International Journal of Economic Research

ISSN : 0972-9380

available at http: www.serialsjournal.com

Volume 14 • Number 6 • 2017

The Effect of Working Capital, Credit Distribution, and Inflation Rate to the Profit of PT. *Pegadaian* (Persero) Branch Tlogomas Malang East Java

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Abstract: This study aims to analyze the effect of working capital, credit distribution, and inflation rate variables to the profit of PT. *Pegadaian* (Persero) branch Tlogomas Malang in 2007 to 2014 partially and simultaneously. The study is conducted in PT. *Pegadaian* (Persero) branch Tlogomas Malang by using the financial report data of PT. *Pegadaian* (Persero) branch Tlogomas Malang in the period of January 2007 to December 2014 as well as the inflation rate in the period of January 2007 to December 2014. The data analysis employed in this study is descriptive, classical assumption test, and multiple linier regression. The research finding suggests that the working capital and the amount of credit distribution positively affect the profit of PT. *Pegadaian* (Persero). It means that the greater the working capital used and the higher the credit is distributed, the bigger the profit obtained by PT. *Pegadaian* (Persero). Nevertheless, the inflation rate negatively affects the profit of PT. *Pegadaian* (Persero). It means that the increasing inflation rate will decrease the profit of PT. *Pegadaian* (Persero) and vice versa.

Keywords: Working Capital, Credit Distribution, Inflation Rate, Profit.

INTRODUCTION

PT. *Pegadaian* (Persero) is a financial institution whose main activity is to distribute credits based on lien law and it aims to obtain optimal profit. Nowadays, PT. *Pegadaian* has been attempting to continuously gain greater profit as their targeted profit of 2.2 trillion rupiahs was not fulfilled in 2013. Even more, in 2015, PT. *Pegadaian* lowered their targeted profit to 1.75 trillion rupiahs hoping that the targeted profit could be met (*www.kontan.co.id*). This reflects that the increasing profit is very important for PT. *Pegadaian* to achieve the targeted profit they have set previously.

The profit gained by PT. *Pegadaian* is affected by three factors, namely the working capital, the credit distribution, and the inflation rate. There are several theories explaining the effect of the working capital, the credit distribution, and the inflation rate to the profit. The theory suggested by Jean Baptiste Say (Skousen, 2016: 63) states that in order to obtain the profit, the capital, knowledge, and labor are needed. Other than the working capital, the amount of credit distribution also affects the profit gained by PT. *Pegadaian*. As it is explained by Lilienfeld-Toal and Mookherjee (Lilienfeld-Toal, 2012), in the credit distribution, the creditor gains profit in the form of credit interest. This theory shows that the credit distribution affects the profit achievement.

According to the theory of Irving Fisher in (Mankiw, 2006: 89), the relationship between the inflation and interest rates is explained by Fisher Equation. This statement is supported by the notion proposed by Kasmir (2006: 38) stating that the determination of the interest rate is affected by some factors, one of them is the desired profit the firm wishes to obtain.

Some studies have been conducted to investigate the effect of the working capital, the credit distribution, and the inflation rate to the profit. From all those studies, a research gap is found. The study by Akinlo and Olufisayo (2011), Qazi, *et al.* (2011), Angahar and Alematu (2014), Nasikh (2017c) and Ambarwati, *et al.* (2015) show that the working capital positively affects the profit obtained by the firm. Nonetheless, the study conducted by Santoso (2013) suggests that the circulation of working capital gives no significant effect to the firm's profitability.

Another research by Borolla (2013), Makaombohe, *et al.* (2014), and Saputra, *et al.* (2014) explain that the amount of credit affects the profit obtained by the firm. However, Hidayat and Fadillah (2011) suggest that the partial credit distributed to Small and Medium Enterprises positively yet insignificantly affects the operational profit. Other than the working capital and the credit distribution, other studies investigating the effect of the inflation rate to the profit are also conducted. The study by Awan (2014) and Kalengkongan (2013) find that the inflation rate affects the profit obtained by the firm. Yet study by Wibowo and Syaicu (2013) and Irwadi (2014) show that the inflation rate gives no effect to the profit.

Some theories above show that the working capital, the credit distribution, and the inflation rate affect the profit obtained by PT. *Pegadaian* (Persero). Nevertheless, in 2013 there was a distinct phenomenon which contradicted the theory. In 2013, PT. *Pegadaian* (Persero) obtained lower profit despite the increasing working capital and credit distribution. This also occurred in PT. *Pegadaian* (Persero) branch Tlogomas Malang.

From the phenomenon and theory above, the researcher is interested in conducting a study about profit in PT. *Pegadaian* (Persero) branch Tlogomas Malang. This study is significant regarding to the fact that there is a gap between the theory and the implication in the real world as well as different research findings in some previous studies. Therefore, this study aims to identify the relationship among the working capital, the credit distribution, and the inflation rate to the profit of PT. *Pegadaian* (Persero) branch Tlogomas Malang. Based on the background of the study, the research question is "Does the working capital affect the profit of PT. *Pegadaian* (Persero) branch Tlogomas Malang in 2007 to 2014?", "Does the amount of credit distribution affect the profit of PT. *Pegadaian* (Persero) branch Tlogomas Malang in 2007 to 2014?", and "Does the inflation rate affect the profit of PT. *Pegadaian* (Persero) branch Tlogomas Malang in 2007 to 2014?".

LITERATURE REVIEW

Working Capital

The working capital is one of the important factors in a firm. According to the theory proposed by Jean Baptiste Say in Skousen (2001: 63; Nasikh, 2017b), in order obtain profit, the capital, knowledge, and labor are needed. As it is stated by Kasmir (2012: 250), the definition of working capital consists of three kinds of working capital concepts, namely quantitative, qualitative, and functional concepts. While according to Case and Fair (2007: 266), "Capital is the product of economic system, and it is as the input to produce other goods and services in the future". According to Munawir (2007: 57), "The Working capital or sometimes it is called gross working capital is "current asset minus current liabilities". The sufficient working capital enables the firm to operate more efficiently because there is no difficulty in obtaining the raw material, services, and the needed supply (Jumingan, 2011: 67; Nasikh, 2016; Nasikh, 2017a).

Credit Distribution

According to the theory proposed by Lilienfeld-Toal and Mookherjee in Lilienfeld-Toal (2012), it is stated that in the credit distribution, the creditor gains profit in the form of credit interest. The purpose of credit distribution according to Kasmir (2012: 88) is to gain profit as well as help the client and the government. Budi Santoso and Triandaru (2011: 214) suggest that the modal owned by *Pegadaian* is occupied for cash and other liquid fund, purchase, fixed asset and inventory procurement, operational activity fund, fund distribution, and other investment. There are some kinds of credit distribution administered by *Pegadaian*, namely *Kredit Cepat Aman* (KCA) or the fast and safe credit, *Kreasi*, and *Krasida*. The rate of capital lease set by *Pegadaian* is presented in Table 1.

Table 1
The Rate of Capital lease of PT *Pegadaian* (Pegadaian)

	Loan		*Capital Lease Rate*		
Type	*Min*	*Max*	*Gold*	*Non-Gold*	*Loan Period (day)*
A	50.000	500.000	0.75% × UP	0.75% × UP	1 s/d 120
B1	500.001	1.000.000	1.150% × UP	1.150% × UP	1 s/d 120
B2	1.000.001	2.500.000	1.150% × UP	1.150% × UP	1 s/d 120
B3	2.500.001	5.000.000	1.150% × UP	1.150% × UP	1 s/d 120
C1	5.000.001	10.000.000	1.150% × UP	1.150% × UP	1 s/d 120
C2	10.000.001	15.000.000	1.150% × UP	1.150% × UP	1 s/d 120
C3	15.000.001	20.000.000	1.150% × UP	1.150% × UP	1 s/d 120
D	20.000.001	1.000.000.000	1.000% × UP	1.150% × UP	1 s/d 120

Data Source: www.*Pegadaian*.co.id

Inflation and Interest Rate

According to the theory proposed by Irving Fisher in Mankiw (2006: 89), the relationship between the inflation and interest rates is explained by Fisher Equation. The formula is presented as follows.

$$i = r = \pi$$

When the creditor and debtor agree on the interest rate, they have no idea about the inflation rate of their agreement. Consequently, they use the desired inflation rate. When the desired inflation rate is lower than the actual inflation rate, the real interest rate obtained by the firm will decrease.

Profit

Soemarso (2005: 230) suggests "Profit is the difference between the incomes over the expenses in the business activity". Nonetheless, according to Tunakotta (2012: 176), gain (profit) is the favorable asset which indirectly relates to the normal business activity. There are three kinds of profits proposed by Kasmir 92008: 302), namely gross profit, operational profit, and net profit.

RESEARCH METHOD

This study uses a descriptive quantitative approach. The population meant in this study is all financial reports of PT. *Pegadaian* (Persero) branch Tlogomas Malang and all inflation rate data of Malang in BPS Malang. The sample taken in this study is the financial report data of PT. *Pegadaian* (Persero) branch Tlogomas Malang in January 2007 to December 2014 as well as the inflation rate data in January 2007 to December 2014. In this study, the instrument used is the documentation.

The data analysis employed in this study is the descriptive, classical assumption test, and multiple linier regression. Before conducting the multiple linier regression analysis, the classical assumption test is done by conducting the normality multi collinear, heteroscedasticity, and autocorrelation tests. The multiple linier regression analysis is scored from the F and T-tests as well as determination coefficient.

RESEARCH FINDING

From Figure 1 it was shown that the profit gained by PT. *Pegadaian* (Persero) branch Tlogomas Malang in 2007 to 2014 has increased despite the decreased profit in 2013. The decreased profit in 2013 was due to the decreased price of gold. This decreased price of gold affected the profit gained by PT. *Pegadaian* (Persero).

Figure 2 reflected the working capital of PT. *Pegadaian* (Persero) branch Tlogomas Malang in 2007 to 2014 which generally increased from time to time. The increased working capital was due to the fact that PT. *Pegadaian* (persero) has been attempting to improve their operational activity to meet their targeted profit. Consequently, the greater working capital was required each year.

Figure 3 showed the amount of credit distribution of PT. *Pegadaian* (Persero) branch Tlogomas Malang in 2007 to 2014 which generally increased. This increasing credit distribution was due to the increasing number of clients who take mortgage loans in PT. *Pegadaian* (Persero). The greater number the clients, the greater amount of credit distributed by PT. *Pegadaian* (Persero).

From Figure 4, it was shown that the inflation rate of Malang in 2007 to 2014 was fluctuated from time to time. This fluctuation occurred due to the increasing and decreasing price of goods and services which was reflected by the increasing and decreasing index of the group of goods and services, including food, beverage, residential, water, electricity, gas, fuel, clothes, health service, education, recreation, sport, transportation, communication, and financial service. From the existing data, the analysis was shown in Table 2 as follows.

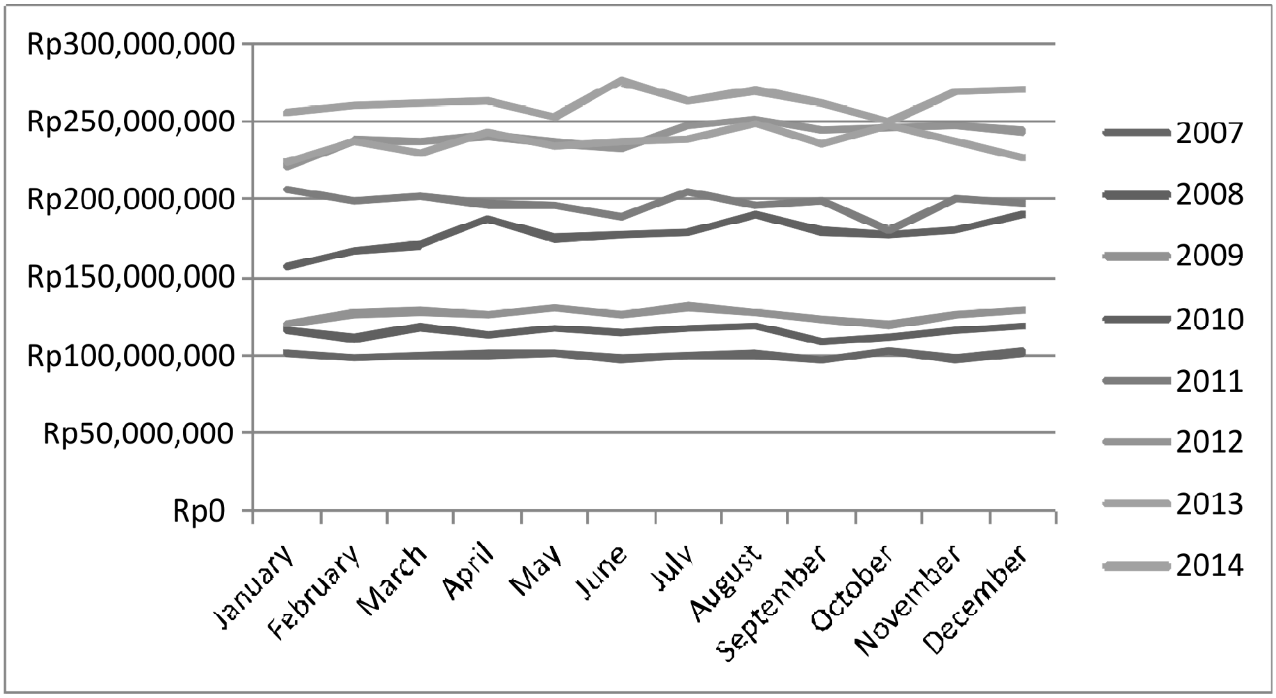

Figure 1: The Profit of PT. *Pegadaian* (Persero) branch Tlogomas Malang in 2007-2014

Data source: The Financial Report of PT. *Pegadaian* (Persero) branch Tlogomas Malang in 2015.

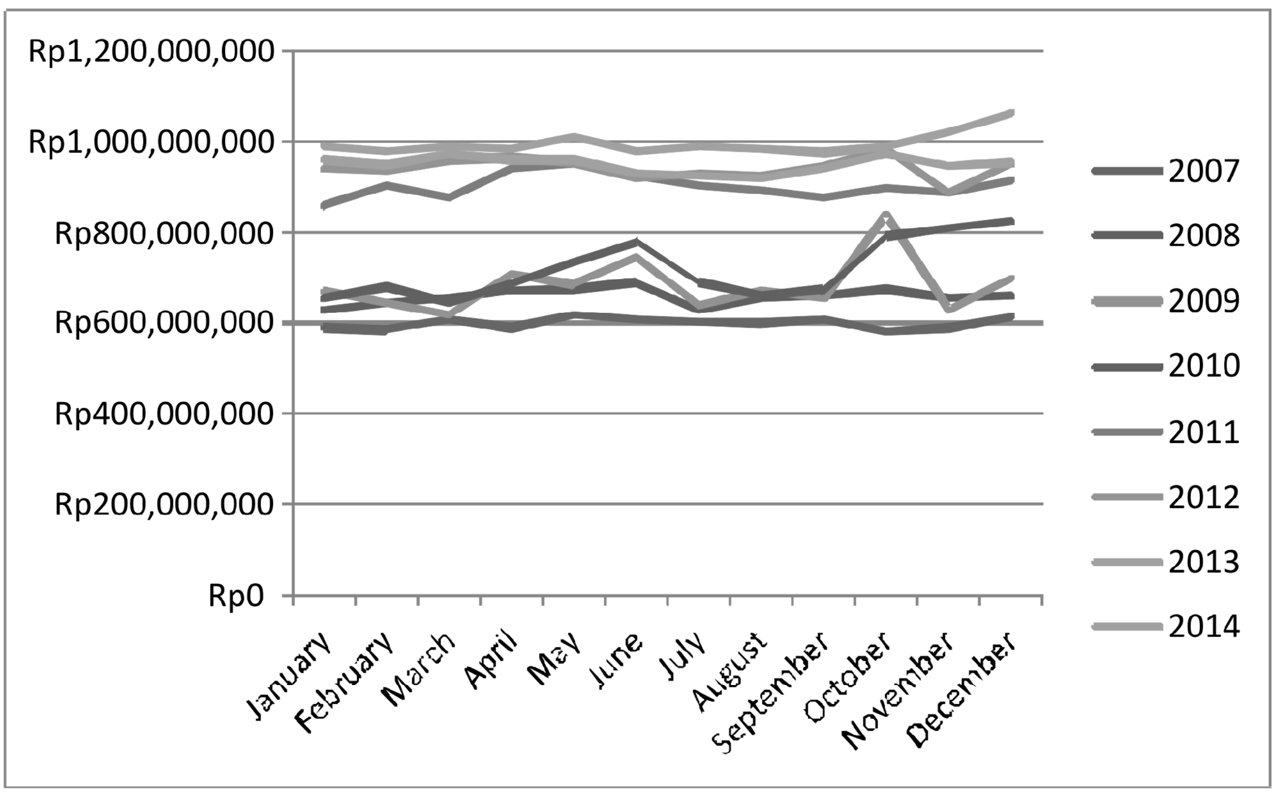

Figure 2: The Working Capital of PT. *Pegadaian* (Persero) branch Tlogomas Malang in 2007-2014

Data source: The Financial Report of PT. *Pegadaian* (Persero) branch Tlogomas Malang in 2015.

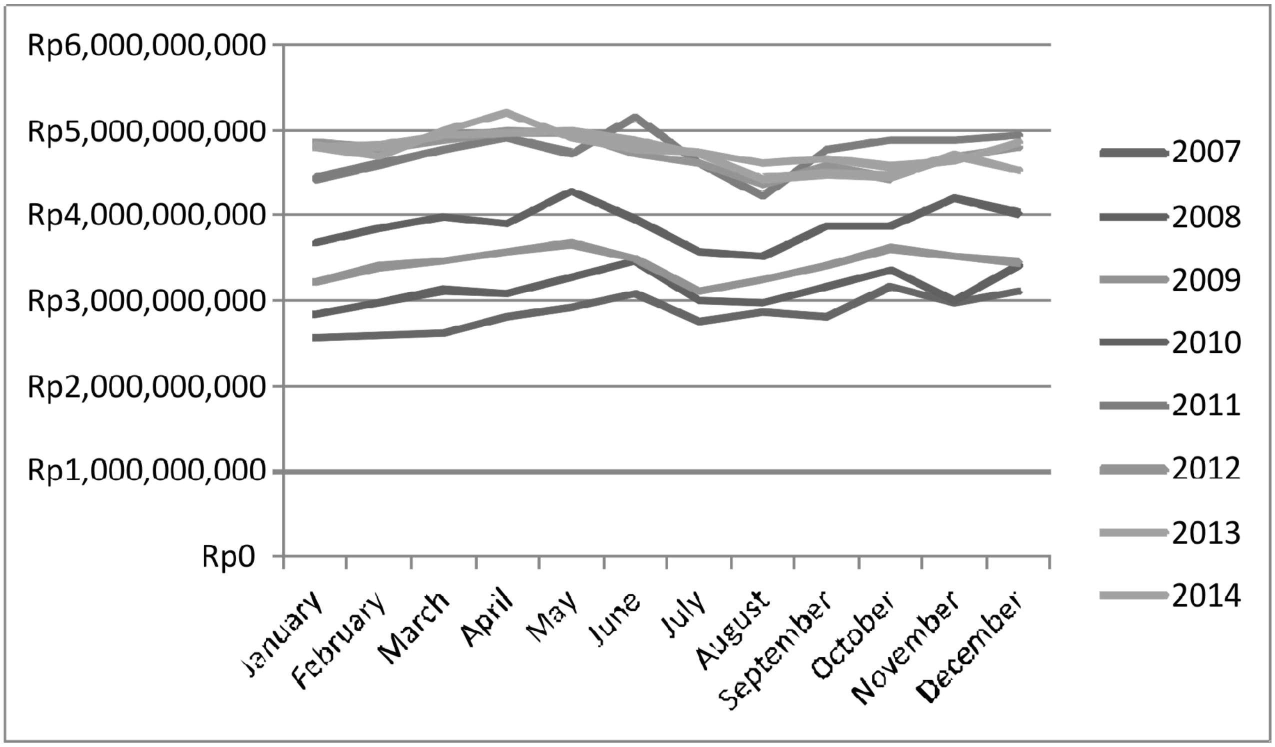

Figure 3: The Amount of Credit Distribution of PT. *Pegadaian* (Persero) branch Tlogomas Malang in 2007 to 2014

Data source: The Financial Report of PT. *Pegadaian* (Persero) branch Tlogomas Malang in 2015.

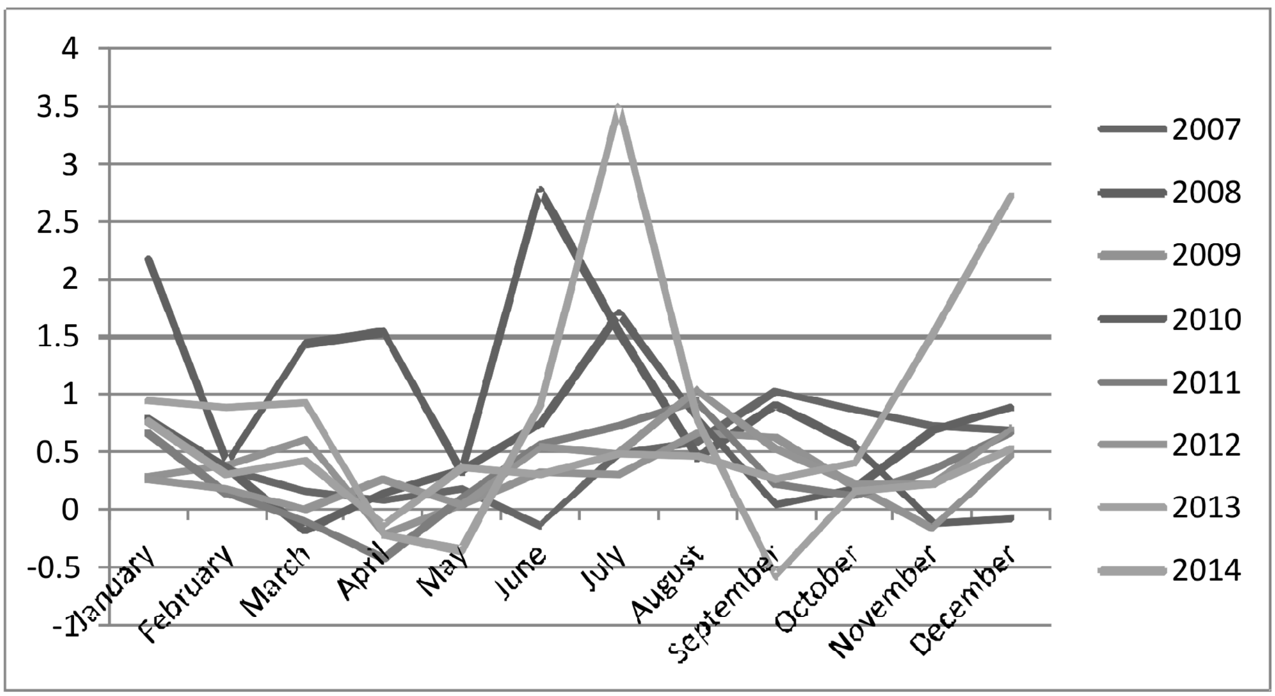

Figure 4: The Inflation rate of Malang in 2007 to 2014

Data source: The Financial Report of PT. *Pegadaian* (Persero) branch Tlogomas Malang in 2015.

Table 2
The Analysis Result of Multiple Linier Regression

		Unstandardized Coefficients		*Standardized Coefficients*	*t*	*Sig.*	*Collinearity Statistics*	
Model		*B*	*Std. Error*	*Beta*			*Tolerance*	*VIF*
1	(Constant)	–9657.264	911.409		–10.596	.000		
	Working Capital	.445	.084	.529	5.326	.000	.111	8.969
	The amount of credit distribution	.156	.036	.436	4.362	.000	.110	9.099
	Inflation rate	421.816	327.439	.044	1.288	.201	.942	1.061

a. *Dependent Variable:* Profit

Data source: SPSS 21 Output

Based on Table 2, the equation of the multiple linear regression was as follows.

$$Y_1 = -9657{,}264 + 0{,}445X_1 + 0{,}156X_2 + 421{,}816X3 + e \quad \text{(Widarjono, 2010:09)}$$

Based on the sum, the equation was explained as follows.

(a) $\beta_0 = -9657{,}264$

This constant number showed that if there were no working capital, credit distribution, and inflation rate variables (X_1, X_2, $X_3 = 0$), the profit would be –9657,264.

(b) $\beta_1 = 0{,}445$

This regression coefficient β_1 showed when there was one unit increasing working capital, the average profit increased to 0.445.

(c) $\beta_2 = 0{,}156$

This regression coefficient β_2 showed when there was one unit increasing credit distribution, the average profit increased to 0.024.

(d) $\beta_3 = 421{,}816$

This regression coefficient β_2 showed when there was one unit increasing inflation rate, the average profit increased to 421.816.

The Result of Hypothesis Test

Based on Table 3, the conclusion drawn was as follows.

1. *The effect of the working capital (X_1) to the profit (Y):* To identify the partial effect of the working capital to the profit, the *T*-test (partial) was administered. The result of *T*-test showed that the working capital's calculated *T*-score > *T* table, which was 5,326 > 2,000 and the significance rate 0,000 was smaller than the determined significance rate, which was < 0,05, therefore H_o was rejected or H_a was accepted. Therefore, it could be concluded that the working capital affected the profit positively.

Table 3
T-Test Result (Partial)

		Coefficients[a]				
		Unstandardized Coefficients		*Standardized Coefficients*	*t*	*Sig.*
Model		*B*	*Std. Error*	*Beta*		
1	(Constant)	–9657.264	911.409		–10.596	.000
	Working Capital	.445	.084	.529	5.326	.000
	The Amount of Credit Distribution	.156	.036	.436	4.362	.000
	Inflation Rate	421.816	327.439	.044	1.288	.201

a. *Dependent variable:* Profit

Data Source: SPSS 21 Output.

2. *The effect of credit distribution (X_2) to the profit (Y):* To identify the partial effect of the credit distribution to the profit, the T-test (partial) was administered. The result of T-test showed that the credit distribution's calculated T-score > T table, which was 4,362 > 2,000 and the significance rate 0,000 was smaller than the determined significance rate, which was < 0,05, therefore H_o was rejected or H_a was accepted. Therefore, it could be concluded that the credit distribution affected the profit positively.

3. *The effect of inflation rate (X_3) to the profit (Y):* To identify the partial effect of the inflation rate to the profit, the T-test (partial) was administered. The result of T-test showed that the inflation rate's calculated T-score < T table, which was 1,288 > 2,000 and the significance rate 0,201 was bigger than the determined significance rate, which was > 0,05, therefore H_o was accepted or H_a was rejected Therefore, it could be concluded that the credit distribution gave no effect to the profit.

Table 4
The Result of F-Test (Simultaneous)

		ANOVA[a]				
Model		*Sum of Squares*	*Df*	*Mean Square*	*F*	*Sig.*
1	Regression	437653485.983	3	145884495.328	272.353	.000[b]
	Residual	49279258.403	92	535644.113		
	Total	486932744.386	95			

a. *Dependent Variable:* Profit.

b. *Predictors:* (Constant), Inflation Rate, Working Capital, the Amount of Credit Distribution.

Data Source: The analysis result in 2016

Based on Table 4, it was displayed that the calculated F score > F table, which was 272,353 > 3,10 and the significance of the output was smaller than the determined significance score, which 0.05, therefore Ho was rejected or Ha was accepted. Therefore, the working capital, the amount of credit distributed, and inflation rate simultaneously affected the profit.

Table 5
The Determination Coefficient Test (R^2)

Model Summary[b]					
Model	R	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*	*Durbin-Watson*
1	.976[a]	.953	.932	7.02617E + 26	1.984

a. *Predictors:* (Constant), Inflation rate, the Amount of Credit Distribution, Working capital.

b. *Dependent Variable:* Profit.

Data Source: The analysis result in 2016.

Based on Table 5, the Adjusted R Square was 93.2%. This showed that the variation in the profit variable could be explained by the free variable as much as 93.2%, the rest was explained by other variables which were not explained in the model.

DISCUSSION

The research finding that was discovered in PT. *Pegadaian* (persero) branch Tlogomas Malang in 2007 to 2014 showed that the working capital positively affected the profit. This finding was in line with the study conducted by Ankilo and Olufisayo (2011) suggesting that the working capital positively affected the profit gained by the firm. Another study conducted by Qazy, *et al.* (2011) stated that the working capital affected the profit gained by the firm. Moreover, another study by Angahar and Alematu (2014) also drew the similar finding in which the working capital affected the profit gained by cement companies in Nigeria. Another research by Ambarwati, *et al.* 92015) concluded that the working capital affected profit gained by the firm.

Another finding in PT. *Pegadaian* (Persero) branch Tlogomas Malang in 2007 to 2014 displayed that the amount of credit distribution positively affected the profit. It meant that the greater the amount of credit distributed, the higher the profit gained by PT. *Pegadaian* (persero). This research finding was in line with the theory proposed by Lilienfeld-Toal and Mookherjee in Lilienfeld-Toal (2012) which suggested that the profit gained in the credit distribution was in the form of credit interest. This was in line with the study by Borolla (2013) stating that the amount of credit distribution affected the profit gained by PT. *Pegadaian* (Persero) branch Ambon. Another study by Suputra, *et al.* (2014) explained that the credit distribution positively affected the profitability of *Lembaga Perkreditan Desa* (LPD). Furthermore, the study by Makaombohe, et al (2014) suggested that the credit distribution affected the profit positively.

Some theories have been explained and the research finding showed that the greater the credit distributed, the higher the profit gained by PT. *Pegadaian* (persero). However, a distinct phenomenon occurred in PT. *Pegadaian* (Persero) branch Tlogomas Malang in 2013. In 2013, the profit gained by PT. *Pegadaian* (Persero) decreased in spite of the fact that the amount of credit distribution was higher than the previous year. This was due to other factor, namely the decreased price of gold in 2013 as well as the growth of depreciation expense. Consequently, the credit distribution did not increase the profit made by PT. *Pegadaian* (Persero). According to the research assumption which has been made, another factor affecting the profit other than the independent variable in this study was considered fixed. Therefore, it could be concluded that the working capital positively affected the profit.

The next finding found in the study in PT. *Pegadaian* (Persero) branch Tlogomas Malang in 2007 to 2014 suggested that the inflation rate gave no significance to the profit of PT. *Pegadaian* (persero). This finding was not in line with the previous theory. According to the study by Irving Fisher in Mankiw (2006: 89), the relationship between the inflation and interest rates was explained in Fisher Equation. Based on the theory, it could be concluded that the inflation rate affected the amount of real interests gained by PT. *Pegadaian* (Persero) which eventually affected the profit of PT. *Pegadaian* (Persero). This theory was different from the research finding of this study. This study showed that the inflation rate gave no effect to the profit.

This research finding was similar to the finding suggested by Wibowo and Syaicu (2013) stating that the inflation rate did not affect the profit. Another study by Irwadi (2014) showed that the inflation rate did not affect the profit. Therefore, it could be concluded that the inflation rate did not affect the profit gained by PT. *Pegadaian* (Persero) branch Tlogomas Malang. This finding was also in line with the phenomena in 2008, 2010, and 2014, in which the inflation rate of Malang was higher than the previous year yet the increased inflation did not cause the decreased profit.

The difference research finding suggesting that the inflation rate did not significantly affect the profit gained by PT. *Pegadaian* (Persero) assumed that the inflation in this study was considered low inflation which was less than 10% every year. This low inflation did not cause the relatively significant price changing. Consequently, the operational cost was still low and the profit would continuously increase as the amount of credit increased as well. Moreover, the credit interest burdened to PT. *Pegadaian* (Persero) was also relatively higher than the average inflation rate every year. Therefore, the inflation rate would not affect the profit gained by PT. *Pegadaian* (Persero). This was in line with the statement by Nopirin (2000: 32) explaining that those who lent their money with lower interest than the inflation rate would be disadvantageous. As PT. *Pegadaian* (Persero) applied loan interest higher than the inflation rate, then the inflation did not affect the profit gained by PT. *Pegadaian* (Persero).

Another finding in this study showed that the working capital, the amount of credit distribution, and inflation rate simultaneously affected the profit gained by PT. *Pegadaian* (Persero). The working capital, the amount of credit distribution, and the inflation rate were the important factors to gain profit. With insufficient working capital, the operational activity would not run well. The working capital owned by PT. *Pegadaian* (Persero) was used to fund the credit distribution activity. Budisantoso and Triandaru (2011: 214) stated that the working capital owned by PT. *Pegadaian* (Persero) was used as the cash and other liquid fund, purchasing, and other fixed asset and inventory procurement as well as to fund the operational activity, fund distribution, and other investment. Other than the working capital, the amount of credit distribution also affected the profit. The greater the credit distributed, the higher the profit gained. The inflation rate also affected the profit. When the inflation rate was high, the profit gained would decrease. Therefore, it could be concluded that the working capital, the amount of credit distribution, and inflation rate simultaneously affected the profit gained by PT. *Pegadaian* (Persero).

CONCLUSION

First, the working capital positively affects the profit gained by PT. *Pegadaian* (Persero). This shows that the greater the working capital used, the higher the profit gained by PT. *Pegadaian* (Persero). Second, the amount of credit distribution positively affects the profit gained by PT. *Pegadaian* (Persero). This shows that the bigger the amount of credit distributed, the higher the profit gained by PT. *Pegadaian* (Persero). Another conclusion is that the inflation rate does not affect the profit gained by PT. *Pegadaian* (Persero). It means that the high and low inflation rate does not affect the profit gained by PT. *Pegadaian* (Persero). The inflation rate in this study is classified as the creeping inflation so that it does not affect the profit gained by PT. *Pegadaian* (Persero). Moreover, the credit interest rate is also higher than the inflation rate. Therefore, it can be concluded that the working capital, the amount of credit distribution, and inflation rate simultaneously affect the profit gained by PT. *Pegadaian* (Persero).

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