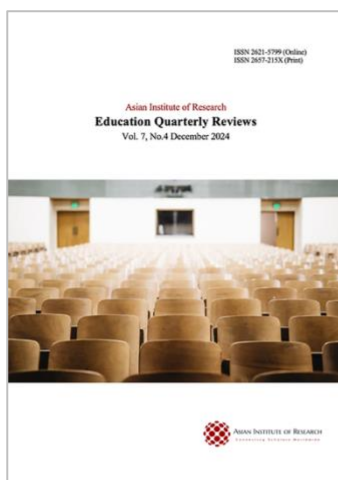

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The Influence of Loan Deposit Ratio, Liquidity Reserve Requirement Ratio, Leverage, and Company Size on Window Dressing: Conventional Commercial Banks Listed on the Indonesia Stock Exchange for the Period 2018-2022

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Abstract
This research aims to determine the effect of Loan Deposit Ratio (LDR), Liquidity Reserve Requirement Ratio (LRRR), Leverage, ROA, and Company Size on Window Dressing. The independent variables in this study are Loan Deposit Ratio (LDR), Liquidity Reserve Requirement Ratio (LRRR), Leverage, ROA, and Company Size. The dependent variable in this study is Window Dressing. This research uses secondary data obtained from annual financial statements and quarterly reports presented by companies through the IDX website. The population in this study consists of 46 conventional commercial banking companies listed on the Indonesia Stock Exchange for the period 2018-2022. The sample determination in this study uses purposive sampling based on specific criteria, resulting in a sample of 40 conventional commercial banking companies. Data analysis techniques are conducted using panel data regression. The independent variables in this study are Loan Deposit Ratio (LDR), Liquidity Reserve Requirement Ratio (LRRR), Leverage, Company Size, and ROA. The results of this study indicate that company size has an effect on Window Dressing. Meanwhile, Loan Deposit Ratio (LDR), Liquidity Reserve Requirement Ratio (LRRR), Leverage, and ROA do not have an effect on Window Dressing.

Keywords: Loan Deposit Ratio (LDR), Liquidity Reserve Requirement Ratio (LRRR), Leverage, ROA, Company Size, Window Dressing

1. Introduction

As time progresses, every company is required to be able to compete with other companies. This competition demands that each company possesses innovations and strategies and develops them so that the company can maintain the continuity of its business (Yori et al., 2022). The banking sector is no different, striving to present good financial reports at the end of the year to attract investors. One of the strategies employed is window dressing.

Window dressing is a method used by management when a company is experiencing financial difficulties (Wiratmaja, 2017).

Window dressing is manifested by stock prices on the exchange tending to rise at the end of the year, particularly in December, with the effects of window dressing marked by a rise in several stocks with an increase of 5-10% in just one trading day. With the phenomenon of window dressing, investors can gain short-term investment profits (Debataraja & Sunarya, 2023). The practice of banking window dressing is a temporary phenomenon; one of the techniques is to increase the balance of customer deposits in the fourth quarter of the ongoing period (upward window dressing) and decrease the balance of customer deposits in the first quarter of the following period (downward window dressing) (Geraldina et al., 2015). The Loan Deposit Ratio (LDR) serves as a measure aimed at determining how much a bank can recycle the sources of funds invested by customers as a form of the bank's obligation (Agustina & Wijaya, 2013). The LDR has been shown to have a significant effect on the upward window dressing of customer deposits, and the same applies to downward window dressing (Geraldina et al., 2015). However, the LDR has been found to have no effect and is not significant in relation to banking window dressing (Livera et al., 2020).

The Liquidity Reserve Requirement Ratio (LRRR) is the minimum requirement for the allocation of third-party funds that banks must hold to meet banking liquidity requirements, and the LRRR variable has been found to have no effect and is not significant in relation to banking window dressing (Livera et al., 2020). Additionally, the LRRR has a negative impact on both upward window dressing and downward window dressing (Geraldina et al., 2015).

Leverage is a tool to assess how a company can manage long-term or short-term debt to finance its assets. This leverage comes from external funding through long-term debt. Long-term interest expenses will reduce the tax burden for the company (Kurniasih, T., & Sari, 2013).

Return on Assets (ROA) is one of the indicators used to determine a company's profitability. ROA is used to measure the efficiency and effectiveness of a company in generating profits by leveraging the assets it possesses. The higher the ROA of a bank, the greater the profit level achieved, and the better the bank's position regarding asset utilization.

Company size is another factor that can influence a company's profit. The larger the company, the more strategies it is likely to employ to sustain its business, one of which is to achieve high profits supported by substantial assets, thereby addressing the company’s challenges.

The increasing practice of window dressing in the banking industry is something that needs attention. Therefore, the author has chosen the title “The Influence of Loan Deposit Ratio, Liquidity Reserve Requirement Ratio, Leverage, and Company Size on Indications of Window Dressing (Conventional General Banking Companies Listed on the Indonesia Stock Exchange for the Period 2018-2022).”

2. Method

The population in this study consists of 46 (forty-six) companies. The author obtained 40 (forty) suitable samples. The sampling method used in this research is purposive sampling. The data source used in this study is secondary data. Secondary data was obtained from the financial statements of conventional commercial banks listed on the Indonesia Stock Exchange for the period 2018 – 2022. The data used in this study is cross-sectional and time series data. Therefore, the data analysis technique employed in this research is panel data regression analysis.

3. Result

Table 1: Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3.89E+14	2.53E+14	-1.535010	0.1268
LDR	-4.67E+13	1.60E+13	-2.912841	0.0041
LRRR	5.07E+12	9.72E+12	0.521646	0.6027
Leverage	-4.92E+12	6.66E+12	-0.739282	0.4609
Size	1.78E+13	8.16E+12	2.188300	0.0301
ROA	1.43E+14	2.02E+14	0.708018	0.4800

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.971813	Mean dependent var	1.26E+14
Adjusted R-squared	0.963811	S.D. dependent var	2.52E+14
S.E. of regression	4.80E+13	Akaike info criterion	66.03745
Sum squared resid	3.57E+29	Schwarz criterion	66.77957
Log likelihood	-6558.745	Hannan-Quinn criter.	66.33778
F-statistic	121.4523	Durbin-Watson stat	0.677930
Prob(F-statistic)	0.000000		

The results of the hypothesis testing in the above research can be described as follows:

1. The significance value of the Loan Deposit Ratio (LDR) variable above is 0.0041 < 0.05. Therefore, it can be concluded that the Loan Deposit Ratio (LDR) has a significant effect on Window Dressing.
2. The significance value of the Liquidity Reserve Requirement Ratio (LRRR) variable above is 0.6027 > 0.05. Therefore, it can be concluded that the Liquidity Reserve Requirement Ratio (LRRR) does not have a significant effect on Window Dressing.
3. The significance value of the Leverage variable above is 0.4609 > 0.05. Therefore, it can be concluded that Leverage does not have a significant effect on Window Dressing.
4. The significance value of the Company Size variable above is 0.0301 < 0.05. Therefore, it can be concluded that Company Size has a significant effect on Window Dressing.
5. The significance value of the Return on Assets (ROA) variable above is 0.4800 > 0.05. Therefore, it can be concluded that the Return on Assets (ROA) variable has a significant effect on Window Dressing.
6. The calculated F-value is 121.4523 with a significance level of 0.0000. Meanwhile, the table F-value at a significance level of 0.05 with numerator degrees of freedom of 3 (k-1 = 4-1) and denominator degrees of freedom of 196 (n-k = 200-4) is found to be 2.65. Therefore, the calculated F-value > table F-value (121.4523 < 2.65). The conclusion reached is that the variables Loan Deposit Ratio, Liquidity Reserve Requirement Ratio, Leverage, Company Size, and Return on Assets collectively (simultaneously) have an effect on the variable Window Dressing.
7. The Adjusted R Square value is 0.9638 or 96.38%. Therefore, the variables studied by the author provide almost all the information needed to predict the variation in the dependent variable Window Dressing by 96.38%, while the remaining 3.62% is influenced or explained by other variables outside this study.

4. Discussion

The research results indicate that the Loan Deposit Ratio does not have a partial effect on window dressing. This is because, according to Bank Indonesia Regulation (PBI), the safe limit for the Loan Deposit Ratio (LDR) in measuring a bank's health is regulated in the provisions of Bank Indonesia Regulation Number 17/8/PBI/2015 concerning Monetary Regulation and Supervision, which sets the minimum Loan Deposit Ratio (LDR) at 78%, while the maximum Loan Deposit Ratio (LDR) is set at 92%. This can limit some companies in distributing their loans.

The research results show that the Liquidity Reserve Requirement Ratio does not have a partial effect on window dressing. This is because the Liquidity Reserve Requirement Ratio (LRRR) must maintain third-party deposits. Based on Bank Indonesia Regulation Number 15/7/PBI/2013 regarding the Second Amendment to Bank Indonesia Regulation Number 12/19/PBI/2010 concerning the Minimum Mandatory Reserves of Commercial Banks at Bank Indonesia in Rupiah and Foreign Currency, 2013, the Minimum Mandatory Reserve (GWM) is the minimum amount that banks must maintain, set by Bank Indonesia at a certain percentage of Third-Party Funds (DPK).

The research results indicate that Leverage does not have a partial effect on window dressing. This is because Leverage is used as borrowed funds to enhance the potential return on investment. Leverage involves financing through debt to purchase assets or fund operations with the hope of generating profits greater than the cost of borrowing. Thus, leverage and window dressing are not related since they have different objectives. Leverage is used for long-term investment strategies by leveraging debt for growth and increased returns, while window dressing is used to enhance short-term financial statements.

The research results indicate that Company Size has a partial effect on window dressing. This is because Company Size can be assessed by the total assets owned by the company. With more assets owned by a company, its financial stability increases, thus reducing the likelihood of bankruptcy.

Based on the hypothesis testing results, the regression coefficient for the Return on Assets (ROA) variable (X2) is 0.078, meaning that if other independent variables remain constant and Return on Assets (ROA) increases by one percent, then Window Dressing (Y) will increase by 0.078. According to the results of the partial hypothesis testing using the t-test, the significance value of the Return on Assets (ROA) variable is greater than the significance level, namely ($0.887 > 0.05$). Therefore, in this case, H2 is rejected, indicating that the Return on Assets (ROA) variable has a positive but not significant effect on Window Dressing.

The findings of this study do not align with the research conducted by Owen and Wu (2011), which states that management compensation sensitivity to ROA and ROE is more likely to engage in window dressing from short-term loans. However, this study shows the same positive value as previous researchers; unfortunately, it cannot demonstrate an effect on window dressing practices in banking companies in Indonesia.

This discrepancy occurs because, first, the previous researchers were from abroad, so banking policies and regulations will be adjusted according to the position of the bank. Second, because bank management in Indonesia faces the challenge of maintaining sufficient cash reserves to meet every withdrawal by depositors, while that cash does not generate income, and interest costs must still be paid (Darmawi, 2018; 66).

Moreover, the reason behind the positive value of Return on Assets (ROA) is due to one of the marketing tricks often employed by banks towards the end of the year, which typically involves offering promotions and discounts on financial service products. According to Roychowdhury (2006), some profit manipulations can include price discounts, selling products with low-interest credit, flexible credit terms, production exceeding market demand, and reductions in discretionary costs made by companies to meet profit targets.

Based on the research results above, the coefficient between Return on Assets and Window Dressing practices is positive and not significant, with a value of $0.887 > 0.05$. Thus, it can be concluded that Return on Assets does not influence Window Dressing practices.

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