

The Effect Of Risk-Taking Through Profitability On Firm Value On Banks Listed On The Indonesia Stock Exchange (Idx) Period 2017-2020

Ni Kadek Wahyuni Merta Sari¹, Ni Ketut Surasni², Siti Aisyah Hidayati³

¹Magister of Management, Faculty of Economics and Business, University of Mataram, Mataram, Indonesia

^{2,3}Management, Faculty of Economics and Business, University of Mataram, Mataram, Indonesia

¹wahyunims97@gmail.com, ²surasni12@gmail.com, ³sitiaisyahhidayati@unram.ac.id

ABSTRACT

This study aims to determine the effect of risk-taking through profitability on firm value. This research was conducted on the Indonesia Stock Exchange (IDX) in 2017-2020. The sampling technique used the purposive sampling method. Ten banks meet the sample criteria. The analytical approach used in SmartPLS. The results found that Non-Performing Loans (NPL) and Loan to Funding Ratio (LFR) had no significant positive effect on profitability (ROA). NPL has a substantial impact on firm value (PBV). LFR has no significant effect on PBV. ROA has no considerable impact on PBV. ROA cannot mediate the effect of NPL and LFR on PBV.

Keywords: Risk-taking, Profitability, Firm Value

INTRODUCTION

In simple terms, a bank is a financial institution whose business activity is to collect funds from the public and channel these funds back to the community and provide other bank services. In other words, a bank is an intermediary financial institution between people who have excess funds and people who lack funds for various purposes. Purpose of financial intermediary. According to Santoso (2006), a bank can function as an Agent of Trust, Agent of Development, and Agent of Service.

Besides functioning as an intermediary, banks must also pay attention to the primary purpose of establishing a company. According to Scott (in Agustina, 2014), the primary purpose of establishing a company is to obtain profitability, maximize profit or wealth, and maximize firm value. A firm is an organization that combines and organizes various resources intending to produce goods and services for sale. According to the firm's theory, the company's primary goal is to maximize its value (Salvatore, 2005).

Firm value is often linked to stock prices. The higher the share price, the higher firm value. Maximizing the company's value also maximizes shareholders' prosperity, which is the company's goal. Firm value is usually indicated by Price to Book Value (PBV). The higher the PBV, the higher the stock return. The higher the stock return will increase the company's income, thereby increasing the company's ability to distribute dividends.

Firm value is influenced by two factors: internal and external factors. Factors under bank management's control are internal factors, while all factors outside the bank's control are external factors (Raza et al., 2013). Internal factors discussed in this study are risk-taking and profitability—risk-taking becomes one factor that affects the company's value. Risk-taking is a tendency to face various risks in the banking industry. For example, if the bank cannot manage risk appropriately, the bank can fail at any time and eventually go bankrupt (Yuwonoputro & Syaichu, 2019). Of course, there are various types of risks faced by banks. Still, these are some of the main dangers banks face (Bank Indonesia Regulation No. 5/8/PBI/2003), such as credit risk, liquidity risk, market risk, operational risk, reputation risk, legal risk, strategic risk, and compliance risk. In this study, risk-taking is measured by credit risk and liquidity risk.

Credit is one of the main activities of banks and is the most significant activity or activity of banking (Dendawijaya, 2009). A non-Performing Loan (NPL) is a credit risk, the ratio between total non-performing loans and loans extended to debtors. A bank is said to have a high NPL if the number of non-performing loans exceeds the amount of credit raised to debtors. A bank with a high NPL will increase costs, both the cost of reserves for productive assets and other expenses. In other words, the higher the NPL of a bank, it will disrupt its performance (Masyhud, 2006).

Noman et al. (2021) focused their research on risk-taking variables in 180 banks in Southeast Asia. Risk-taking in banking is measured by Non-Performing Loans (NPL). This study finds that activity restrictions shape banks' risk-taking behavior, causing changes in the competitive channel due to the shifting effect of competitive risk. The results of research conducted by Fariz (2017), Maimunah (2019), and Pitasari (2020) state that NPL has a negative and significant effect on firm value. It means that the higher the NPL ratio will reduce the company's worth because of the impact of non-performing loans, so the profits obtained by the bank will decrease. However, in contrast to the results of research from Christian (2014),

Loan Funding Ratio(LFR) is a financial ratio of banking companies related to liquidity risk. This ratio compares a bank's ability to channel credit to the public with third-party funds and the bank's capital. The number of bank profits will be based on the amount of credit distributed to the public when the bank cannot channel funds appropriately, and making funds from the public buried will cause losses to the bank itself (Kasmir, 2014).

Research conducted by Maryam (2020), Pitasari (2020), and Isramiarsy (2018) show that LDR results have a significant positive effect on firm value. It means that the higher the LDR value will increase the company's worth because the bank can maximize the distribution of third-party funds through credit. Meanwhile, Sugianto (2019) and Chirstian (2018) show that LDR has no significant effect on firm value. Furthermore, the research conducted by Yuwonoputro and Syaichu (2019) focused on the risk-taking factor in 22 banks in Indonesia with the NPL factor and the LDR Loan to Deposit Ratio. The results of this study indicate that NPL and LDR can be risk-taking factors.

The second factor that affects firm value is the company's performance. One measure of company performance is the profitability ratio of Return On Assets (ROA) because ROA is a better measure of performance to Dodd and Chan (Nirmalasari, 2010). Profitability is the ability achieved by a company in a certain period. Profitability analysis measures the company's ability to earn profits, both in sales, assets, and own capital. So the profitability results can be used as a benchmark or an illustration of the effectiveness of management performance in terms of profits compared to the results of sales and company investments.

ROA is the ratio between profit before tax to total assets. The greater the ROA indicates, the better financial performance because the rate of return (return) is getting bigger. If ROA increases, the company's profitability increases, so the final impact is an increase in profitability enjoyed by shareholders (Husnan, 1998). The research results on the positive and significant effect of ROA on firm value indicate that the higher the ROA value will increase the firm value (Aprilia, 2021; Sintyana, 2019 & Suranto, 2017).

The results of research conducted by Saraswati (2018) show that profitability can significantly mediate the effect of NPL and LDR on firm value. In addition, ROA can mediate between NPL and LDR variables with substantial value because investors prefer ROA, which is a company's ability to earn profits within a certain period, and investors catch ROA as a positive signal that can increase firm value (Suyinto, 2017). At the same time, the results of different studies by Solikha and Hariyati (2018) found that profitability cannot mediate the effect of NPL and LDR on firm value.

In the development of the banking industry, which is listed on the Indonesia Stock Exchange (IDX), from 2017 to 2020, there are some discrepancies between theory and existing empirical evidence. Empirical data regarding NPL, LFR, profitability, and firm value at Commercial Banks listed on the IDX for the 2017-2020 period can be presented as follows:

Table 1. Average NPL, LFR, ROA, and PBV at the Bank Listed on the Indonesia Stock Exchange (IDX) for the 2017-2020 period

NO	Year	Number of Banks	NPL (%)	LFR (%)	ROA (%)	PBV
1	2017	43	2.59	90.04	2.45	1.64
2	2018	45	2.36	94.78	2.55	1.65
3	2019	43	2.53	101.65	2.47	2.56
4	2020	45	3.06	85.29	1.59	2.78
Information			Tend to Rise	Tend to Down	Tend to Down	Tend to Rise

Source :www.idx.co.id

The NPL value shows an increase in PBV. It is not following the theory of Kasmir (2014), which states that the greater the NPL in the banking system, the lower the bank's performance and the lower the PBV value. Next, the LFR value decreased from 2019 to 2020, but the PBV continued to increase. This condition is inversely proportional to Agus (2008)'s theory. According to him, the decrease in the LFR value indicates a company's lack of liquidity which affects the reduction in PBV value. Still, in the table above, the PBV value increases.

The gap also occurs in the ROA value, which only increased in 2016-2018, the ROA value decreased in 2019-2020, but the PBV value continued to increase from 2016-2020. It is not following the theory of Harmono (2011) that the size of the resulting profitability influences the company's value.

There is a gap between theory and empirical data on the average value of NPL, LFR, ROA, and PBV at banks listed on the Indonesia Stock Exchange (IDX) for the 2017-2020 period. Therefore, as well as the results of research that are different from previous studies, then based on this background, the author surveyed with the title Influencerisk-taking through Profitability Against Firm value at Banks Listed on the Indonesia Stock Exchange (IDX) for the 2017-2020 period. This research aims to test and analyze the influence of Non-Performing Loans (NPL) and Loan Funding Ratio (LFR) on firm value directly or indirectly through profitability.

LITERATURE REVIEW

Signaling Theory

Signaling theory emphasizes the importance of the information the company has issued on investment decisions of parties outside the company. A published report as an announcement will signal investors to make investment decisions. If the statement contains a positive value, it is expected that the market will react when the information is received by the market (Jogiyanto,

2000). When market information has spread widely, and all market participants have received the data, then market participants must interpret and analyze the information as a good signal (good news) or a wrong signal (bad news). For example, suppose the report's announcement indicates a good call for investors. In that case, there will be a change in the volume of stock trading, with the increase in investor interest in the company's shares so that the company's value will increase (Jogiyanto, 2000).

All investors need the information to evaluate the performance and risk level of each company so that investors can diversify their portfolios and investment combinations with the desired risk preferences. If a company wants its shares to be purchased, it must disclose its financial statements openly and transparently (Jogiyanto, 2000). The primary assumption of this signal theory is that it provides an opportunity for investors to find out how the decisions they make are related to the company's value. As a result, when the risk-taking ratio, profitability, shows a changing value, this automatically provides information to investors in assessing the company's value.

Firm Value

According to Fahmi (2015), firm value is a market value ratio that describes the conditions that occur in the market. This ratio can provide an understanding for the company's management on the conditions of implementation that will be implemented and their impact in the future.

Septiyuliana (2016) explains that firm value is often associated with stock prices. The higher the share price, the higher firm value. Maximizing the company's value means also maximizing shareholders' prosperity, which is the company's goal. Investors can use firm value as a basis for assessing the company's performance in the future (Panji & Wijaya, 2015).

One of the indicators that affect the company's value is the extent to which the company can generate profits, in line with the purpose of investors to invest, which is to make a profit (Meidiawati & Mildawati, 2016). In addition, firm value is significant because it reflects how much the company can provide benefits for the company, especially the owners and investors (Sunardi, 2019). To be able to maximize firm value, the company or manager is faced with financial decisions, which include investment decisions, funding decisions, and processing decisions. Finance and profit sharing on dividends from the company's profits or profits (Sunardi, 2018).

Firm value can be measured using the price ratio to Book Value (PBV). PBV is the ratio of price to book value which is a ratio that shows the results of the comparison between the market price per share and the book value per share (Hery, 2015). generally, Companies that have been running well have a ratio above one, which indicates that the market value of the stock is more significant than its book value, and the higher the PBV, the higher the level of prosperity of the shareholders, which is the primary goal of a company (Brigham & Houston, 2007). 2015).

Risk-Taking

Bank's business risk is the level of uncertainty regarding the income to be received. Income, in this case, is the bank's profit. The higher the uncertainty of income obtained by a bank, the greater the possibility of risk faced and the higher the risk premium or desired interest (Siamat, 2005). Risk-taking is a tendency to engage in a potentially dangerous policy, but at the same time, the harmful policy provides a positive return (Tull, 2009).

Risk-taking tends to face various risks in the banking industry (Yuwonoputro & Syaichu, 2019). As a result, there are multiple types of risks faced by banks. Still, these are some of the main dangers banks face (Bank Indonesia Regulation No. 5/8/PBI/2003), such as credit risk, liquidity risk, market risk, operational risk, reputation risk, legal risk, strategic risk, and compliance risk. Therefore, the risks that will be examined in this study are credit risk with NPL as a proxy and liquidity risk with LFR as a proxy.

Non-Performing Loan (NPL)

A non-Performing Loan (NPL) compares non-performing loans to total loans (Didik & Bambang, 2013). Bad or problem loans that occur suddenly without starting a series of signs or signals are scarce. Banks can detect the variables in the collectability determination based on the criteria for arrears in principal and interest debt and, overdraft, other indicators. A credit is said to be non-performing if it meets the credit collectability criteria of 2% to 4% (Taswan, 2010). Non-performing loans are a condition where customers cannot pay part or all of their obligations to the bank as agreed (Mudrajad & Suharjono, 2002).

Indications of non-performing loans (other than those in credit collectability) can also be seen, including declining receivables and inventory turnover, decreasing current ratio, increasing fixed assets greater than existing assets, excessive expansion, and delays in paying debts. The NPL ratio indicates that the higher the ratio value, the worse the credit quality (Triandaru, 2006).

Loan to Funding Ratio (LFR)

According to Haziro, Bramawati, and Negoro (2017), one way of assessing liquidity is by using LFR (Loan to Funding Ratio). The company's liquidity shows the ability to pay short-term financial obligations on time (Agus, 2008). The liquidity ratio indicates the level of the relative ease of an asset to be immediately converted into cash with little or no decline in value and the level of certainty about the amount of money that can be obtained (Manahan, 2013). According to Bank Indonesia Regulation No.17/11/PBI/2015, LFR is the ratio of loans extended to third parties in Rupiah and foreign currencies, excluding loans to other banks. The quantities and parameters used in the LFR calculation are:

- a) The lower limit of the Target LFR is 78%.
- b) The upper limit of the Target LFR is 92%.
- c) The upper limit of the LFR Target is 94% if the NPL is less than 5%.

The larger this ratio indicates, the better the liquidity of the bank. On the contrary, the smaller this ratio indicates, the worse the bank's liquidity. The liquidity ratio is also used to measure banks' ability to meet repayments of deposits that have matured to their depositors and to fulfill credit applications without any delays.

Profitability

According to Suharli (2005), profitability is the company's ability to generate profits (profit). Almilia (2007) states that the profitability ratio is a ratio that measures the company's ability to generate profits at the level of sales, assets, and capital. Machmud (2009) states that profitability can be defined as the profits obtained by the bank, primarily sourced from the credit (financing) provided. The profitability ratio aims to measure the level of business efficiency and gains achieved by the bank concerned. Profitability is significant because it describes the management and fund management performance. Meanwhile, according to Munawir (2007), profitability or profit shows the company's ability to generate profits during a specific period.

Profitability can be measured using four kinds of benchmarks, namely Return On Assets (ROA), Return On Equity (ROE), the ratio of operating costs, and Net Profit Margin (NPM) (Dendawijaya, 2005). The ratio used to measure profitability in this study is ROA because ROA focuses more on the company's ability to earn earnings in the company's overall operations. In determining the soundness of a bank, the Bank of Indonesia is more concerned with assessing ROA than ROE. Bank of Indonesia prioritizes a bank's profitability as measured by assets whose funds mostly come from public savings funds so that ROA is more representative in measuring the level of bank profitability (Dendawijaya, 2005).

Conceptual Framework

One way to maximize the company's value is to properly manage the company's risk, which is then disclosed in financial reporting. However, trouble arises due to conditions of uncertainty (Hanafi, 2009). This risk may result in significant losses, and the company can go bankrupt in some situations. The widening zone of uncertainty faced by the company causes a company to have and implement holistic risk management, no longer just meeting the demands of existing regulations (Hanafi, 2009). So realizing good risk management for the company is a management need to maintain the company's survival as well as a manifestation of the company's efforts to increase firm value. There are various types of risks faced by banks, but the focus of this research is on some of the main risks faced by banks, as stated in Bank Indonesia Regulation No. 5/8/PBI/2003, namely credit risk and liquidity risk.

Credit risk can be measured from the Non-Performing Loan (NPL), the ratio between total non-performing loans and loans extended to debtors. Liquidity risk can be measured by the Loan To Funding Ratio (LFR), which is a ratio measuring the bank's ability to meet obligations that must be met. Credit risk can be calculated from the Non-Performing Loan (NPL), the balance between total non-performing loans and loans extended to debtors. Liquidity risk can be measured by the Loan To Funding Ratio (LFR), which is a ratio measuring the bank's ability to meet obligations that must be met. Credit risk can be calculated from the Non-Performing Loan (NPL), the balance between total non-performing loans and loans extended to debtors. Liquidity risk can be measured by the Loan To Funding Ratio (LFR), which is a ratio measuring the bank's ability to meet obligations that must be met.

In addition to paying attention to the level of risk, profitability can also be a significant consideration in assessing the company's stock returns. Profitability is the company's ability to generate profits in the past (Hanafi, 2016). In this case, high profits indicate good company prospects and encourage share demand. The result is that along with increasing demand for shares, the company's value will also increase. Thus the increase in profitability is in line with the company's value, so the company will strive to continue to increase the level of profitability. In addition, high company profitability reflects better company prospects in the future (Devi, Badera & Budiasih, 2017). Based on this, the conceptual framework of this research describes:

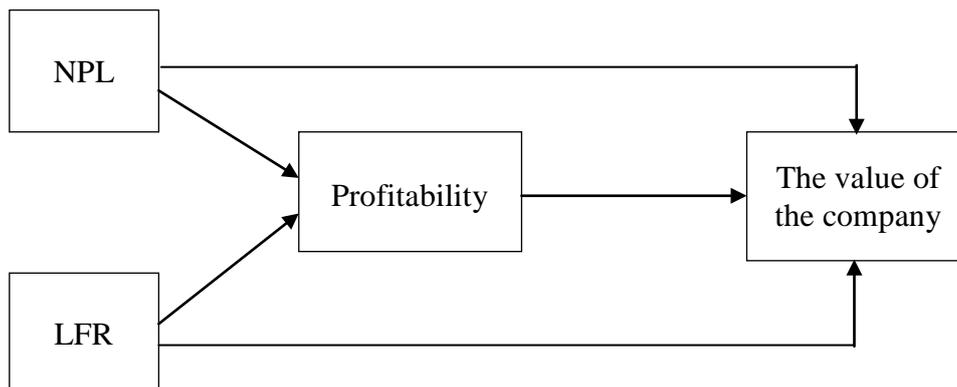


Figure 1. Conceptual Framework

Information :

→ = Influence between variables

H1: Non-Performing Loans (NPL) negatively affect profitability.

H2: Loan to Funding Ratio (LFR) positively affects profitability.

H3: Non-Performing Loans (NPL) negatively affect firm value.

- H4: Loan to Funding Ratio (LFR) positively affects firm value.
- H5: Profitability has a positive effect on firm value.
- H6: NPL affects firm value through profitability.
- H7: LFR affects firm value through profitability.

RESEARCH METHODS

This study is a causal associative study that examines the causal relationship between risk-taking and firm value and emphasizes the mediating role of profitability in this relationship. It determines the sample in this study using the purposive sampling technique with the number of samples to be studied as many as ten companies. These companies are Bank of BRI, Mandiri, BCA, BNI, BTN, CIMB Niaga, COBC NISP, Panin, BTPN, and Danamon. Data collection techniques in this study were carried out using documentation techniques. Documentation is a technique of collecting research data obtained through written data such as banking financial reports published via the internet on the Indonesia Stock Exchange website www.IDX.go.id 2017 to 2020 period.

This research uses the Partial Least Square (PLS) data analysis method. According to Jogianto and Abdillah (2015), PLS is a variant-based structural equation analysis (SEM) that can simultaneously test measurement models (test validity and reliability) as well as structural testing for causality tests (test hypotheses with predictive models). Furthermore, Wiyono (2011) states that Partial Least Square (PLS) is one of the Structural Equation Modeling (SEM) techniques that can analyze latent variables, indicator variables, and measurement errors directly.

RESEARCH RESULT

Data analysis with the PLS approach is carried out directly on the structural model test because financial data only consists of one indicator. Following the statement that all variables in this study are observed variables that can be measured directly by one proxy, respectively there is no need for a measurement model or a series of evaluations of the measurement model. Using SmartPLS (Partial Least Square), Figure 1. is obtained, Which is the output path diagram on SmartPLS 3.2. output values as follows:

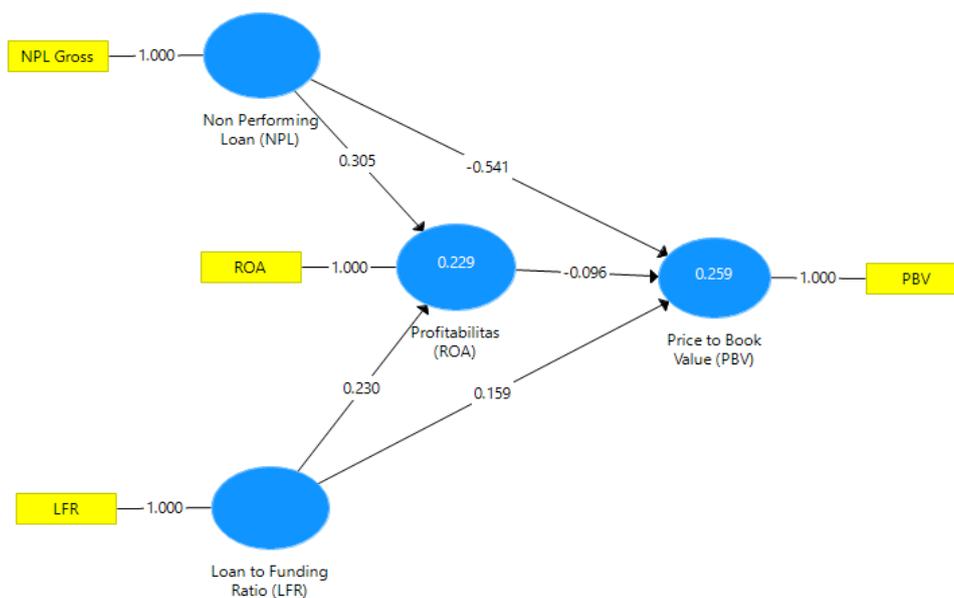


Figure 2. PLS Line Output

At a significance level of 0.05, the hypothesis will be supported if the p-value is smaller than the error rate of 0.05 (5%). The results of the significance level test can see in table 2.

The first hypothesis (H1) in this study states, "It is suspected that Non-Performing Loans (NPL) harm Profitability (ROA) at Banks listed on the IDX for the 2017-2020 period". However, hypothesis testing with SEM-PLS with test results showing a coefficient value of 0.305 with a significance value of 0.069 (more significant than an error tolerance of 5%/0.05) is not substantial, so it stated that the first hypothesis is rejected.

The second hypothesis (H2) in this study states, "It is suspected that the Loan to Funding Ratio (LFR) has a positive influence on Profitability (ROA) at Banks listed on the IDX for the 2017-2020 period". However, hypothesis testing with PLS with results showing a coefficient value of 0.230 with a significance value of 0.102 (more significant than an error tolerance of 5%/0.05) is not substantial, so it stated that the second hypothesis is rejected.

Table 2. Model Structural Test Results

Effect Between Variables	Coefficient	T Statistics	P value	Information
Non-Performing Loan (NPL) - > Profitability (ROA)	0.305	1,509	0.069	Not significant
Loan to Funding Ratio (LFR) - > Profitability (ROA)	0.230	1,290	0.102	Not significant
Non-Performing Loan (NPL) - > Firm Value (PBV)	-0.541	3,868	0.000	Significant
Loan to Funding Ratio (LFR) - > Firm Value (PBV)	0.159	1.018	0.157	Not significant
Profitability (ROA) -> Firm Value (PBV)	-0.096	0.544	0.294	Not significant
Non-Performing Loan (NPL) - > Profitability (ROA)-> Firm Value (PBV)	-0.029	0.359	0.310	Not significant
Loan to Funding Ratio (LFR) - > Profitability (ROA) -> Firm Value (PBV)	-0.022	0.498	0.361	Not significant

The third hypothesis (H3) in this study states, "It is suspected that Non-Performing Loans (NPL) have a negative influence on Firm Value (PBV) in Banks listed on the IDX for the 2017-2020 period". Through hypothesis testing with PLS, which shows a coefficient value of -0.541 with a significance value of 0.000 (lower than an error tolerance of 5%/0.05), it is significant, so it stated that the third hypothesis is accepted.

The fourth hypothesis (H4) in this study states, "It is suspected that the Loan to Funding Ratio (LFR) has a positive influence on Firm Value (PBV) in Banks listed on the IDX for the 2017-2020 period". However, hypothesis testing with PLS shows a coefficient value of 0.159 with a significance value of 0.157 (more significant than an error tolerance of 5%/0.05), which means it is not substantial. Hence, it stated that the fourth hypothesis is rejected.

The fifth hypothesis (H5) in this study states, "It is suspected that Profitability (ROA) has a positive influence on Firm Value (PBV) in Banks listed on the IDX for the 2017-2020 period". However, hypothesis testing with PLS with results showing a coefficient value of -0.029 with a significance value of 0.310 (more significant than an error tolerance of 5%/0.05) is not substantial. Hence, it stated that the fifth hypothesis is rejected.

The sixth hypothesis (H6) in this study states, "It is suspected that Non-Performing Loans (NPL) influence Firm Value (PBV) through Profitability (ROA) in Banks listed on the IDX for the

2017-2020 period". However, hypothesis testing with PLS, which shows a coefficient value of -0.029 with a significance value of 0.310 (more significant than an error tolerance of 5%/0.05) which means it is not substantial, states that the sixth hypothesis is rejected.

The seventh hypothesis (H7) in this study states, "It is suspected that the Loan to Funding Ratio (LFR) has an influence on Firm Value (PBV) through Profitability (ROA) in Banks listed on the IDX for the 2017-2020 period". However, hypothesis testing with PLS shows that the coefficient value is -0.022 with a significance value of 0.361 (more significant than an error tolerance of 5%/0.05) which means it is not substantial. Hence, it states that the seventh hypothesis is rejected.

DISCUSSION

Effect of Non-Performing Loans (NPL) on Profitability (ROA)

Research results are finding that Non-Performing Loans (NPLs) have an insignificant positive effect on Profitability (ROA) at Banks listed on the IDX for the 2017-2020 period. NPL has a positive impact on ROA. Namely, when NPL increases, ROA also increases. An increasing ROA accompanied the increase in NPL in the research sample. For example, Bank BRI in 2017-2019 continued to expand and was accompanied by an expanding ROA from 2017-2019. However, the results of the study show that the positive influence of NPL on ROA is not significant. There was a covid-19 pandemic during the research period, namely from the end of 2019 to 2020, which caused a slowdown in global economic growth, thereby increasing the risk of NPL but still within reasonable limits. In addition, PPAP is a reserve to cover the risk of possible losses due to earning assets (loans).

This study's results align with previous research conducted by Rusmeliana (2018) and Grilseda (2021). However, this study's results differ from the analysis by Elin (2016) and Malik (2020) on the effect of the NPL variable on profitability. NPL has a negative and significant impact on profitability (ROA).

Effect of Loan to Funding Ratio (LFR) on Profitability (ROA)

The results of this study resulted in the finding that the Loan to Funding Ratio (LFR) has a positive and insignificant effect on Profitability (ROA) at Banks listed on the IDX for the 2017-2020 period. It means if the higher or lower the Loan to Funding Ratio (LFR) is, it will not affect the company's Profitability (ROA) value.

The study results indicate that the banking industry experienced liquidity problems in the research year. The research data shows that the average LFR in 2017-2020 was at the upper limit of 92.93. Hence, LFR had no significant effect on increasing ROA, which was affected by the weakening of the global economy. During this research period, there was a COVID-19 pandemic; The money market was quiet. Even though the majority of people are still considering saving or taking credit at banks, there is a vulnerability because the slowing growth in retail funding has an impact on increasing the funding gap, which causes liquidity pressures when banks use liquidity tools as an alternative source of funds so that there is room for expansion in lending. Therefore, be limited (Pure, 2019).

The results of this study align with the results of the survey conducted by Elin (2016). As a result, LDR has a positive and insignificant effect on profitability (ROA) in banking studies on the Indonesia Stock Exchange. At the same time, the results of research from Abdul Malik (2020) LDR has a significant positive effect on profitability. In addition, Velinda (2020) states that LDR impacts banking profitability.

Effect of Non-Performing Loans (NPL) on Firm Value (PBV)

The results of this study resulted in the finding that Non-Performing Loans (NPL) had a significant effect on Firm Value (PBV). It means that the higher the Non-Performing Loan (NPL) will impact the Firm value (PBV) of the Banks listed on the IDX for the 2017-2020 period.

According to Kasmir (2013), NPL or non-performing loans are loans in which there are obstacles caused by two elements, namely from the banking side in analyzing and from the customer who intentionally or unintentionally in his obligations does not make payments. It means that the NPL is a percentage of the number of non-performing or bad loans to the total loans disbursed by banks. This non-performing loan has the opportunity to cause several problems for the bank. First, these non-performing loans make banks lose the opportunity to earn interest on loans, thereby reducing profit. In the long term, non-performing loans will cause bank performance to decline. It is because the more significant the NPL in banking companies, the lower the company's value.

The results of this study are in line with the research from Ananda (2018) that NPL has a significant effect on firm value and findings from Maimunah (2019) that NPL has a negative and significant impact on firm value.

Effect of Loan to Funding Ratio (LFR) on Firm Value (PBV)

The results of this study resulted in the finding that the Loan to Funding Ratio (LFR) had a positive and insignificant effect on Firm Value (PBV). It means that the higher or lower the Loan to Funding Ratio (LFR) will not impact the Firm value (PBV).

The loan Funding Ratio (LFR) variable positively affects firm value (PBV). It means that an increase will follow an increase in LFR in PBV, and a reduction will follow a decrease in LFR in PBV. The higher the LFR indicates, the riskier the bank's liquidity conditions. Conversely, the lower the LFR suggests the bank's lack of effectiveness in disbursing credit, so the bank's opportunity to earn profits is lost. The higher the LFR, the bank's profit will increase (assuming the bank can channel credit effectively). The bank's performance will also increase with the increase in bank profit. Thus, the size of a bank's LFR will affect the bank's performance. The insignificant effect of LFR on PBV is probably due to the extensive ownership of assets from banks and bank income not only from interest income from loans given to the public but also from commission-based income (Murni, 2018). In addition, the COVID-19 pandemic during this research period caused an economic slowdown, resulting in a decrease in public interest in investing, which affected the company's value.

The results of this study support the research conducted by Billian and Ponco (2015). However, this study's results differ from research conducted by Ananda (2018) and Hidayaty and Maryadi (2020), where LDR has a significant positive effect on firm value.

Effect of Profitability (ROA) on Firm Value (PBV)

The results obtained through hypothesis testing with SEM-PLS results in the finding that Profitability (ROA) has no significant effect on Firm Value (PBV). If the company's profitability (ROA) is higher or lower, it will not significantly increase the Company's Value (PBV) for Banks listed on the IDX for the 2017-2020 period.

A negative and insignificant influence on profitability is thought to be caused by other factors that also affect firm value, such as Return on Equity, Earning Per Share, and so on (Hermawan, 2014).). In addition, the COVID-19 pandemic during this research period caused an economic slowdown, resulting in a decrease in public interest in investing, which affected the company's value. This insignificant result can also be caused because investors currently do not only focus on the profits owned by the company but tend to see company activities that can provide long-term effects on the company (Gherghina, 2016).

The results of this study support the research conducted by Hermawan (2014), Chetty (2015), and Munawaroh (2014), where Profitability has a negative and insignificant effect on firm value. However, this finding is different from the results of previous studies conducted by Kusuma and Musaroh (2014), Sari (2017), Tauke (2017), and Halimah and Julianty (2018) that Profitability has a positive and significant effect on firm value.

Effect of Non-Performing Loans (NPL) on Firm Value (PBV) mediated by Profitability (ROA)

Research results obtained through hypothesis testing with SEM-PLS resulted in the finding that Non-Performing Loans (NPL) had no significant effect on Firm Value (PBV) mediated by Profitability (ROA) in Banks listed on the IDX for the 2017-2020 period. Therefore, the higher or lower the Profitability (ROA) will not be able to mediate the effect of Non-Performing Loans (NPL) on Firm Value (PBV).

The results of this study indicate that NPL directly has a positive and not significant effect on ROA, and ROA has an insignificant negative impact on PBV. On the other hand, NPL has a positive and significant effect on PBV. Not all pathways connecting NPL, ROA, and PBV are substantial. Thus, ROA was not successful in mediating the impact of NPL on PBV because NPL proved not to affect ROA. In addition, the COVID-19 pandemic during this research period caused an economic slowdown, resulting in a decrease in public interest in investing, which involved the company's value.

The results of this study support the research of Mawardi (2018) and Saputri (2021). However, this study's results differ from the findings of research conducted by Saraswatia (2018), which found that Profitability can be an intervening variable in the influence of Non-Performing Loans (NPL) on Firm Value.

Effect of Loan to Funding Ratio (LFR) on Firm Value (PBV) mediated by Profitability (ROA)

The results obtained through hypothesis testing with SEM-PLS resulted in the finding that the Loan to Funding Ratio (LFR) had no significant effect on Firm Value (PBV) mediated by Profitability (ROA) at Banks listed on the IDX for the 2017-2020 period. That is, the higher or lower the value of Profitability (ROA) will not have an impact on changes in the influence of the Loan to Funding Ratio (LFR) on Firm value (PBV).

The results showed that LFR directly had a positive and insignificant effect on ROA and ROA had a little negative effect on PBV. LFR has no significant positive impact on PBV. All pathways did not correlate between LFR, ROA, and significant PBV. Thus, ROA was not successful in mediating the effect of LFR on PBV. In addition, the COVID-19 pandemic during this research period caused an economic slowdown, resulting in a decrease in public interest in investing, which affected the company's value.

This study's results support Suyitno's (2017) and Mawardi's (2018) research. However, these findings differ from Saraswatia's (2018) findings that the Loan to Funding Ratio (LFR) indirectly affects firm value through Profitability.

CONCLUSION

From the results of the research and discussion above, the conclusions the research that can be drawn are:

1. Non-Performing Loan (NPL) has no significant effect on Profitability (ROA) At Banks listed on the IDX for the 2017-2020 period. An increase will follow the rise in NPL value in ROA.
2. Loan to Funding Ratio (LFR) has no significant effect on Profitability (ROA) At Banks listed on the IDX for the 2017-2020 period.

3. Non-Performing Loan(NPL) has a significant negative effect on Firm value (PBV) in Banks listed on the IDX for the 2017-2020 period.
4. Loan to Funding Ratio(LFR) has no significant effect on firm value (PBV) at Banks listed on the IDX for the 2017-2020 period.
5. Profitability (ROA) has no significant effect on Firm value (PBV) at Banks listed on the IDX for the 2017-2020 period.
6. Profitability (ROA) cannot mediate the effect on-Performing Loans (NPL) to Firm value (PBV) at Banks listed on the IDX for the 2017-2020 period.
7. Profitability (ROA) cannot mediate the effect of the Loan to Funding Ratio (LFR) on Firm Value (PBV). Banks are listed on the Indonesia Stock Exchange for 2017-2020.

RECOMMENDATION

1. Suggestions for banking companies that have Non-Performing Loans (NPL) and Loan to Funding Ratio (LFR) variables on average are still high. They should further improve analysis based on credit principles to prospective debtors.
2. Research respondents are limited to a sample of banks listed on the IDX for the 2017-2020 period. Therefore, this study will likely show different results if applied to other periods.
3. This study does not use an external factor mediating variable approach. Therefore, of course, it can still be studied to find variations in the relationship of other variables. For example, the COVID-19 pandemic during the research period can be used as a mediating variable to see if the impact of COVID-19 is felt in all business sectors.
4. Non-Performing Loans (NPL) and Loan to Funding Ratio (LFR), and Profitability (ROA) variables studied as predictor variables in this study have been shown to have a small role and influence, namely 42.9%. This predictor variable must be linked with other variables to see its relationship with the Firm Value (PBV) variable.

REFERENCES

- Abdul Malik (2020), "The Effect of Loan To Deposit Ratio (LDR) on Profitability With Non Performing Loans (NPL) as Intervening Variables in the Banking Subsector," Journal of Management Science, University of Serang Raya.
- Aemilia. L.S., & Amaya. B. (2007), "Factors Affecting the Performance of Accounting Information Systems at Government Commercial Banks in the Surabaya and Sidoarjo Regions," Journal of Accounting. Surabaya: STIE Perbananas.
- Agus. S. (2008), Financial Management Theory and Applications. Yogyakarta: BPFE.
- Ananda. (2016), "The Effect of Non-Performing Loans and Loan to Deposit Ratio Through Profitability on Firm Value," Thesis, Universitas Pembangunan Nasional Veterans Yogyakarta, Indonesia.
- Aprilia. N. (2021), "The Influence of Financial Performance on Firm Value With Corporate Government Moderating Variables," Journal of Accounting and Financial Research, IX
- Bank of Indonesia. (2003), Bank Indonesia Regulation Number 5/8/PPBI/2003 concerning Implementation of Risk Management for Commercial Banks.
- Bank of Indonesia. (2009), Indonesian Banking Booklet, Directorate of Banking Licensing and Information, Jakarta.
- Bank of Indonesia. (2015), Bank Indonesia Regulation No. 17/11/PBI/2015 dated June 25, 2015, concerning Amendments to Bank Indonesia Regulation Number 15/15/PBI/2013 concerning

Statutory Reserves for Commercial Banks in Rupiah and Foreign Exchange for Conventional Commercial Banks

- Christian, Y. (2014), "Analysis of CAR, NPL, ROE, NIM, BOPO and LDR on the Value of Banking Shares on the Indonesia Stock Exchange," *Journal of Research & Management Concepts*, IX (1)
- Dendawijaya, L. (2005), *Banking Management*, Second Edition. Bogor. Jakarta: Ghalia Indonesia.
- Dendawijaya, L. (2009), *Banking Management*, Jakarta: Ghalia Indonesia.
- Devi. S., Badera. IDN, & Budiasih. GAN "The Effect of Enterprise Risk Management Disclosure and Intellectual Capital Disclosure on Firm Value," *Indonesian Journal of Accounting and Finance* Volume XIV (1).
- Fahmi, I. (2015), *Introduction to Financial Management Theory and Questions and Answers*. Bandung: Alfabeta.
- Fariz, A., & Suryanto. L. (2004), "Analysis of the Effect of CAMEL Ratios as an Assessment of Bank Soundness Levels on Stock Prices of Banking Companies Listed on the IDX," *Journal of Management and Organization Studies*. I(2):75-88.
- Hanafi. M.M & Halim. A. (2016), *Financial Statement Analysis*. Fifth Edition. Yogyakarta: UPP STIM YKPN.
- Harmoni. (2011), *Balanced Scorecard-Based Financial Management Approach to Theory, Cases, and Business Research*. Jakarta: Earth Literacy.
- Harry. (2015), *Financial Statement Analysis*. Edition 1, Yogyakarta: Center For Academic Publishing Services.
- Isramiarsyh, A. (2018), *Effect of Capital Adequacy Ratio, Operational Cost on Operational Income, Loan to Deposit Ratio and Non-Performing Loan on Financial Performance*.
- Jogiyanto. (2000), *Portfolio Theory and Investment Analysis*. Yogyakarta: BPFE Yogyakarta
- cashmere. (2014), *Banks and Other Financial Institutions Revised Edition*. Jakarta: Raja Grafindo Persada.
- Maimunah, S. (2019), "The Influence of NPL, ROA, and CAR on PBV in State-Owned Banks," *Journal of Tax Information, Accounting and Public Finance*. XIV, (1)
- Masyhud, A. (2006), *Risk Management: Banking and Business Strategy in Facing the Challenges of Business Globalization*. P.T. King Grafindo Persada. Jakarta
- Machmud, A. (2009), H. Rukmana, *Islamic banking theory, policy, and empirical studies in Indonesia*, pp. 4-8, Jakarta: Erlangga.
- Meida, W., & Mildawati (2016), "The Influence of Size, Growth, Profitability, Capital Structure, Dividend Policy on Firm Value," *Journal of Accounting Science and Research* V (2), 2460-0585.
- Mudrajad, K., & Suhardjono. (2002), *Banking Management: Theory and Application*. First Edition. First Printing. Yogyakarta: BPFE.
- Munawir, S. (2007), *Analysis of Financial Statements*. Fourth Edition. Liberty. Yogyakarta.
- Noman, A. H., Isa, C. I., Mia, A., & Gee, C. S. (2021), "Impact of activity restrictions on risk-taking of banks: does competition matter during the crisis?," *Journal of Financial Regulation and Compliance* XXIX (1):79-103, 10.1108
- Raza, S. A., Jawaid, ST, & Shafqat, J. (2013). "Profitability of the Banking Sector of Pakistan: Panel Evidence from Bank-Specific, Industry-Specific and Macroeconomic Determinants." *Munich Personal RePEc Archive*

- Salvatore, D. (2005), *Managerial Economics Book 2*. Jakarta: Salemba Empat.
- Saraswata, A. D. A., Sadelib, & Mulyantoc, I. H., (2018), "The Effect of Non-Performing Loans and Loan To Deposit Ratios Through Profitability on Firm Value," *Journal of Business Administration (JABis)*, XVI (2), 1836-2277.
- Septiyuliana, M. (2016), "The effect of intellectual capital and intellectual capital disclosure on the value of companies conducting initial public offerings." 18 National Accounting Symposium, University of North Sumatra. Medan 16-19.
- Siamat, D. (2005), *Management of Financial Institutions. Monetary Policy and Banking*, Jakarta: Faculty of Economics, University of Indonesia, first edition.
- Santana, Hendra. I. P., & Sri. A. L. G. (2019), "Effect of profitability, capital structure, firm size and dividend policy on firm value," *E-Jurnal Manajemen Unud*, VIII (2), 2302-8912. Downloaded November 25, 2021, <https://doi.org/10.24843/EJMUNUD.2019.v8.i2.p7>
- Sugiyanto. (2019), "The Influence of Profitability Liquidity and Good Corporate Governance on Firm value (Case Study on Banking Service Companies Listed on the Indonesia Stock Exchange in 2014-2019)," *Proceedings of the 2019 Humanist National Seminar*.
- Suharli, Michel & Megawati. O. (2005), "Predicting the Return on Investment in Equity Securities through Profitability, Liquidity and Debt Ratios in Public Companies in Jakarta." *SNA* 8.
- Suranto, V. A. H. M. (2017), "Analysis of the Effect of Capital Structure and Financial Performance on Firm Value in Banking Companies on the Indonesia Stock Exchange," *EMBA Journal*. V(2).
- Suyinto, B. Y., & Djawoto, (2017), "The Influence of NPL and LDR through Profitability as Intervening Variables on Firm Value," *Journal of Management Science and Research*, VI (2), 2461-0593.
- Triandaru, S. (2006), *Banks and Other Financial Institutions*, Salemba Empat: Jakarta.
- Tull, M. (2009), *Risk-taking on the web*. Downloaded 02 December 2020 [HTTP://PTSD.about.com/od/glossary/g/risktaking.htm](http://PTSD.about.com/od/glossary/g/risktaking.htm)
- Yuwonoputro, D. A., & Syaichu, M. (2019). Indonesian banks risk-taking: The effect of liquidity risk, capital buffer, and BOPO: Z-score measure approach. *Diponegoro Journal of Management*, 8(3), 149–160.