

## The Effect of Kaizen Project, Lending, Letter of Credit, Forex, and Capital Structure on Profitability: Case Study of PT Bank XYZ

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### ABSTRACT

This study investigates the influence of the Kaizen Project, lending, Letter of Credit (L/C), foreign exchange (forex), and capital structure on the profitability of PT Bank XYZ, using Return on Assets (ROA) as a performance measure. Employing a quantitative approach and multiple linear regression analysis with data from 93 monthly observations between 2017 and 2024, the findings reveal that the Kaizen Project, lending, and capital structure significantly impact profitability. The Kaizen Project enhances operational efficiency through process automation and work-life balance initiatives, while selective and well-controlled credit granting contributes to stable interest income. The capital structure, measured by the Debt to Asset Ratio (DAR), also influences profitability, indicating the importance of balanced debt usage. Conversely, Letter of Credit and foreign exchange transactions do not show a significant impact, suggesting limited contribution of fee-based income and mitigated exchange rate risks. The study highlights the relevance of strategic internal initiatives and prudent financial management in improving bank profitability, while also identifying areas for further exploration in banking performance research.

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## **INTRODUCTION**

Along with the development of the era of globalization and technological advancement, the banking world faces various increasingly complex challenges and opportunities. Increasingly tight competition, changes in global economic dynamics, and the need to optimize operational performance encourage banking companies to continue to innovate and adapt to a rapidly changing environment. Based on the December 2023 Monetary Policy Review report released by Bank Indonesia, global economic growth has slowed down even though uncertainty in financial markets has begun to ease. Bank Indonesia projects the world economy to grow by 3.0% in 2023 and slow to 2.8% in 2024.

PT Bank XYZ, as one of the private banks operating in Indonesia, is not free from this dynamic. Amidst various economic challenges, PT Bank XYZ remains committed to expanding its corporate market share, managing funding costs, increasing fee-based income, and distributing quality credit. To achieve these goals, PT Bank XYZ implements a selective strategy in credit distribution, restructuring debtors affected by the pandemic, and maintaining financial stability by maintaining a healthy financial ratio and tighter cost control (Bank XYZ, 2023). In terms of credit, PT Bank XYZ has developed a business strategy that focuses on selecting customers with a high level of financing eligibility, especially from industries that are well known to PT Bank XYZ and have strong resilience and recovery capabilities post-pandemic.

The success of the strategy implemented by PT Bank XYZ aims to contribute to improving the company's performance, both in terms of profitability, operational efficiency, and risk management. In a competitive business world, a company's ability to compete with other companies is very important for the sustainability of the company (Abbas et al., 2019). A company's performance functions as a measure and determinant of success in achieving its goals (Richard et al., 2009). In other words, company performance shows how the company manages its resources (Y. Wang et al., 2015).

Based on the explanation that has been described above, this study aims to examine the variables that can affect profitability using the Return On Assets (ROA) ratio, namely with the Kaizen Project policy, lending, Letter of Credit, Foreign Exchange, and Capital Structure (DAR). The novelty in this study is the approach that integrates various factors that affect profitability at PT Bank XYZ. One of the main contributions is the implementation of the Kaizen Project in the banking sector, which is usually applied to improve employee performance and is generally used in the manufacturing industry for continuous improvement. This study examines how the Kaizen principle can improve operational efficiency and ultimately increase profitability. In addition, this study also provides an in-depth analysis of lending, especially in the context of banks, which focuses on the relationship between lending and how much impact it has on profits. Letter of Credit, as an instrument of international trade, is also tested to see its effect on bank profitability, especially in terms of fee-based income. This study also examines how fluctuations in foreign exchange rates (forex) can affect bank profitability, including risks associated with international transactions and foreign exchange risk management. In addition, the influence of capital structure,

which uses the debt to asset ratio, on bank profitability is explored to provide more contextual insights into the banking industry. By using a case study at PT Bank XYZ, this study is expected to provide a deeper and more applicable understanding of how these factors interact within the bank and affect the company's profitability. Based on the phenomena that have been explained above, this is the basis for this study so that researchers are interested in conducting research entitled "The Effect of Kaizen Project, Lending, Letter of Credit, Foreign Exchange, and Capital Structure on Profitability: Case Study at PT Bank XYZ". Based on the background explained above, it can be formulated that the problem at PT Bank XYZ is unstable profitability which is reflected in significant changes in the company's Return on Assets (ROA) and net profit from year to year.

## LITERATURE REVIEW

### *Letter of Credit*

Wirasasmita, et al. (1999:133) explained that Letter of Credit (L/C) or documentary credit is an international payment method carried out through a bank with a guarantee of documents related to goods purchased by the importer. Meanwhile, Amir MS (1999:85) defines L/C as a letter issued by a bank at the request of an importer addressed to an exporter abroad. The letter gives the exporter the right to draw a draft from the importer in the amount stated in the letter. The bank issuing the L/C guarantees to receive and pay the draft if the conditions stated in the L/C letter are met.

According to Bank Indonesia (2007:73), L/C is a promise from the issuing bank to pay a certain amount of money to the exporter if the exporter meets the conditions set out in the L/C. Meanwhile, the Fatwa of the National Sharia Council (2002) provides another definition, stating that L/C is a payment instrument issued by a bank at the request of an importer in international trade transactions.

### *Foreign Exchange*

Exchange rate, or Forex, refers to the value of a country's currency calculated in another country's currency and is used in international trade transactions. According to Manurung (2016), Forex or foreign exchange refers to the exchange rate of a foreign currency against the Rupiah, with Indonesia more often referring to Forex against the US dollar. Changes in Forex can affect a company's profits, because the cost of imported raw materials will increase along with the strengthening of the foreign currency, which in turn can reduce profits. As a result, this can lead to a decrease in investor interest in stocks and a decrease in stock prices, showing how much influence Forex has on the stock market (Martalena & Malinda, 2019). Foreign exchange (forex) also plays a key role in bank profitability, especially in international transactions. Madura (2023) highlights the importance of good exchange rate risk management to reduce potential losses due to exchange rate fluctuations, as well as the implementation of hedging strategies to protect bank income.

### ***Capital Structure (DAR)***

Sulindawati et al. (2018) define capital structure as a comparison between foreign capital and equity. This structure describes the extent to which debt is used to finance investment, and understanding capital structure allows investors to balance the risk and potential return on investment. According to Fahmi (2018), capital structure refers to the proportion between long-term debt and equity (equity), which is the main source of financing for a company. Meanwhile, Ross et al. (2015) defines capital structure as a combination of long-term debt and equity used to fund company operations. The main objective of capital structure is to maximize the value of the company by increasing stock prices, reducing the cost of capital, and balancing risk with returns. On the other hand, Sudana (2011) states that capital structure is related to long-term financing as measured by the comparison between long-term debt and equity.

### ***Factors Affecting Capital Structure***

According to Brigham and Houston (2013), in designing an efficient capital structure, there are a number of crucial elements that must be considered. Among these elements are sales stability, asset composition, operating leverage level, company growth rate, ability to generate profits, and tax impacts. In addition, other factors that influence capital structure decisions are the company's internal control mechanisms, managerial policies related to risk, and the views of lenders and rating agencies. Aspects of market conditions and the company's internal circumstances, including how much financial flexibility it has, are also determining factors in preparing the most appropriate capital structure.

### ***Types of Capital Structure Ratios***

Kasmir (2014) mentions various ratios that can be used to assess a company's capital structure, including:

1. *Debt to Asset Ratio (DAR)*- This ratio describes the proportion between the company's total liabilities and total assets owned. This ratio provides an overview of how much debt burden affects the company's asset management.
2. *Debt to Equity Ratio (DER)*- This ratio serves to assess the comparison between total debt and total equity of the company. The measurement is done by comparing the total debt to all equity owned.
3. *Long Term Debt to Equity Ratio (LTDER)*- This ratio measures the comparison between long-term debt and equity, providing an indication of how much equity funds are used to secure long-term debt.
4. *Times Interest Earned (TIE)*- This ratio assesses the company's capacity to meet interest obligations by comparing the company's profits with the amount of interest that must be paid.

### ***Debt to Asset Ratio (DAR)***

In this study, Capital Structure is measured through the Debt to Assets Ratio (DAR). Van Horne and John M. (2014) explain that the Debt to Assets Ratio

(DAR) is a ratio that emphasizes the importance of using debt in financing, which is represented by the percentage of assets financed by debt. Hery (2015:166) states that this ratio is used to assess the extent to which a company's assets are financed by debt, or how big a role debt plays in financing these assets. On the other hand, Kasmir (2013) also defines the Debt to Assets Ratio (DAR) as the comparison between the company's total liabilities and total assets, which illustrates the contribution of debt to financing the company's assets. In addition, the Debt to Asset Ratio (DAR) reflects the proportion of bank funding that comes from debt. Modigliani and Miller (2022) argue that an optimal capital structure is essential to maintain a balance between risk and profitability. An overly aggressive capital structure with a high DAR can increase financial risk, while an overly conservative capital structure can limit the potential for profit growth.

According to Hery (2015:166) and Kasmir (2013), the Debt to Assets Ratio (DAR) is calculated using the following formula:

$$\text{Debt to Assets Ratio} = \frac{\text{Debt Total}}{\text{Total Aktiva}}$$

### ***Credit Granting***

According to the Republic of Indonesia Law Number 10 of 1998 which amended Law Number 7 of 1992 concerning Banking, credit is defined as the provision of money or equivalent claims, which is carried out based on an agreement between the bank and another party. This agreement requires the borrower to repay his debt within a specified time, including the obligation to pay interest. On the other hand, according to Kent (2018) explains credit as the right to receive payment or the obligation to make payments at a specified time, especially related to direct transactions of goods.

### ***Credit Purpose***

According to Andrianto et al. (2019), there are basically two main interrelated objectives in providing credit, namely as follows:

1. Profitability refers to the goal of making a profit through interest paid by the debtor. Therefore, the bank will only provide credit to parties who are considered capable and willing to pay off their debts. The ability and willingness of the debtor illustrate two main factors, namely security and profit, which are interrelated. Profit in this context is reflected in the interest received by the party providing the credit.
2. Security refers to the guarantee that the credit given will be carried out safely and can be repaid properly. Guaranteed security will support the achievement of profitability goals without any significant obstacles. This means that anything given in the form of credit whether it is money, goods, or services must be ensured to be returned, so that the expected profit can be achieved.

### ***Kaizen Project***

Kaizen is an approach that prioritizes continuous improvement involving all members of the company. This culture focuses on continuous process improvement, by creating a management system that supports and values the contribution of each employee. Kaizen was first introduced by Taichi Ohno, former President of Toyota Motors Corporation, to explain a managerial philosophy that emphasizes the importance of incremental improvement involving all employees in the company. The Kaizen Project, which focuses on continuous improvement, has been recognized as an effective approach in improving operational efficiency and organizational profitability. Imai (2021) emphasized that the application of Kaizen in the banking sector can help identify and eliminate waste, thereby improving financial performance.

### ***Profitability***

Company performance can be measured through financial analysis that describes the company's financial condition. This makes it possible to know how good or bad the company's financial condition is in a period, as well as describe the company's work performance. Evaluation of financial performance is very important to ensure that resources are managed effectively in the face of changing dynamics in the business world. Harsono and Ary (2020) stated that financial performance assessment is one of the methods used by management to fulfill obligations to funding parties and achieve targets set by the company.

According to Tandelilin (2017:372), ROA can be calculated using the following formula:

$$\text{Return on Assets} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

### ***Research Hypothesis***

H1: Kaizen Project has an influence on Profitability

H2: Lending has an influence on Profitability

H3: Letter of Credit has an influence on Profitability

H4: Foreign exchange has an influence on Profitability

H5: Capital Structure has an influence on Profitability

## **METHODOLOGY**

This study uses quantitative methods because this method is produced in the collection and analysis of numerical data. The dependent variable or bound variable used in this study is Profitability, while Kaizen Project, Capital Structure, Letter of Credit, Foreign Exchange, and lending are independent variables or free variables.

The data required in this study focuses on the variables that have been defined in the operational variable table, which include Kaizen Project, lending, Letter of Credit, Foreign Exchange, Capital Structure (DAR), and Profitability (ROA). All of this data will be obtained from the published financial reports of PT Bank XYZ, including internal data related to operational activities and policies implemented at Bank XYZ. The data used in this study mostly comes from

secondary data, obtained from documents published by Bank XYZ on its official website. In addition to using monthly financial report data, the author also uses the annual report published by Bank XYZ which is used as a secondary data source, especially for information on credit policies, Kaizen Project, and other operational activities that have an impact on profitability. This study uses multiple linear regression analysis methods. The data analysis process is carried out using Eviews software version 12 for statistical calculations. The methods applied include data testing through descriptive statistics, classical assumption tests, and continued with hypothesis testing.

## RESEARCH RESULT AND DISCUSSION

### Descriptive Statistics

Table 1 Results of Descriptive Statistical Tests

Statistics	CR	DAR	EXC	LC	ROA
Mean	10895203	0.861148	5009.688	264329.8	0.001026
Median	10665896	0.862909	2048.000	256043.0	0.002055
Maximum	12450321	0.893494	56213.00	571313.0	0.013004
Minimum	9697503	0.823842	26998.00	131331.0	-0.023771
Std. Dev.	742213.8	0.013648	12455.81	67419.85	0.006917
Skewness	0.476834	0.896959	2.045793	1.460005	-2.171199
Kurtosis	2.049842	3.382947	8.971530	7.093465	8.340351
Jarque-Bera	7.022600	12.83640	203.0509	97.97192	183.5811
Probability	0.029858	0.001632	0.000000	0.000000	0.000000
Sum	1.01E+09	80.08672	465901.0	24582667	0.095456
Sum Sq. Dev.	5.07E+13	0.017137	1.43E+10	4.18E+11	0.004402
Observations	93	93	93	93	93

(Source: Eviews 12 Data Processing Results)

Based on the results of the descriptive statistical test from table 4.1 above, it can be explained that the lending variable has an average value of 10,895,203, with a minimum value of 9,697,503 and a maximum of 12,450,321. The standard deviation for this variable is 742,213.8, indicating a relatively low level of data variation. Skewness is 0.476834, indicating that the data distribution is slightly skewed to the right, while the kurtosis value of 2.049842 approaches a normal distribution.

The Debt to Asset Ratio (DAR) variable has an average of 0.861148, with a minimum value of 0.823842 and a maximum of 0.893494. The standard deviation

of 0.013648 indicates that the data tends to be homogeneous. Skewness of 0.896959 indicates that the distribution is slightly skewed to the right, while kurtosis of 3.382947 indicates that the data is more pointed than the normal distribution.

**Classical Assumption Test**

**Normality Test**

This study uses the assumption of the Central Limit Theorem, according to Anggraeni et al. (2020), the larger the sample size used in the study, the distribution of the sample average will tend to approach the normal distribution. Gujarati (2003) also stated that if the amount of data in the study is quite large ( $n > 30$ ), then the assumption of normality can be ignored. In this study, the number of samples used was 93, so it can be concluded that the data is distributed close to normal.

**Multicollinearity Test**

Variance Inflation Factors  
 Date: 02/22/25 Time: 14:16  
 Sample: 1 93  
 Included observations: 93

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.003298	8315.601	NA
LC	1.03E-16	19.40529	1.173333
EXC	3.09E-15	1.392632	1.196913
DAR	0.006817	12750.97	3.167687
D01	5.26E-06	2.996780	2.320088
CR	2.56E-18	768.9477	3.513985

Figure 1 Multicollinearity Test Results  
 (Source: Eviews 12 Data Processing Results)

Based on the image above, the calculation of the Variance Inflation Factor (VIF) shows that all independent variables have values less than 10. Because the VIF is below the set limit, it can be concluded that there is no correlation between independent variables, so there is no multicollinearity problem in the regression model.

**Autocorrelation Test**

Breusch-Godfrey Serial Correlation LM Test:

Null hypothesis: No serial correlation at up to 2 lags

F-statistic	28.53880	Prob. F(2,85)	0.0000
Obs*R-squared	37.36139	Prob. Chi-Square(2)	0.0000

Figure 2 Autocorrelation Test Results  
 (Source: Eviews 12 Data Processing Results)

Based on Figure 4.2, the probability value of the Chi-Square test shows a figure of 0.0000, which is below the significance level of 0.05. This result indicates the presence of autocorrelation symptoms in the regression model used. To overcome this problem, a model modification is carried out by adding an independent variable in the form of Ylag1 (lag of the dependent variable). The addition of this variable is expected to help stabilize the error variance, so that heteroscedasticity symptoms can be minimized and the regression model becomes more valid.

Breusch-Godfrey Serial Correlation LM Test:

Null hypothesis: No serial correlation at up to 2 lags

F-statistic	1.336042	Prob. F(2,83)	0.2685
Obs*R-squared	2.869449	Prob. Chi-Square(2)	0.2382

Figure 3 Autocorrelation Retest Results  
 (Source: Eviews 12 Data Processing Results)

Based on Figure 4.3, after the addition of the model by adding the independent variable Ylag(-1) (lag of the dependent variable), the probability value of the Chi-Square test increased to 0.2382, which is greater than the significance level of 0.05. Thus, it can be concluded that the autocorrelation symptom is no longer found in the model. Therefore, the modified regression model is declared feasible for use in the analysis.

Heteroskedasticity Test: White

Null hypothesis: Homoskedasticity

F-statistic	1.093690	Prob. F(26,65)	0.3745
Obs*R-squared	27.99894	Prob. Chi-Square(26)	0.3585
Scaled explained SS	158.4263	Prob. Chi-Square(26)	0.0000

Figure 4 Heteroscedasticity Test Results  
 (Source: Eviews 12 Data Processing Results)

Based on Figure 4 above, it can be concluded that the Chi-Square probability value is 0.3585, which shows that it is greater than 0.05. Therefore, it can be concluded that in this model there is no heteroscedasticity symptom.

**Multiple Linear Regression Test**

Dependent Variable: ROA				
Method: Least Squares				
Date: 03/02/25 Time: 20:15				
Sample (adjusted): 2 93				
Included observations: 92 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.115398	0.043395	2.659236	0.0094
ROALAG1	0.633511	0.077728	8.150338	0.0000
LC	8.62E-09	7.72E-09	1.117432	0.2670
EXC	7.99E-08	4.26E-08	1.873966	0.0644
DAR	-0.184846	0.063307	-2.919848	0.0045
D01	0.004098	0.001842	2.225124	0.0287
CR	3.71E-09	1.30E-09	2.851050	0.0055
R-squared	0.588668	Mean dependent var	0.000896	
Adjusted R-squared	0.559633	S.D. dependent var	0.006840	
S.E. of regression	0.004539	Akaike info criterion	-7.879248	
Sum squared resid	0.001751	Schwarz criterion	-7.687372	
Log likelihood	369.4454	Hannan-Quinn criter.	-7.801805	
F-statistic	20.27432	Durbin-Watson stat	1.769273	
Prob(F-statistic)	0.000000			

Figure 5 Multiple Linear Regression Test Results  
(Source: Author's Processed Results, 2025)

**Coefficient of Determination**

R-squared	0.588668	Mean dependent var	0.000896
Adjusted R-squared	0.559633	S.D. dependent var	0.006840
S.E. of regression	0.004539	Akaike info criterion	-7.879248
Sum squared resid	0.001751	Schwarz criterion	-7.687372
Log likelihood	369.4454	Hannan-Quinn criter.	-7.801805
F-statistic	20.27432	Durbin-Watson stat	1.769273
Prob(F-statistic)	0.000000		

Figure 6 Results of Determination Coefficient Test  
(Source: Author's Processed Results, 2025)

Based on the test results presented in Figure 4.6, the Adjusted R<sup>2</sup> value for the independent variables in this study is 0.559633 or 55.96%. This shows that 55.96% of the variables that affect profitability (ROA) can be explained by four independent variables, namely kaizen project (d01), lending (CR), letter of credit (LC), foreign exchange (EXC), and capital structure (DAR). Meanwhile, the remaining 54.04% is influenced by other factors outside the regression model, such as operational efficiency, macroeconomic conditions, management policies, and other external factors not included in this study.

**F Test**

Based on Figure 6, the F-statistic value obtained from the regression results is 20.27432 with a significance level (p-value) of 0.000. This value is smaller than the significance level of 0.05, so it can be concluded that all independent variables, namely kaizen project, lending, letter of credit, foreign

exchange, and capital structure, simultaneously have a significant effect on the dependent variable, namely profitability (ROA). Thus, the regression model meets the assumption of simultaneous significance (F test).

**T-Test**

The first t-statistic test in this study focuses on the influence of independent variables on profitability (ROA), to determine whether the kaizen project has a significant impact on the company's profitability. Based on Figure 4.5, it shows that the kaizen project variable (D01) has a significance level of 0.0287, which is smaller than the significance level of  $\alpha$  (0.05), which is 0.0287 < 0.05. Thus, it can be statistically concluded that the kaizen project has a significant influence on profitability, which is measured using Return on Assets (ROA).

**Hypothesis Testing**

Table 2 Hypothesis Test Results

Hypothesis	Statement	Mark	Information
H1	Kaizen Project has an impact on Profitability	0.0287	H1 Accepted
H2	lending has an impact on Profitability	0.0055	H2 Accepted
H3	Letter of Credit has an influence on Profitability	0.2670	H3 Rejected
H4	Foreign exchange has an influence on Profitability	0.0644	H4 Rejected
H5	Capital structure has an influence on Profitability	0.0045	H5 Accepted

(Source: Author's processing, 2025)

**Hypothesis Test Results 1: Kaizen Project Has a Significant Influence on Profitability**

The results of this study indicate that Kaizen Project has a significant influence on the profitability of PT Bank XYZ. Based on the regression analysis, the Kaizen Project variable (D01) has a coefficient value of 0.0287 and is below the significance level of 0.05, so the hypothesis is accepted. This means that the implementation of Kaizen Project at PT Bank XYZ has succeeded in increasing operational efficiency and has a positive impact on the company's profitability.

One of the real steps implemented by PT Bank XYZ is the automation of monthly banking reports. Previously, these reports were done manually by employees in each division, which often caused high work pressure when approaching the deadline. With the automation system, reports can be completed faster, more accurately, and without having to increase the workload of employees. In addition, this automation also has an impact on reducing operational costs, because the company no longer needs to pay overtime for

employees who previously had to work outside of working hours to complete reports.

In addition to automation, PT Bank XYZ also runs a Work-Life Balance program, where every Wednesday employees are required to go home on time at 17.00 WIB and are not allowed to work overtime except in truly urgent conditions. If there is work that must be completed with overtime, then additional working hours can be transferred to other workdays. This program aims to create a balance between work and personal life for employees, so that they remain productive without having to sacrifice rest time and togetherness with family.

Several factors that support the success of Kaizen at PT Bank XYZ include full support from management, active involvement of employees in the improvement process, and the use of technology in banking operations. However, in its implementation, there are challenges such as resistance to change, especially from employees who are accustomed to the old work system, who are usually senior employees. Therefore, in order for this program to run well, PT Bank XYZ needs to ensure effective communication, ongoing training, and a work culture that supports innovation and collaboration. In the long term, the implementation of Kaizen at PT Bank XYZ is expected to not only increase efficiency and productivity, but also create a healthier and more competitive work environment. With a culture of continuous improvement, banks can be more flexible in dealing with changes in the banking industry and remain superior in the market.

### ***Hypothesis Test Results 2: Lending Has a Significant Influence on Profitability***

The results of this study indicate that lending has a significant effect on the profitability of PT Bank XYZ. Based on the regression analysis, the lending variable has a regression coefficient value of 0.0055 and is below the significance level of 0.05. Thus, the hypothesis is accepted, which means that the lending strategy and policy implemented by the bank have an effect on the company's profitability. These findings suggest that appropriate credit granting policies can contribute to increasing interest income, which is one of the main sources of bank profitability.

This study is in line with the theory put forward by Demyanyk & Hasan (2020), interest income from providing credit is one of the dominant factors in determining banking profitability, considering that the interest earned from loans is much greater than the operational costs incurred in the credit process. Therefore, banks that have a large credit portfolio with competitive interest rates tend to earn higher income. In practice, PT Bank XYZ implements a selective strategy in distributing credit by focusing on customers from the industrial sector that have strong resilience post-pandemic. This approach aims to minimize the risk of non-performing loans (NPLs) which can have a negative impact on profitability. In addition, the bank also conducts strict evaluations of prospective debtors through creditworthiness analysis to ensure that the credit disbursed has a high rate of return and a low risk of default.

***Hypothesis Test Results 3: Letter of Credit Does Not Have a Significant Influence on Profitability***

The Letter of Credit (L/C) variable in banking has a regression coefficient value of 0.2670 and a significance value above 0.05. These results indicate that in this finding hypothesis 3 is rejected, so it can be concluded that the use of L/C does not have a significant effect on bank profitability.

Based on the fee-based income theory according to Dumont & Trinh (2021), banks that rely on fee-based income, such as that generated from L/C issuance, can increase their financial stability, because this income is less affected by market fluctuations compared to interest income. The more L/C transactions are carried out, the greater the income the bank will earn, which will have a direct impact on increasing Return on Assets (ROA). However, the findings of this study indicate that although LC is a payment instrument widely used by its customers in international trade, its contribution to banking profitability is not significant enough. This can be caused by several factors, such as relatively small administration costs compared to other banking products, competition with other more flexible payment methods, and dependence on the volume of foreign trade transactions that are fluctuating.

***Hypothesis Test Results 4: Foreign Currency Does Not Have a Significant Influence on Profitability***

The Foreign Currency variable has a regression coefficient value of 0.0644 and a significance value above 0.05 (five percent). This result indicates that the hypothesis is rejected, so it can be concluded that foreign currency transactions or ownership do not have a significant effect on the profitability of companies or banks.

Based on these findings indicate that although foreign exchange is often used in international business and trade transactions, its impact on profitability is not significant enough in the context of this study. There are several factors that can affect these results, including unstable exchange rate fluctuations, hedging policies implemented by the company, and the level of exposure to currency risk that may have been mitigated by certain financial strategies. One of the hedging strategies carried out by PT Bank XYZ is by providing foreign exchange transaction services (transactions) to help customers manage exchange rate risks in their trading activities. exports, foreign exchange liabilities, and maturing loans. This service allows customers to hedge against exchange rate fluctuations which can impact their cash flow and profitability. In addition, banks also implementing Interest Rate Swap which is a bank program in establishing partnerships with other banks to provide hedging instruments against interest rate fluctuations. Through the IRS, customers can exchange floating interest rates with a fixed interest rate, or vice versa, to manage the risk of changes in interest rates interest that may affect their borrowing costs or investment returns.

The results of this study are in line with several studies that show that the acquisition of profits from exchange rate differences or foreign exchange transactions tends to be inconsistent. Research conducted by (Makmur, Taufiq,

& Adisaputra, 2023) states that the exchange rate does not have a significant effect on bank profitability as measured using ROA. Many companies and banks rely on diversification of other financial products to increase profitability compared to relying solely on profits from foreign exchange transactions.

### ***Hypothesis Test Results 5: Capital Structure Has a Significant Influence on Profitability***

The Capital Structure variable has a regression coefficient value of 0.0045 and is below the significance level of 0.05 (five percent). These results indicate that Hypothesis 5 is accepted, so it can be concluded that capital structure has a significant influence on company profitability.

The results of this study indicate that the company's decision in determining the composition between debt and equity plays an important role in financial performance. Optimal capital structure can help companies obtain funding sources at efficient costs, thereby increasing profits and profitability. Controlled use of debt can provide benefits in the form of financial leverage, but if not managed properly, it can increase financial risks that have the potential to reduce profitability. Business expansion strategy carried out by PT Bank XYZ caused an increase in debt levels used by the company. Based on the results of this study, the level of debt is proven have a negative and significant effect on profitability. This means that the higher debt level, then the profitability of the company tends to decrease. Therefore, It is recommended that PT Bank XYZ can control the use of debt, which in this case This is measured through the Debt to Asset Ratio (DAR), in order to maintain stability and performance corporate finance.

This finding is in line with the capital structure theory according to Damodaran (2020), which states that excessive use of debt can increase financial risk. High dependence on debt (so that the debt to asset ratio or DAR becomes high) increases the interest payment obligations that must be met by the company, even though the income earned is inconsistent. This can reduce net income, which in turn has a negative impact on Return on Assets (ROA). Previous research by Yuliani (2022) also showed that a balanced capital structure tends to be more stable in generating profits and reducing financial pressure due to high interest expenses.

## **CONCLUSIONS AND RECOMMENDATIONS**

Based on the results of the research and discussion that has been conducted, it can be concluded that the implementation of the Kaizen Project has a significant impact on the profitability of PT Bank XYZ. This program is in line with the bank's efforts to face global challenges and increasing efficiency pressures. Through concrete steps such as report automation and work-life balance policies, the company has succeeded in reducing operational costs and increasing work efficiency. The implementation of Kaizen which touches all operational lines, from the managerial level to the implementer, has proven to be able to directly boost profitability, as reflected in the improvement in ROA in recent years. Lending has also been shown to have a significant impact on the

profitability of PT Bank XYZ. As one of the main functions of a bank, credit contributes in the form of stable and substantial interest income. Banks that are able to channel credit selectively, especially to business sectors that have post-pandemic resilience, will be better able to maintain their financial performance. In addition, the application of the principle of prudence in evaluating debtors and restructuring loans for affected customers has helped banks minimize the risk of bad debts, thereby increasing stability and profitability.

On the other hand, the analysis results show that Letter of Credit (L/C) does not have a significant effect on the profitability of PT Bank XYZ. This indicates that although L/C is one of the international banking products that has the potential to generate fee-based income, its contribution to ROA is still low. This could be due to high operational costs, exchange rate fluctuations, or suboptimal transaction volumes. This means that L/C has not become a dominant instrument in the bank's profitability improvement strategy.

### **ADVANCED RESEARCH**

This study has several limitations, namely that the observation only focuses on PT Bank XYZ alone uses monthly financial reports from 2017 to 2024 for 93 months because before 2017 the financial reports at PT Bank XYZ had a different format for the variables analyzed in this study. In addition, for the Kaizen Project variable, this study uses a dummy variable because PT Bank XYZ does not publish specific financial reports for this variable so it is difficult to measure with numbers. Future research is expected to conduct research on other banking companies.

In addition, for reference in further research, further research can use other financial or non-financial variables that are not included in this study such as customer satisfaction surveys, customer retention rates, digital banking service quality, good corporate governance, operational risk management, or customer financial literacy levels. These variables can provide a broader perspective on the factors that influence bank profitability, especially in facing the dynamics of the increasingly competitive and technology-based banking industry.

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