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Effect of Liquidity Ratio and Leverage Ratio on Profitability (Study of PT. Bank Muamalat Indonesia Tbk)

Selvia Depita Sari [1], Yun Fitriano [2], Abdul Rahman [3)]
[1)] Study Program of Management Faculty of Economic, Universitas Dehasen Bengkulu
Email: [1)] selviadepita06@gmail.com

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ABSTRACT

The purpose of this study was to determine the extent to which the influence of Liquidity Ratio and Leverage Ratio on Profitability Ratio at PT. Bank Muamalat Indonesia Tbk. The method used in this research is quantitative descriptive, and the variables used are liquidity, leverage and profitability. The data analysis used was multiple linear regression analysis with the help of the SPSS version 23 program. The results show that multiple linear regression Y = -10.501 + 0.084 (X1) + 10.525 (X2) + 8.023, meaning that there is a positive or unidirectional relationship between Liquidity and Leverage on Profitability at PT. Bank Muamalat Indonesia Tbk. Furthermore, partially with the t-test shows that the liquidity variable has a significant effect on profitability because the significance value is 1.413> 0.05 while the leverage variable has a significant effect because the significance value is 1.193> 0.05. While the results of the F test (simultaneous) show that Liquidity and Leverage simultaneously have a significant influence on Profitability of 2.239 because the probability is smaller than the significant value of 0.05.

INTRODUCTION

Islamic banking was born in Indonesia around 1990 after government regulation No. 72 of 1992, then revised with Law No. 10 of 1998 in the form of a bank that operates with a profit-sharing system marked by the establishment of Bank Muamalat Indonesia. The development of Islamic banking in the early 1990s was quite difficult in carrying out its operations. However, the development of Islamic banks has experienced rapid growth since the reform era at the end of the 1990s until now. Bank Muamalat as a pioneer of Islamic banking in Indonesia has proven its role in the country's economic development efforts. The steps taken include expanding the financial and banking network throughout Indonesia and verifying the means of mobilizing funds, among others, which include the ease of opening bank offices, granting licenses to open branch offices, financial institutions, and expanding the implementation of savings for all Islamic banks through verified means of mobilizing funds. One of them is the opening of a sub-branch office in Manna City, South Bengkulu, Fauzi, Ahmad and Indri Murniawaty (2020: 473).

The development of Islamic banking must of course be supported by adequate human resources, both in terms of quality and quantity. However, the reality shows that there are still many human resources who have been involved in Islamic institutions that do not have academic or practical experience in the field of Islamic banking.

Muslims in Indonesia have long wanted an economic system based on sharia values and principles (Islamic Economic System) so that it can be applied in aspects of business life and transactions of the people with sharia restrictions. Because, Islamic banks and their functions have an important role in the development of the Indonesian economy at this time, because every aspect of their operational activities has a close relationship with the national economy. According to Kasmir (2016: 3), a bank is a financial institution whose main activity is to collect funds from the public and channel these funds back to the public and provide other bank services. Therefore, the success of the bank in its achievements can be measured through the bank's performance. Banking financial performance can be measured using a financial ratio approach, namely the profitability financial ratio. According to Kasmir (2016: 196) that the profitability ratio is a ratio to assess the company's ability to seek profit. This ratio also provides a measure of the effectiveness of a company's management.

The banking business must be maintained. A good level of liquidity is one indicator that the banking business can run. According to Fahmi (2017: 121) that the liquidity ratio is the ability of a company to meet its short-term obligations in a timely manner. This ratio is very important because if the company fails to pay its short-term obligations it can cause a decrease in company value or can reduce investor interest. The liquidity ratio is useful for measuring the company's ability to pay off its short-term debt. So, liquidity can be broadly defined as the bank's ability to meet its debt obligations, be able to repay all its deposits, and be able to fulfill credit requests submitted to debtors without suspension.

Banks are faced with two problems. On the one hand, banks must maintain the withdrawal of funds from deposited sources of funds such as demand deposits, savings, and other deposits. While on the other hand the bank must maintain the withdrawal of demand for funds such as loans granted. So a bank must be careful in managing cash, because if the amount of cash available is too large, it will result in cash loss, while cash that is too small can result in an illiquid situation. If the liquidity level of a bank is high, the bank's profitability level will decrease. Conversely, if the bank experiences low liquidity, it will cause an increase in profitability. From this, it becomes the main problem faced by the bank in maintaining the balance of its liquidity level.

Furthermore, Leverage or commonly called solvency is an analysis used to measure the bank's ability to fulfill obligations in the event of bank liquidity. In addition, it is also to determine the comparison between the amount of funds obtained from various debts (long-term and short-term), as well as other sources outside the bank's own capital with the volume of investment of these funds in various types of assets owned by the bank. The leverage ratio according to Hery (2015: 190) states that the solvency or leverage ratio is a ratio used to measure the extent to which the company's assets are financed with debt. Therefore, banks are companies that have a high level of leverage. This is natural for banks because customer deposits are considered debt. Banking is different from companies in general because its function is to collect funds from the public and channel them back to the public. This means that the funds do not belong entirely to the bank but to the public. This shows that banks have obligations to those who entrust their funds to be managed.

Debt to Equity Ratio (DER) is one of the leverage ratios that can show the ability of own capital to fulfill all obligations. In other words, this ratio measures how much the total liabilities consist of the percentage of the bank's own capital compared to the amount of debt. Because DER also shows how much of the bank's financial structure comes from debt, the high and low DER also illustrates the size of the bank's debt. The bank debt is expected to be used to increase the company's funds to expand its operational activities. A high ratio means that the company uses high debt, of course this has an impact on the profitability that can be achieved by the bank.

LITERATURE REVIEW

Definition of Islamic Bank

Islamic banks are banks that carry out business activities based on sharia principles, Ismail (2017: 31). And according to its type, it consists of Islamic commercial banks (BUS), Islamic business units (UUS), and Islamic people's financing banks (BPRS). Based on Law No. 21 of 2008 concerning Islamic banking, Islamic banking which concerns Islamic banks and Islamic business units (BUS and UUS) includes institutions, business activities and processes in implementing their business activities based on sharia principles.

Definition of Liquidity

According to Fahmi (2017: 121) the liquidity ratio is the ability of a company to meet its short-term obligations in a timely manner. According to Kasmir (2014: 129) says that Liquidity Ratio is "a ratio that describes or measures the company's ability to meet short-term obligations (debt)". This means that if the company is billed, the company will be able to fulfill this debt, especially debt that is due. According to Sartono (2012: 116) the definition of liquidity ratio is that the liquidity ratio shows the ability to pay short-term financial obligations on time.

Definition of Leverage Ratio

The definition of the leverage ratio according to Hery (2015: 190) is: "Stating that the solvency or leverage ratio is a ratio used to measure the extent to which the company's assets are financed with debt. according to Harahap (2015: 306) says that the leverage ratio is a ratio that measures how far the company is financed by liabilities or outside parties with the company's ability described by equity.

Definition of Profitability Ratio

According to Cashmere (2016: 196) the profitability ratio is a ratio to assess the company's ability to seek profit. This ratio also provides a measure of the level of effectiveness of a company's management. according to Hery (2016: 192) the profitability ratio is a ratio used to measure the company's ability to generate profits from its normal business activities. The profitability ratio is also known as the profitability ratio. According to Tampubolon (2013: 43) suggests that the profitability ratio is the bank's ability to earn profits based on the investment it makes.

METHODS

This study uses multiple linear regression analysis, coefficient of determination and hypothesis testing. Multiple linear regression analysis is used to determine how much influence the independent variables, namely Liquidity (X1), Leverage (X2), have on Profitability (Y) The multiple linear regression equation is as follows:

$$Y = a + b1X1 + b2X2 + e$$

Where:

Y = Profitability
a = Constant
b1 b2 = Regression coefficient
X1 = Liquidity
X2 = Leverage
e = error

RESULTS AND DISCUSSION

In this section, it will be described or described from the data of each variable that has been processed using SPSS version 23, while the results of SPSS data processing in the form of descriptive statistics will display the characteristics of the sample used in the study, including: number of samples (N), sample average (mean), minimum and maximum and standard deviation (σ) for each variable in full can be seen in the table below.

Table 1 Descriptive Statistical Test Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Likuiditas	12	10,07	13,65	11,5983	,94092
Leverage	12	91,11	93,66	92,4965	,63412
Profitabilitas	12	,03	,63	,2084	,19944
Valid N (listwise)	12				

Source: Secondary data processing, 2023.

Based on the table above, it shows that the amount of quarterly financial report data from March to December at PT. Bank Muamalat Indonesia Tbk in 2020-2023 that the lowest (minimum) Liquidity variable is 10.07% and the highest (maximum) is 31.65% while the standard deviation (σ) of 0, 94092% is smaller than the average value (mean) of 11.5983%. Thus it can be said that the data deviation in the Liquidity variable is good.

The Leverage variable obtained an average (mean) value of 92.4965% with the lowest (minimum) value of 91.11% and the highest (maximum) of 93.66%. While the standard deviation of 92.4965% is smaller than the average value (mean), thus reflecting that the data on the Leverage variable is good.

In the Profitability Variable, the lowest (minimum) value is 0.48% and the highest (maximum) value is 0.03% while the average (mean) value of 0.2084% is greater than the standard deviation of 0.63412%, thus indicating that the data deviation in the Profitability variable is good.

The data analysis used in this study is multiple linear regression analysis, coefficient of determination and hypothesis testing with the t test and f test using the help of the SPSS (statistical package for social science) program, the results can be seen in the following table:

Table 2 Multiple Linear Regression Test Results

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-10,501	8,023		-1,309	,223
	Likuiditas	,084	,059	,396	1,413	,191
	Leverage	10,525	8,821	,335	1,193	,263

a.Dependent Variable: Profitability
Source: Data Processing Results, 2023

From the table above, the regression equation obtained can be made.

Y = -10.501 + 0.084 (X1) + 10.525 (X2)) + 8.023

Based on the regression equation above, it can be explained as follows:

a. The multiple linear regression equation above is known to have a constant value of -10.501, this indicates that, the independent variables (Liquidity or Cash Ratio and Leverage or Debt to Equity Ratio) are assumed to be constant, then the dependent variable, namely Profitability, will decrease by -10,501.
b. The liquidity regression coefficient is 0.084 with a positive sign. This means that the value of variable Y will increase by 0.084 if the value of variable (X1) increases by one unit and the other independent variables are constant.
c. The leverage regression coefficient is 10.525 with a positive sign. This means that the value of variable Y will increase by 10.525. If the variable value (X2) increases by one unit and the other independent variables are constant.

The results of the determination test in this study can be seen in the following table;

Table 3 Determination Test Results (R2)

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,576[a]	,332	,184	,18017

a. Predictors: (Constant), Liquidity, Leverage
b. Dependent Variable: profitability
Source: SPSS 23 data processing results

Based on the SPSS output, it appears that from the calculation results, the coefficient of determination (R2) value is 0.576 or 58% with a level of relationship (medium) from the correlation value interval. In other words, this shows that the percentage of variation in profitability that can be explained by the variation of the two independent variables, namely liquidity and leverage, is 42%, which is another variable outside the variables of this study.

The results of the t test or persial test can be seen in the table below:

Table 4 t test results

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-10,501	8,023		-1,309	,223
	Likuiditas	,084	,059	,396	1,413	,191
	Leverage	10,525	8,821	,335	1,193	,263

a. Dependent Variable: Profitability
Source: Data Processing Results, 2023

The effect of each liquidity and leverage variable on profitability can be seen from the direction and sign of the significance level (probability). The liquidity variable has a positive direction while the leverage variable also has a positive direction. The liquidity variable has a significant effect on profitability because the significance value is 1.413> 0.05 while the leverage variable has a significant effect because the significance value is 1.193> 0.05.

The results of the liquidity calculation show that the company is in a liquid state. Where from the results of the calculation of the cash ratio shows that the percentage of calculation results exceeds the standard cash ratio characteristics of 5%. However, when viewed from the results of the calculation of regression output shows that liquidity does not have a significant effect on profitability.

The results of the leverage calculation show that the company is in a high leverage condition. Where the calculation results are higher than the standard characteristics of the debt to equity ratio, which is 100%. This indicates that the company is in an insolvable position. However, high leverage is normal for banks because customer deposits are considered as debt. When viewed from the regression output results, leverage has a significant effect on profitability.

The results of the simultaneous significance coefficient test (F statistical test) can be seen in the Coefficients a ANOVAb table below:

Table 5 F Test Results

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,145	2	,073	2,239	,162[b]
	Residual	,292	9	,032		
	Total	,438	11			

a. Dependent Variable: Profitability
b. Predictors: (Constant), Leverage, Liquidity
Source: Data Processing Results, 2023

Based on the table above, it shows that Liquidity, and Leverage simultaneously have a significant effect on profitability of 2.239 because the probability is smaller than the significant value of 0.05, so the regression model can be used to predict profitability or it can be said that Liquidity and Leverage together have an effect on Profitability. So that the hypothesis which states that Liquidity and Leverage together have an effect on Profitability can be accepted. In the sense that any changes that occur in the independent variables detailed in the Cash Ratio and Debt to equity ratio together (simultaneously) will affect profitability.

CONCLUSION

1. There is an influence between the liquidity variable and the profitability variable by showing the tcount value of 1.413. a value greater than 0.05 standard significance value. So that the hypothesis (H1) which states that liquidity has a significant effect on profitability at Bank Muamalat Indonesia Tbk for the period 2020-2022 or can be accepted.
2. There is an influence between the leverage variable and the profitability variable showing a tcount value of 1.193. which is greater than 0.05 standard significance value. So that the hypothesis (H2) which states that leverage has a significant effect on profitability at PT. Bank Muamalat Indonesia Tbk for the period 2020-2022 or can be accepted.
3. There is an effect of the Liquidity Ratio and Leverage Ratio variables simultaneously on the profitability variable of 2.239, because the probability is less than the significant value of 0.05, the regression model can be used to predict profitability or it can be said that Liquidity and Leverage together have an effect on Profitability, so the hypothesis that states Liquidity and Leverage together have an effect on Profitability, can be accepted.

Suggestion

1. Bank sebaiknya menjaga tingkat likuiditasnya dengan baik karena likuiditas yang tinggi dapat menyebabkan kas menganggur tetapi apabila likuiditas bank rendah akan menyebabkan bank dalam kondisi ilikuid.
2. Penelitian yang akan datang sebaiknya menggunakan sampel perusahaan yang lebih banyak dan periode pengamatan yang lebih lama agar diperoleh hasil pengujian yang lebih akurat.
3. Bagi peneliti selanjutnya, selain perusahaan perbankan PT. Bank Muamalat Indonesia Tbk, hendaknnya mencari data di Bursa Efek Indonesia yang sudah terdaftar.

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