Factors Affecting Profitability of Multi-finance Company in Indonesia

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Abstract

The aim of this study is to examine the profitability behavior of multi-finance specific and macroeconomic determinants, using an unbalanced panel data set of multi-finance company in Indonesia over the period 2005-2007. The key result suggests that, the effect of ownership of financial assets doesn’t significantly affect multi-finance performances. This result indicates that multi-finance face difficult situation to generate profit from the credit given. The result also suggests that all macroeconomic determinants affect multi-finance profitability, with more concern on inflation that have negative significant.

Key words: multi-finance profitability, macroeconomic indicators, panel data, Indonesia

INTRODUCTION

Multi-finance industry as one of the intermediary institutions has an important role in the movement pattern of capital flows in the economy in Indonesia. Initially, this sector is known as server to lease heavy equipment, this is for the companies who cannot afford to buy it. At the end of the 1980s, when the economy began to rise, the company moved to a variety of financing a new segment, including expand to rent, factoring, consumer financing (consumer financing), and credit card issuance. In 1988, the government issued Presidential Decree No.61 of the Republic of Indonesia 1988 about the financing institution.

Multi-finance industry is expected to become alternative solutions in the provision of consumption credit for the community and the national businessman. This is due to the occurrence of economic crisis since the 1997-1998 periods make a big change in the economy, especially in the

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national banking industry. Credit growth is still slow after the bank experienced a very sharp decline at the beginning of the crisis, is one of the factors that cause the economic recovery is running more slowly compared with other Asian countries affected by crisis. Although the current macroeconomic, especially monetary conditions have been relatively better than at the time of crisis, the amount of credit that banks have not been distributed enough to be in the lubricant to encourage economic growth to return to the level before the crisis. Therefore, financing company contribution is expected to move the wheel of national economy.

In analyzing the influence of factors that have any influence on the profitability of multi-finance company, we can use the previous studies conducted in the banking industry. This is because banks and multi-finance companies are financial institutions that have the characteristics and functions that are relatively the same. The difference is the multi-finance company, in accordance with the Regulations the Minister of Finance Tax 84/PMK.12/2006 chapter 2, is not allowed to withdraw funds directly from the community and business activities can only be set to run four types of lease financing to businesses, factoring, financing consumers, and credit cards.

LITERATURE REVIEW

Profitability is closely related to the ability of companies to gain benefit. This research is using that variable is represented in the profitability of two alternative performance measure that is Return on Assets (ROA) and Return on Equity (ROE) as a measure used to reflect the profitability of a multi-finance companies. ROA measures the profit earned from each of the currencies of assets that reflect how well the management using the real source of investment for a profit (Ben Naceur-Goaied, 2005). ROA is a ratio which is often used in analyzing the profitability of a financial institution. As a key indicator in the company's profitability, ROA is defined as the results of before-tax profits (BTP) by total assets (TA) and can be divided into four constituents using the accounting identity:

\[
\text{Profitability} = \text{ROA} = \frac{\text{BTP}}{\text{TA}} = \frac{\text{NI}}{\text{TA}} + \frac{\text{NII}}{\text{TA}} - \frac{\text{OV}}{\text{TA}} - \frac{\text{LLP}}{\text{TA}}
\]

Where NI is net interest income, NII is non-interest income, OV is non-interest overhead expenses and LLP is loan loss provisioning. Athanasoglou et al. (2006) describes the ROA as a reflection of the
ability of management to generate profit from the assets held, although sometimes be biased due to the existence of off-balance-sheet activities. This is in accordance with its own nature a multi-finance companies in the operational activities is influenced by the quality of credit portfolio of assets held and also the differences between the multi-finance with other companies. Credit portfolio is the main source of income multi-finance companies; therefore the analysis needs to be done with the realization of the estimates take into account the risk of bad debts that likely occurred.

The factors that determine the profitability of multi-finance that come from internal company reports are usually reflected in the financial report, a report on the balance sheet and profit and loss report, which, in principle, these factors can be controlled by a management company, among others, liquidity risk, operating cost management, credit risk management, capital, and the size of multi-finance.

While, the factors that determine the profitability of multi-finance coming from the external environment is a variable beyond the control of the internal management of multi-financial but also affects the ability of companies to gain profit. Macroeconomic variables, including external factors that can affect the performance of multi-finance company that includes factors outside the control of companies such as economic conditions that occurred in a country. Factors that vary significantly from one condition to other condition and can not be controlled directly by individual shareholders and a series of managerial decision-making activities of the company. Ogunlaye (2001:57) them as "external or uncontrollable factors that influence bank performance." The variables that are often used in research the profitability of companies is the level of inflation, interest rates, money supply, and the exchange rate against foreign currencies.

Hypothetical in this research is to test whether there is a relationship between the independent variables, namely multi-finance specific determinant (liquidity risk, operation expenses management, credit risk, capital, and company size) and macroeconomic (inflation, interest rates, money supply (M1), and exchange rate of the Indonesian Rupiah against the U.S. Dollar), with the dependent variable multi-finance profitability (ROA and ROE).
The profitability of multi-finance measured by ROA and ROE is net income was measured with the formula:

\[
\text{Before Tax Profit} = \text{Net Interest Income} + \text{Non-Interest Income} - \text{Non-Interest Overhead expenses} - \text{Loan Loss Provisioning}
\]

The result is then divided by the total assets and total equity, thus obtained:

\[
\text{ROA} = \frac{\text{BTP}}{\text{Total Assets}} \quad \text{ROE} = \frac{\text{BTP}}{\text{Total Equity}}
\]

**Liquidity Risk**

Higher liquidity risk may indicate better company performance because it will increase interest income. However, the ratio that too high can also reduce liquidity and increase the number of borrowers who have marginal default (Fu and Heffernan, 2008).

**H1: The risk of liquidity has a positive effect on the profitability of multi-finance.**

Variable liquidity risk measurement is done by assessing the percentage of assets comprised of loan portfolio so that \(\text{NLA} = \frac{\text{Net Loan}}{\text{Total Assets}}\).

**Operating Expenses Management**

Ratio of operating expenses to total assets, used to provide information on variations of the system cost the company, is expected will have a negative effect in the profitability of the company because an efficient multi-finance company are expected to operate with a low load operation (Ben Naceur and Goaied, 2005).

**H2: Management operating expenses have a negative effect on the profitability of multi-finance.**

Measurement of operating expenses management variable are carried out by looking at the comparation ratio between operating expenses to total assets of the company so that \(\text{OEA} = \frac{\text{Operating Expenses}}{\text{Total Assets}}\).

**Credit Risk**
Credit risk is calculated to measure the quality of the assets of the company. Theoretically, increased exposure to credit risk normally associated with a decrease in the profitability of the company (Athanasoglou et al., 2006). Thus and therefore there is a negative relationship between the two.

**H3: Credit risk has a negative effect on the profitability of multi-finance.**

Variable credit risk measurement is done by calculating the ratio between the number of elimination receivable credit given to the customer with the total assets so that the company LLP = \( \frac{\text{Loan Loss Provision}}{\text{Total Assets}} \).

**Capital**

Naceur and Goaied (2005) in their research, prove that there is a positive relationship between capital and significant with the profitability of bank. This is because the capital adequacy ratio is high; the need for external funding will be reduced so that the profitability will be higher.

**H4: Capital has a positive effect on the profitability of multi-finance.**

Measurement of capital variable is done by using the capital adequacy ratio is measured using the ratio between the amount of equity compared to total company assets, so that \( \text{CAP} = \frac{\text{Equity}}{\text{Total Assets}} \).

**Company Size**

One of the important questions in the policies of financial institutions about how big the size of the company to optimize profitability of the company. Athanasoglou et al. (2006) describes that the effects of the size of the company that developed had a positive impact on the profitability of the company. However when a company becomes very large, the effect of the large companies can become negative because of bureaucratic problems or other problems.

**H5: Company Size have a positive influence on the profitability of multi-finance.**

Measuring company size variables is done using the company's total asset value of the company, and for the similarity of the data assessed by using the natural logarithm so that the total assets \( \text{LOGTA} = \).
In (Total Assets).

**Inflation Rate**

The relationship between inflation and the performance of banks depends on whether inflation is anticipated or not anticipated. (Perry, 1992). In the first case (anticipated inflation) the bank can adjust the interest rate on time, which means that incomes lead to increased faster than costs, thereby providing a positive influence on profitability. In both cases (unanticipated inflation) less bank tribe quickly adjust the interest rates increase the cost so that the bank faster than the income the bank. This will cause negative influence in the profitability of banks. Demirgüç-Kunt and Huizinga (2001) states that inflation has a positive effect on bank profitability. Most of the studies (Bourke, 1989; Molyneux and Thornton, 1992) found that there is a positive relationship between inflation and bank performance.

**H6: The level of inflation has a positive effect on the profitability of multi-finance.**

Measurement variables were conducted using monthly inflation data obtained from the website of Bank Indonesia.

**Interest Rate**

The increase of the SBI interest rates will affect the interest rate deposits and bank loans. The increase in interest rates will also cause the SBI interest rates in the inter-bank money market increases. Such a situation will cause the banks managing the composition of funding and re-financing. From the multi-finance point of view, this will be very influential in terms of funding because the funding source most of the loans came from banks, it will cause the interest rate charged to consumers will increase, therefore the expected coefficient is positive. Demirguc and Huizinga (1998) show the positive relationship between interest rates with the profitability of banks.

**H7: The interest rate has a positive effect on the profitability of multi-finance.**

Measuring this variable is done by using the interest rate SBI 1 month obtained from the website of
Bank Indonesia. Value that is used is the average interest rate period of the month.

**Money Supply**

Higher money supply lead to increased ability of banks to provide credit to the communities, including multi-finance also increased. This means that the multi-finance has the ability to channel more credit financing, which means the profitability of the company also increased. Barajas et al. (1999) shows that the growth of money circulating to give a positive result on the profitability of banks.  

**H8: Money Supply has a positive effect on the profitability of multi-finance.**

Measurement variable amount of money supply is done by using data on the number of outstanding monthly money earned from the International Financial Statistics (IFS) issued by the IMF; the data is then converted into natural logarithm form to obtain the similarity of the data with other variables.

**Exchange Rate Level**

Exchange rates will affect the performance of multi-finance companies because of their funding and get back in the form of dollar or foreign currency so that the income received is also dependent on the fluctuation of exchange rates is going on. Therefore, the risk of exchange rate plays an important part of the company's profit generated. Abreu and Mendes (2002) include a variable exchange rate to see the influence of exchange rate policy conducted by the bank.

**H9: The level of the exchange rate has a positive effect on the profitability of multi-finance.**

Variable exchange rate measurements made using the exchange rate of currencies against the Dollar Indonesian Rupiah United States obtained from International Financial Statistics (IFS) issued by the IMF. Exchange rate used is the monthly average, which was then converted into natural logarithm form.

**RESEARCH METHODOLOGY**
Unit of analysis used in this research is the individual company unit. This is because the data used in this research is the micro-level data in the company, the elements in the financial reports of the multi-finance companies with the use of secondary data such as financial reports a multi-finance companies that were obtained from the Board of Supervisors Capital Markets - Financial Institutions. In addition, other data used are the data as macroeconomic variables following the interest rate SBI 1 month and monthly inflation obtained from the website of Bank Indonesia, while data Indonesian rupiah exchange rate against U.S. dollar and the amount of circulating money (M1) data obtained from the International Financial Statistics (IFS) issued by the IMF.

Population of this research is all that there is a financing company in Indonesia and is registered with the Ministry of Finance of the Republic of Indonesia. Of the population, to represent a population of multi-finance available in Indonesia, this research uses a sample of the selected criteria is based on the availability of data so that random sampling. Based on this, the number of multi-finance companies that are examined is 153 companies. So the total data sample used in this research is the 2097 observation. The period of the sample data is taken time from November 2005 until December 2007, where observation data is done on a monthly basis.

Research Variables and Operationalization

The research variables used in this research and the operational definitions described in Table 1.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Operational Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent</td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>Return on Asset measured with (Net Income/Total Assets)</td>
</tr>
<tr>
<td>ROE</td>
<td>Return on Equity measured with (Net Income/Total Equity)</td>
</tr>
<tr>
<td>Independent</td>
<td></td>
</tr>
<tr>
<td><strong>Multi-finance Specific</strong></td>
<td></td>
</tr>
<tr>
<td>---------------------------</td>
<td></td>
</tr>
<tr>
<td><strong>NLA</strong></td>
<td>Liquidity risk is the percentage of the asset portfolio consists of loans (Net loans / total assets)</td>
</tr>
<tr>
<td><strong>OEA</strong></td>
<td>Overhead efficiency ratio is measured using the ratio of operating expenses to total assets (Operating Expenses/Total Assets)</td>
</tr>
<tr>
<td><strong>LLP</strong></td>
<td>Credit risk is measured by the ratio (loan loss Provision / total assets)</td>
</tr>
<tr>
<td><strong>CAP</strong></td>
<td>Capital or capital adequacy ratio to measure the impact of financial leverage measured by the ratio (Equity / total assets)</td>
</tr>
<tr>
<td><strong>LOGTA</strong></td>
<td>Company size measured by total assets, natural logarithm multi-finance (ln Total Assets)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Makroekonomi</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INF</strong></td>
</tr>
<tr>
<td><strong>INT</strong></td>
</tr>
<tr>
<td><strong>M1</strong></td>
</tr>
<tr>
<td><strong>EXR</strong></td>
</tr>
</tbody>
</table>
United States Dollar (USD).

Research method used was the analysis of panel data, the model used to determine the profitability of multi-finance with multi-finance specific determinant and macroeconomic determinant as independent variable, while the ROA and ROE as the dependent variable. Research model used is described as follows:

\[
\begin{align*}
\text{ROA} &= \beta_0 + \beta_1 \text{NLA} + \beta_2 \text{OEA} + \beta_3 \text{LLP} + \beta_4 \text{CAP} + \beta_5 \text{LOGTA} + \beta_6 \text{INF} + \beta_7 \text{INT} \\
&\quad + \beta_8 \text{M1} + \beta_9 \text{EXR} + \epsilon_i \\
\text{ROE} &= \beta_0 + \beta_1 \text{NLA} + \beta_2 \text{OEA} + \beta_3 \text{LLP} + \beta_4 \text{CAP} + \beta_5 \text{LOGTA} + \beta_6 \text{INF} + \beta_7 \text{INT} \\
&\quad + \beta_8 \text{M1} + \beta_9 \text{EXR} + \epsilon_i
\end{align*}
\]

Quantitative methods to be used in this research are a causal dynamic econometric analysis method applying the square smallest (least squares) in the fixed effects model (Fixed effect) or a random effects model (Random effect). After that, and then conducted a series of test statistics using the Chow Test and Hausmann Test to obtain the optimal model to describe the results of this research.

DATA ANALYSIS

This research use data sample of 153 multi-finance companies in Indonesia which are available in the Bapepam-LK, which means that as many as 75% of the total multi-finance companies listed in the Bapepam-LK, in the period of observation period November 2005 until December 2007. Unit of time used in this research is the unit monthly. The descriptive statistics of the variables used in this research described below in Table 2.

**Table 2. Variable Descriptive Statistics**
<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Std. Deviasi</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent Variable</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>-0.092</td>
<td>-245.887</td>
<td>0.507</td>
<td>4.660381</td>
</tr>
<tr>
<td>ROE</td>
<td>-23.935</td>
<td>-62234.24</td>
<td>85.746</td>
<td>1173.797</td>
</tr>
<tr>
<td><strong>Independent Variable</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NLA</td>
<td>0.716</td>
<td>0.00086</td>
<td>0.997</td>
<td>0.22866</td>
</tr>
<tr>
<td>OEA</td>
<td>0.184</td>
<td>0</td>
<td>245.891</td>
<td>4.634293</td>
</tr>
<tr>
<td>LLP</td>
<td>0.018</td>
<td>0</td>
<td>2.080</td>
<td>0.073812</td>
</tr>
<tr>
<td>CAP</td>
<td>0.029</td>
<td>-636.149</td>
<td>1</td>
<td>12.14641</td>
</tr>
<tr>
<td>LOGTA</td>
<td>18.518</td>
<td>10.312</td>
<td>23.520</td>
<td>1.78521</td>
</tr>
<tr>
<td>INF</td>
<td>11.511</td>
<td>5.27</td>
<td>18.38</td>
<td>5.015423</td>
</tr>
<tr>
<td>INT</td>
<td>10.963</td>
<td>8.08</td>
<td>12.75</td>
<td>1.658887</td>
</tr>
<tr>
<td>M1</td>
<td>12.668</td>
<td>12.501</td>
<td>13.017</td>
<td>0.139837</td>
</tr>
<tr>
<td>EXR</td>
<td>9.130</td>
<td>9.096</td>
<td>9.217</td>
<td>0.02871</td>
</tr>
</tbody>
</table>

In Table 2 can be seen that the average loan portfolio of the multi-finance companies that have entered the sample reached 71.6%. That is, credit issued a multi-finance companies dominate the total assets held.

After done data processing and testing the panel of research variables, the optimal model of the panel to answer questions of research, namely the profitability of the panel model multi-finance (which is represented by ROE and ROA) is the fixed effect estimation method that results can be seen in full Table 3. The number of samples used is 153 samples, which means that 75% of the total population of multi-finance company in Indonesia provides a description that the results of this research have a stronger ability to be able to describe the condition of multi-finance industry as a whole in Indonesia.
Analysis of Multi-finance Specific Determinant Factors

The first multi-finance specific determinant variable is the liquidity risk (NLA). Both models show the profitability of variable NLA does not have a significant effect on variation of the profit received by the multi-finance company where the coefficient on the model while a negative value ROA, ROE model to give a positive result. This shows that the results were inconsistent with previous research. Naceur and Goaied (2005) and Athanasoglou et al. (2006) describe the same, credit that the company issued is a major source of income, where the greater with the reception given the loan interest rate will result in a positive increase in the profitability of the company.

<table>
<thead>
<tr>
<th>Variabel Independen</th>
<th>Expected Affect</th>
<th>Fixed Effect</th>
<th>Fixed Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>ROA</td>
<td>ROE</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Coefficient</td>
<td>Prob.</td>
</tr>
<tr>
<td>NLA</td>
<td>+</td>
<td>-0.03363</td>
<td>0.15820</td>
</tr>
<tr>
<td>OEA</td>
<td>-</td>
<td>-0.99686*</td>
<td>0.00000</td>
</tr>
<tr>
<td>LLP</td>
<td>-</td>
<td>0.30834*</td>
<td>0.03810</td>
</tr>
<tr>
<td>CAP</td>
<td>+</td>
<td>0.00203</td>
<td>0.14220</td>
</tr>
<tr>
<td>LOGTA</td>
<td>+</td>
<td>-0.01720*</td>
<td>0.00000</td>
</tr>
<tr>
<td>INF</td>
<td>+</td>
<td>-0.00629*</td>
<td>0.00000</td>
</tr>
<tr>
<td>INT</td>
<td>+</td>
<td>0.05226*</td>
<td>0.00000</td>
</tr>
<tr>
<td>M1</td>
<td>+</td>
<td>0.60664*</td>
<td>0.00000</td>
</tr>
<tr>
<td>EXR</td>
<td>+</td>
<td>0.87805*</td>
<td>0.00000</td>
</tr>
</tbody>
</table>
Variable credit risk management (LLP) show a positive relationship and significant. Both models agree that a similar claim, but the results are not consistent with the research Athanasoglou (2005) which states that a negative relationship is significant where credit risk management efforts to maximize the profit the company made with applying risk-averse strategy, mainly through strict screening policy and credit risk monitoring. However, research Fu and Heffernan (2008) provide results consistent with this research; this gives the conclusion which is possible due to the conservative elimination uncollectible receivables policy applied by multi-finance at this time able to improve its performance. Another explanation is multi-finance has a difference in risk attitudes. Therefore, when the risk is higher the multi-finance company can enjoy a greater profit quickly, but at a time should do the elimination to a large loss. Meanwhile, the multi-finance carefully pour credit only the portion of the credit will have a smaller, so that the profit received is also smaller.

Next, capital (CAP) has a positive relationship, but not significant effect on the profitability of multi-finance. The effect this variable is consistent with previous research that states that with a strong capital position of the company will be able to explore more business opportunities more effectively and also have more time and flexibility to overcome problems arising from the unexpected loss, thus increasing its profitability (Athanasoglou, 2005; Naceur and Goaied, 2005; Fu and Heffernan, 2008).

<table>
<thead>
<tr>
<th></th>
<th>153</th>
<th>153</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>19.9499</td>
<td>2.05266</td>
</tr>
<tr>
<td>DW-Stat</td>
<td>0.97763</td>
<td>0.99321</td>
</tr>
<tr>
<td>F-Statistic</td>
<td>722.60340</td>
<td>2417.68300</td>
</tr>
</tbody>
</table>
Multi-finance that has a strong capital will also have the low expected financial distress costs, the low funding costs, and interest margin on assets is higher. All that things will push the ratio towards better profitability. Explanation for the results that are not significant to the profitability of multi-finance is possible since the capital structure of multi-finance in Indonesia is still largely dependent on external borrowing, especially from the banking sector, while the funding with their own capital was less than strong.

Company size (LOGTA) has a negative and significant effect on the profitability of multi-finance. Although this result does not match previous estimates, providing information at this time that the multi-finance companies have not operated efficiently. Possible explanation is that inefficiency occurred because the company negligent in its management of credit risk that caution must do so elimination uncollectible receivables or bad debt is greater (Fu and Heffernan, 2008). This is also consistent with the results of the estimation variables LLP indicates that weaknesses in the management company to manage their assets in the credit.

**Analysis of Macroeconomic as Determinant Factors**

The first macroeconomic determinant variable is inflation. Results of empirical research indicate that the relationship between levels of inflation with the profitability of multi-finance is negative and significant. Both models agree to provide conclusions, but this is not consistent with most previous research which stated that there were positive relationships between them (Athanasoglou, 2005; Naceur and Goaied, 2005; Fu and Heffernan, 2008). The inconsistency results of this research occurred due to the characteristics of multi-finance itself, which have business activities with the activities of consumer society, while the increase in the occurrence of inflation will decline in purchasing power to encourage consumers. This obviously will influence the community so that the demand will be decreasing in the financing of consumption goods. Therefore, it is difficult for multi-finance to expand the business in order to get a new credit financing.

Next is interest rate variable (INT), represented by the average interest rate SBI 1 month.
Results of research indicate that the relationship between interest rate and the profitability of multi-finance is positive and significant. This result is also in line with previous estimates and previous research, which explains that with the occurrence of increased interest rate loan, the interest rate will be increased so that the consumer-finance multi will obtain higher profit (Demirguc and Huizinga, 1998, Jiang et al., 2003)

Money supply (M1) has a positive and significant effect on the profitability of multi-finance. The two models together give the same results and the result of this research is consistent with Barajas et al. (1999). Increasing the amount of money supply will increase bank ability to contribute credit to the community, including the multi-finance. This means that the multi-finance has the ability to channel more credit financing, which means the profitability of the company also increased. The community also has excess liquidity which is a potential opportunity for multi-finance to expand the business.

Last but not least, exchange rate variable (EXR) has a positive coefficient and significant effect on the profitability of multi-finance model. However, interpretation of research results based on the processed data show that the resulting relationship is negative, it is because the positive coefficient indicates that the going exchange rate depreciation against the Indonesian rupiah, which means United States dollar weakening occurs currency exchange rate. This means that the profitability of multi-finance depend on condition of exchange rate which occurs; when the weak condition occur, it will have positive impact on the income received. Abreu and Mendes (2002) states that the effect of the exchange rate depends on the profitability of the exchange rate policy used by the company. Therefore, it can be concluded that multi-finance in Indonesia at this time able to take advantage of weakening the exchange rate condition for the acceptance of a higher, this is very possible because of a dollar depreciation will trigger an increase in the price of consumption goods and the consumer society business.

CONCLUSION

Results of research show that the profitability of the selected model is the fixed effect
estimation methods. This study also explains how the condition and development of multi-finance industry in Indonesia and how the company’s internal conditions and national macroeconomic stability also, influence the multi-finance itself. Characteristics of multi-finance companies can substantially explain the variations in the profitability of the acceptance. High profitability can actually associated with increasing the ratio of liquidity and the size of a large company. However, in this research note that whiles this multi-finance in Indonesia, it has not produced a profit for the company. This indicates the weak management of financial assets held and allegedly also did not do well with the principle of carefully pour in loans to consumers. Other characteristics also indicate that inefficiency of multi-finance performance in Indonesia, with the evident inability of management of multi-finance to manage the burden of operating expenses in a competitive market situation. Another multi-finance specific determinant, credit risk management, provide information that is not prevalent where with the increase of elimination uncollectible receivables give positive effect on the profitability of multi-finance. Once again, it is asserted that there is inadvertence in multi-channel finance credit customers.

This study also found that macroeconomic indicators such as inflation, interest rates, money supply, and the exchange rate have a significant effect on the profitability of multi-finance. This shows the importance of strong macroeconomic stability, to support the multi-finance business in order to provide consumer financing to communities so that a multi-finance establishment purpose will be achieved, encouraging growth in the national economy.

This research include lots of sample multi-finance in Indonesia, but to emphasize and re-provide better results, then the time period should be enlarged so that the influence of determinant variables that influence the profitability of multi-finance can be more effective especially the effect of macroeconomic determinants.

In further research also suggested using a method that is suspected to give a good estimation of the model approach, Generalized Moment Method estimators. The approach can be used as a comparison with the research methods used at present.

The addition of other variables may be added to see the impact on the profitability of multi-
finance is both derived from the internal and external variables which mainly come from the multi-finance industry itself.

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