

42.80 trillion (Dana Aditiasari, 2016). This is different from the opinion of Agnes Sawir (2004:102) stated the possible influence of scale in cost and return make a bigger company can gain more profit.

Based on the description above, the authors are interested to conduct a research entitled "**The Effect of Non Performing Loan and Firm Size To Profitability**" with the survey on Commercial Banks Listed in Indonesia Stock Exchange Period 2013-2015.

1.2 RESEARCH OBJECTIVES

The objectives of this research is:

1. To find out if there is effect of non-performing loans on profitability (ROA) banks listed in Indonesia Stock Exchange.
2. To find out if there is effect of firm size on profitability (ROA) banks listed in Indonesia Stock Exchange.

II. LITERATURE REVIEW, FRAMEWORK THOUGHT AND HYPOTHESIS

2.1 Literatur Review

2.1.1 Non Performing Loan

Definition of Non-Performing Loans by Leon and Ericson (2007:95) is "Credits with a collectability category beyond the collectability of current loans and special mention loans. Means the non-performing loans include substandard, doubtful and loss".

According to Dahlan Siamat (2004:174) definition of non-performing loans is "Non-performing loans (NPLs) can be defined as a loan repayment are experiencing difficulties due to factors intentional or due to external factors beyond the ability of the debtor that can be measured by the collectibility".

Indicators used to measure non-performing loans by Kasmir (2010:228) is :

$$\text{NPL} = \frac{\text{Total NPL}}{\text{Total Loans}}\ x\ 100\%$$

2.1.2 Firm Size

Definition of firm size by Suad Husnan (2007:45) is "A scale where the size of the company can be classified according to the kinds of ways, among others: total assets, log size, the value of the stock market, and others". According to Bambang Riyanto (2008:313) definition of firm size is "Company size is the size of the company can be seen from the value of equity, the sales value, or the value of assets".

According to Asnawi and Wijaya (2005:274) research of the firm size can use the asset benchmark. Because the total asset value is usually very large compared to other financial variables, then this can be simplified by transform it into natural logarithms, so the size of the company can also be calculated by:

$$Size = Ln(Total\ Assets)$$

2.1.3 Profitability

Definition of profitability by Agus Sartono (2010:122) is "the ability of the company makes a profit in relation to total sales of assets or own equity".

According to Harmaizar Z (2009:119-120) is as follows: "Assessment profitability is the size of an individual or entity the company's ability to generate profits with observe capital employed".

Indicators used to measure profitability by Lukman Syamsuddin (2009:63) is :

$$\text{ROA} = \frac{\text{Profit After Tax}}{\text{Total Assets}}\text{x } 100\%$$

2.2 FRAMEWORK THOUGHT

2.2.1 Influence of Non Performing Loan (NPL) To Profitability (ROA)

Dendawijaya (2005:83) stated that with the credit risk of the bank will lose the opportunity to earn income from loans, thereby reducing profits and adversely affect the profitability of banks.

The results of the research conducted by Ozurumba (2016) who studied the Impact of Non-Performing Loans on the Performance of Selected Commercial Banks in Nigeria stated that non-performing loans have an inverse correlation to ROA. Then research Lata (2014), which examines the Non Performing Loan and Its Impact on Profitability of State Owned Commercial Banks in Bangladesh stated that the Non-Performing Loan effect on bank profitability. While Eston et al (2016) who studied the Effect Of Non Performing Loans And Other Factors On the Performance Of Commercial Banks In Malawi stated that the ratio of non-performing loans have a significant effect on the performance of banks proxy with ROA.

2.2.2 Influence of Firm Size To Profitability (ROA)

According to Hartono (2000:254) The company that grow significantly is the larger company is considered to have access to capital markets making it easier to obtain additional funds then can increase profitability.

The results of research conducted by Pervan and Visic (2012) who studied the Influence Of Firm Size On Its Business Success stated that the size of the company has a significant positive effect on the profitability of the company. Furthermore, the research results by Mesut Dogan (2013) which examines Does Size Affect Firm The Firm Profitability? Evidence from Turkey indicates that company size has a positive effect on the profitability of a company. Then, according to Dr. Mohammad Suleiman Aladwan (2015) which examines the Bank Size Of The Impact On Profitability stated that company size significantly impact on profitability.

2.3 HYPOTHESIS

The hypothesis in this study are as follows:

1. The increase of non-performing loans affects the decrease in profitability (ROA).
2. The increase of firm size affect the increase in profitability (ROA).

III. RESEARCH METHOD

3.1 Research Method

The method used in this research is descriptive analysis and verification with quantitative approach. According to Sugiyono (2005:21) in Umi Narimawati (2010:29) defines the descriptive method is a method used to describe or analyze the results of the study but not used for make broader conclusions.

According Masyhuri (2008:45) in Umi Narimawati (2010:29) defines the method of verification is to check whether if it is described to test a way with or without improvements that have been implemented in other places with similar problems with life.

3.2 Variable Operationalization

1. Independent Variable (X)

According to Sugiyono (2009:4) definition of the independent variable is a variable that affects or is the cause of the change or the emergence of dependent variable.

In the Independent variable that will be relevant to the issues to be studied are non performing loan (X1) and firm size (X2). In the operationalization of all the variables measured by the instrument in the scale ratio.

2. Dependent Variable (Y)

According to Sugiyono (2009:4) definition of the dependent variable is the variable that is affected or which become due for their independent variables.

In this study the dependent variable to be studied is the profitability (ROA) (Y). In the operationalization of this variable is measured by a measuring instrument in the scale ratio.

3.3 Data Sources and Data Collection Techniques

3.3.1 Data Sources

Sources of data in this research is quantitative regarding the annual financial statements obtained from the Indonesia Stock Exchange (www.idx.co.id). The data used in this research consisted of a Financial Report (Statement of Financial Position, the Income Statement and Notes to Financial Statements), the observation period of three years from 2013 to 2015. The research was conducted on commercial banks listed in Indonesia Stock Exchange.

3.3.2 Data Collection Techniques

Data collection techniques used in this study are as follows:

1. Studies Library

According to Sugiyono (2012:291), the study of literature relating to theoretical study and other references relating to values, culture and norms that develop in social situations studied, in addition to the study of literature is very important in doing research, this is because research will not escape from the scientific literature. Data were obtained from the data that is relevant to the issues to be examined through the literature such as books, journals, articles, previous researchers.

2. Documentation

According to Arikunto (2006:158), documentation is looking for and collecting data on things such as notes, transcripts, books, newspapers, magazines, minutes, rapot, agendas and so forth. Data collection was conducted by examining the company's financial statements of each company, the authors obtained data from www.idx.co.id which is the official website of Indonesia Stock Exchange.

3.4 Research Sample

Sampling in this study using purposive sampling technique. According to Sugiyono (2013:218-219) purposive sampling that the sample was selected by using certain considerations. Samples will be taken from this research that

the statements of financial position, income statement and notes to financial statements of the company's annual financial statements (annual report). The samples in this research were 16 banks in a period of 3 years (2013-2015), there are 48 observations in this research.

3.5 Hypothesis Testing

Tests carried out using t statistical test.

a. Determining the partial hypothesis between independent variables Non-Performing Loan to related variables (dependent) Profitability. Statistical hypothesis of this research are:
   H_0: β1 = 0 : *Non-Performing Loans* not significant and negative effect on profitability (ROA).
   H_1: β1 ≠ 0 : *Non-Performing Loans* a significant and negative effect on profitability (ROA).
b. Determining the partial hypothesis between independent variables (independent) variables related to the company size (dependent) Profitability. the hypothesis of this study are:
   H_0: β2 = 0 : Firm size is not significant and positive effect on profitability (ROA).
   H_1: β2 ≠ 0 : Firm Size significant and positive effect on profitability (ROA).
   - If t ≥ t table then H_0 is in the rejection area, meaning that H_1 is accepted means between variables X and Y have anything to do.
   - If t ≤ t table then H_0 is in the reception area, meaning H_1 rejected means between variables X and Y have nothing to do.

IV. RESULTS OF RESEARCH AND DISCUSSION

4.1 Non-Performing Loan (NPL) To Profitability (ROA)

The results showed a significant effect of Non-Performing Loans with the effect of 14.6% while the remaining 85.4% influenced by other factors such as fee-based income, derivative transactions, dividends, and other income. Non-performing loans also have a negative correlation to profitability (ROA). In other words, when non-performing loans increased profitability (ROA) will decrease.

The results of other studies have shown the same thing that the non-performing loans had a negative relationship and significant effect on the profitability of such research conducted by Ozurumba (2016), Lata (2014), and Eston et al (2016).

In contrast to the phenomenon that occurs in PT Bank Artha Graha Tbk, which decreased by 13.95% in net profit to 74 billion, while for the non-performing loan ratio decreased 211 bps to 1.64% compared to the same period last year. While the results of this study show that a decrease in non-performing loans have a negative effect, which is increased profitability (ROA), so that the results of this study are in line with the theory by Muljono (1999:27) stated that "the higher NPL lead to higher arrears potentially lowering loan interest and interest income as well as lower profits ".

4.2 Firm Size To Profitability (ROA)

The results showed a significant effect of firm size with the effect of 20.4% while the remaining 79.6% influenced by other factors such as fee-based income, derivative transactions, dividends, and other income. The firm size also has a positive correlation to profitability (ROA). In other words, when the size of the company increased profitability (ROA) will increase.

The results of other studies have shown the same thing that firm size has a positive and significant effect on the profitability of such research conducted by Pervan and Visic (2012), Dr. Mohammad Suleiman Aladwan (2015), and Mesut Dogan (2013).

In contrast to the phenomenon that occurs in PT Bank Pembangunan Daerah Jawa Timur Tbk obtained decreased profit by 5.8%, while total assets increased by 12.65% to 42.80 trillion. While the results of this study showed that increasing the size of the company will have a positive impact of increased profitability (ROA), so that the results of this study are in line with the theory by Hartono (2000:254) The company that grow significantly is the larger company is considered to have access to capital markets making it easier to obtain additional funds then can increase profitability.

V. CONCLUSIONS AND SUGGESTIONS

5.1 Conclusion

Based on the results of research and discussion of Non-Performing Loan (NPL) and firm size to profitability (ROA) on Commercial Banks listed in Indonesia Stock Exchange period 2013 to 2015, the author can take several conclusions as follows:

1. Non-performing loans (NPL) have a significant negative effect on profitability (ROA) at 16 commercial banks listed in Indonesia Stock Exchange. That is, if the Non Performing Loan (NPL) increased profitability (ROA) will decrease and vice versa.
2. Firm Size has a significant positive effect on profitability (ROA) at 16 commercial banks listed in Indonesia Stock Exchange. That is, if the firm size increases, the profitability has increased and vice versa.

5.2 Suggestions

Based on research that has been done, the results and the conclusions that have been described previously, the author gives some suggestions as follows:

1. The company should be able to continue to improve and evaluate the performance of management, especially credit risk, because of the credit management by making careful planning, organized, and supervision of loans and apply the principle of 5C (Character, Capacity, Condition, Capital, Collateral) before lending credit will affect the increase in revenue or profitability.
2. In order to achieve the target of profitability, bank should be more productive by utilizing their total assets. The larger of the firm size by using total assets, companies can invest more and banks become more productive and profitability (ROA) will also increase.
3. Each bank of course wants to profitability continues to increase every year, and therefore the bank should increase the credit because the credit is the main source of bank revenue. In addition bank must also consider the income derived from *fee-based income,* derivative transactions, dividends, and other income. The bank (the management) have to pay attention to non-performing loans (NPL) below 5% because it can affect profitability ratio (ROA) and should be able to utilize of its assets to be more productive, and it can increasing the profitability of the banks.

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