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The Effect of Liquidity, Solvency and Activities on Profitability in Saving and Loan Cooperatives (SLC) in Klungkung Regency, Bali, Indonesia

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ABSTRACT

Profitability is a measure of the company's ability to earn profits related to sales, total assets, and own capital. The purpose of this research is to determine the effect of Liquidity, Solvency and Activity on Profitability. This research was conducted at the Savings and Loans Cooperative in Klungkung District for the period 2015-2019. The study used secondary data with data collection methods using non-participant observation methods. The research sample amounted to 9 SLC with purposive sampling. The analysis technique used is multiple linear regression. The results show that partially Liquidity has no significant effect on profitability, Solvency has a significant negative effect on profitability.

Keywords: Activity, Liquidity, Profitability, Savings and Loan Cooperatives, Solvency.

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I. Introduction

Every company, whether engaged in service, trading, or manufacturing businesses, always strives so that the company can operate sustainably and develop. This can be realized if the company in its operations earns a profit on an ongoing basis. The company's financial gain and benefit are not as they were a marker of the company's capacity to fulfill commitments for investors, it is additionally a component within the creation of company value that appears the company's prospects within the future. The benefit is additionally often compared with other money related conditions, such as deals, resources, and equity, this comparison is frequently called productivity. Benefit could be a company's capacity to win a benefit or may be estimation of the viability of the company's administration in overseeing its administration. Benefit may be a measure of the company's capacity to gain benefits around deals, add up to resources, and claim capital. One of the ratios that can be utilized to degree productivity is Return on Resources (ROA), which measures the capacity to create benefits from the entire resources utilized or it can be said as a proportion that appears the comes about (return) on the entire resources utilized. Each company endeavors for the esteem of its ROA to be tall. The more noteworthy the esteem of the ROA it implies that the company is superior. The profit obtained by a company will increase or decrease every year, this can occur due to several factors, one of which is internal factors. The company's internal factors such as the management of financial liquidity ratios, solvency, and activities that include working capital components consisting of cash and receivables are still not effective and optimal in their management (Kasmir, 2018).

Liquidity appears as the capacity of a company to meet budgetary commitments when charged. A company is said to be fluid on the off chance that it has the capacity to meet its short-term commitments and in the event that it isn't able to be called illiquid. The higher the level of liquidity, the superior the company's position within the eyes of leasers, since there's a tall likelihood that the company will pay its commitments on time. Liquidity is a pointer of the company's capacity to pay all short-term money related commitments at development utilizing accessible current resources. Liquidity is considered to influence in increasing the company's profitability because liquidity has the ability to determine to what extent the company is paying off its short-term obligations. If the company has an obligation that must be paid immediately, then the company must provide assets that can easily be used to pay it (Kasmir, 2018).

Liquidity has several ratios, but in this ponder the Current Proportion may be a proxy for measuring liquidity. The current proportion may be a proportion that measures the company's capacity to pay short-term commitments or obligations that are due quickly when charged as an entire. In other words, how much current resources are accessible to cover short-term commitments that are due before long. The current proportion can too be said as a frame to degree the level of security (edge of safety) of a company. Calculation of the current proportion is done by comparing the whole current resources with add up to current liabilities (Kasmir, 2018).

Previous research stated that liquidity has a positive and significant effect on profitability (Madushanka & Jathurika, 2018), (Sattar, 2020), (Janjua, 2016), (Hakim & Sugianto, 2018), (Lay & Wiksuana, 2018), (Jeyalakshmi & Madhusudhanan, 2019), (Raymond, 2017). On the other hand, liquidity has a negative and significant effect on profitability (Sukmayanti & Triaryani, 2019). However, liquidity does not have a significant effect on profitability (Ron *et al*., 2018; Rizki, 2019).

Another internal factor that can affect profitability is solvency. Solvency is used to see how much the company is financed by debt. This implies how much obligation burden is borne by the company compared to its resources. In a wide sense, it is said that dissolvability is utilized to degree the company's capacity to pay all its commitments, both brief term and long term in the event that the company is broken down (exchanged). In this ponder, the proportion utilized to degree the dissolvability proportion is the Overall Obligation to Add up to Resource Proportion (DAR), since this proportion can be utilized to a degree how much the company's capacity to pay all its commitments with all its resources. Add up to Obligation to Add up to Resource Proportion is one of the proportions to degree dissolvability where this proportion is used to degree the company's capacity to outlive over a long period of time. Add up to Obligation to Add up to Resource Proportion is the proportion of add up to liabilities to resources. The higher this proportion implies the more prominent the sum of credit capital utilized for a venture in resources in arrange to create benefits, since the credit dispersed to the community will be more noteworthy so that the capacity to produce benefits from the agreeable is higher (Kasmir, 2018).

Previous research stated that solvency has a positive and significant effect on profitability (Hartono, 2017). On the other hand, solvency has a negative and significant effect on profitability (Irman & Purwati, 2020). However, solvency is stated to have no significant effect on profitability (Mutjjahida, 2016).

While activities are used to measure the effectiveness of the company in using its assets or it can be said that this ratio is used to measure the level of efficiency (effectiveness) of utilizing company resources (Kasmir, 2018). When a company is more efficient with its resources, then the company will tend to be a profitable company or a company that has high profitability. Activities are used to measure the level of efficiency of cooperative resources. From the measurement results with this activity, it will be seen whether cooperatives are more efficient in managing their assets.

Operating profit is the result of profit obtained from the company's activities. The level of effectiveness of top management in carrying out operational activities can be measured using several proxies from activities. Activity is often also called the turnover ratio, in general, the higher the turnover means the more effective the level of use of the company's assets. The proxy used in this study is Receivable Turnover or receivables turnover because the dominating activity of the company's business activities (in this study, savings, and loan cooperatives) is a credit distribution business that creates receivables for the company. Receivable Turnover is a ratio used to measure how long it takes to collect receivables for a period or how many times the funds embedded in these receivables rotate in one period (Kasmir, 2018). Previous research has stated that activity has a significant effect on profitability (Sathyamoorthi et al., 2016). On the other hand, activity has a negative and significant effect (Bayu Okiawan, 2018). However, activities are said to have no significant effect on profitability (Bulin *et al.*, 2016).

This research will be conducted at the Savings and Loans Cooperative (SLC) in Klungkung Regency. Klungkung Regency was chosen because at the beginning of 2020 as many as 33 Savings and Loans Cooperatives (SLC) in Klungkung were found to be unfavorable or problematic. One of the contributing factors is the lack of good financial performance, especially in profitability, this can be seen in the following table:

TABLE I: PROFITABILITY OF SLC KLUNGKUNG 2015-2019

Year	Profitability
2015	6.2%
2016	3.1%
2017	3.8%
2018	4.4%
2019	4.2%

Source: Data processed, 2020.

In Table I, the profitability of SLC in Klungkung Regency decreased in 2016 by 3.1% and then increased the following year, but in 2019 profitability again decreased by 0.2% from the previous year. Starting April 2020, almost all cooperatives in Klungkung experienced a decline in profits, especially the Savings and Loans Cooperative. Savings and Loan Cooperative income decreased significantly so it affects operational costs. In order to remain operational, these cooperatives have been proposed to receive assistance for operational costs. A savings and loan cooperative (SLC) is a non-bank financial institution in the form of a cooperative with the business activity of accepting deposits and providing loans to its members at the lowest possible interest rate. Savings and Loans Cooperatives (SLC) have a role in encouraging public awareness in saving activities and are institutions that play a role in providing loans to members who need loans.

II. LITERATURE REVIEW

Liquidity appears the company's capacity to pay short-term commitments (or current obligation) at development utilizing current resources. Companies that have a tall level of liquidity maintain a strategic distance from the hazard of disappointment to pay off their short-term commitments. Liquidity is considered to have an impact in expanding the company's benefit. since liquidity has the capacity to know to what degree the company is paying off its short-term commitments. If the company is able to pay off its short-term obligations and is said to be liquid, the members will trust to keep their funds in the cooperative and this can increase the cooperative's profit because the cooperative has enough funds to lend to members who need it and earn profits from these activities. Liquidity Ratio has a positive influence and is significantly related to company profitability(Madushanka & Jathurika, 2018).

H1: Liquidity has a positive effect on profitability.

In this ponder dissolvability is measured utilizing the Obligation to Resources Proportion, this proportion is the proportion utilized to decide the company's capacity to meet

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its short-term and long-term commitments in case the company is exchanged. This proportion is utilized to see how much the company is financed by obligation. Increasing this ratio means that people's trust in saving in cooperatives is higher so that the funds that can be channeled to the community in the form of credit are also higher. This means that interest income (profit) increases so that profitability increases. Solvency had a positive and significant effect on profitability (Soares & Yunanto, 2018).

H2: Solvency has a positive effect on profitability.

This activity can be used as an indicator of the company's performance that explains the extent of the company's efficiency and effectiveness. The higher the activity, the more efficient the use of assets and the faster the return of funds to cash. The effectiveness and efficiency of the company can be seen from several company activities, among others, by looking at the company's receivables turnover. The higher the receivables turnover, the more profits received by the cooperative and this can increase profitability. The activity ratio measured by accounts receivable turnover has a positive and significant effect on profitability (Tiong, 2017).

H3: Activity has a positive effect on profitability.

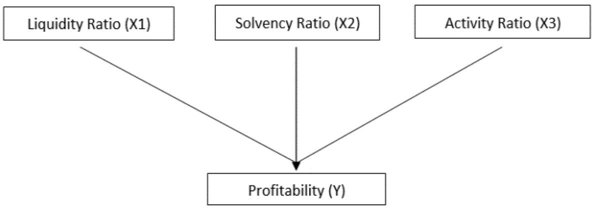

Fig. 1. Conceptual Framework.

III. Methodology

The research method used in this study is a quantitative research method with a causal associative research approach. This research was conducted at the Savings and Loans Cooperative in Klungkung Regency by taking secondary data, namely financial statements for the 2015-2019 period. The population of this study are all Savings and Loans Cooperatives (SLC) in Klungkung Regency, amounting to 52 SLC. The sampling technique used in this research is using purposive sampling method.

TABLE II: Selection of SLC Samples

Sample Criteria	
SLC in Klungkung Regency	52
Has an inactive status	4
Established less than 5 years	24
Not reporting to the Klungkung	12
Regency Cooperatives and Trade Office	3
Refusing to be used as a research site	9

Source: Data processed, 2020.

Based on Table II, there are 9 SLCs that meet the criteria to be used as research sites, with a total sample of 45 data. The data collection method used in this study was non-participant observation. The data used in this study are current liabilities, current assets, total debt, total assets, receivables and annual credit sales from the Savings and Loans Cooperative (SLC) in Klungkung District for the 2015-2019 period.

IV. Results

From the results of the R2 test, the adjusted R^2 value is 0.183 or 18.3%. This shows that profitability can be explained by 18.3% by the independent variables, namely liquidity, solvency and activity. Meanwhile, 82.7% of the variation in profitability is explained by variables outside the independent variables of this study.

TABLE I: Multiple Linear Regression Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.089	0.030		2.985	0.005
	LIQUIDITY	-0.014	0.012	-0.254	-1.125	0.267
	SOLVENCY	-0.051	0.025	-0.519	-2.042	0.048
	ACTIVITY	0.000	0.003	-0.024	-0.100	0.921
	(Constant)	0.089	0.030		2.985	0.005
Adjusted R Square: 0.183						

A. *Effect of Liquidity on Profitability*

From the results of tests carried out with the SPSS application, the value of Sig. of the Liquidity variable is equal to 0.267 = 0.05 and the value of the Liquidity variable is negative. These results mean that the liquidity variable has no effect on profitability, it is concluded that the first hypothesis (H1) is rejected. The results of the test show that it is proven that liquidity has no effect on profitability, whereas in this study the ROA proxy is used. Liquidity is used to measure the adequacy of capital owned by SLC to cover risks that may occur. The relationship between the influence of liquidity on profitability in this study shows that the capital adequacy owned by SLC has no effect on the value of profitability or cannot increase or decrease the income or profits obtained by SLC.

The more prominent the current proportion, the more noteworthy the company's capacity to meet its short-term commitments. This appears that the company has set a huge sum of stores on the current resource side. Arrangement of reserves that are as well huge on the resource side has two exceptionally distinctive impacts. On the one hand, the company's liquidity is getting superior and on the other hand, the benefit isn't influenced. A high Current Ratio can be caused by uncollectible receivables, which of course cannot generate cash so that it will hinder cooperative activities aimed at increasing profits, so it is not certain that the profits owned by cooperatives will increase. Liquidity has no effect on profitability(Suprihati & Gita Wahyu, 2018).

B. *The Effect of Solvency on Profitability*

The solvency variable in the test results has a value of Sig. equal to 0.048 < = 0.05 and the value of the solvency variable has a negative value. This means that there is an effect of solvency on profitability, but the effect is negative. From the test results, it can be concluded that the third hypothesis (H2) is rejected. The results of testing the data show that the solvency variable has a significant negative effect on ROA which is a proxy for profitability. Solvency is the company's ability to fulfill all its obligations, both short-term and long-term if the company is liquidated. The proxy used is the DAR ratio, where this ratio is used to see how much the company is financed by debt. The effect of solvency on profitability in this study indicates that if SLC's ability to meet long-term and short-term obligations increases, it means that the income and profits obtained by SLC will increase. decreased, this is because the income or profit earned by SLC is used to meet the long-term and short-term obligations of SLC. The increasing DAR ratio (where the debt burden is also getting bigger) then it has an impact on the profitability obtained by the company because some of it is used to pay loan interest. The higher interest costs are, the lower is the profitability because some of it is used to pay the interest. Solvency has a significant negative effect on profitability (Irman & Purwati, 2020).

C. The Effect of Activity on Profitability

The value of Sig. of the activity variable is 0.921 = 0.05 and the value of the activity is positive. These results mean that the activity variable has no effect on profitability, it is concluded that the third hypothesis (H3) is rejected. The results of the test show that it is proven that the activity has no effect on profitability. Activities are used to measure the effectiveness of the company by using its assets or it can also be said as a measuring tool for the level of efficiency (effectiveness) of using SLC resources, with the Receivable Turnover proxy. The relationship of the influence of activities on profitability in this study shows that the receivable turnover that occurs does not have an effect on the profitability value or cannot increase or decrease the income or profits obtained by SLC.

SLC's receivables turnover is too low. The low accounts receivable turnover resulted in the receivables turnover not having a major influence on profitability. Receivable payment terms are also one of the factors because if the payment is soft it will result in the number of receivables getting bigger but the receivables turnover getting lower, this is what causes the receivables turnover to have no significant effect on the profitability of SLC because, there are other activities that can increase the profitability of the cooperative services, such as buying and selling goods, both in cash and on credit, activity has no effect on profitability (Bulin *et al*., 2016).

D. Research Limitations

This research has been proposed and carried out according to scientific procedures. However, there are still limitations in this study, including the number of are limited and this study cannot be generalized

V. Conclusion

The liquidity value should not be too high so that there will not be a lot of funds that settle so that it does not bring in income. Short-term debt should not be too high in order to reduce income because a lot of funds are allocated to meet short-term obligations. Re-increase the existing receivables turnover because low receivables turnover will not affect revenue. As people who are authorized and obligated to manage SLC, they should be more careful in allocating the funds obtained so that the income or profits obtained are not spent to fulfill long-term obligations and short-term obligations which can result in a decrease in profitability. Funding decisions made by SLC must be right so that the company's goals can be achieved in accordance with expectations.

VI. Future Research

This ponder limits perceptions to five a long time, to be specific from 2015-2019, so it still should be tried for legitimacy for the coming a long time and is anticipated to incorporate outside components from the company and extend encourage investigate utilizing diverse monetary proportions with diverse inquire about objects.

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