



FINANCIAL DETERMINANTS OF PROFIT MANAGEMENT AND PROFITABILITY OF COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

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ABSTRACT

Profitability is a company's ability to create profits at the level of sales. certain assets or shares. The way to see the prospects of a company is usually seen from the development of the company's Earnings Ability. Several factors are considered to affect the profitability of the company such as the ability to earn, the ability of financial structure, non-financial factors, company size and age of the company. From these factors, researchers conducted research on the influence of these five factors on company Earnings Ability. The test results from this study prove that the ability of earnings and company size significantly influence the company's profitability while the ability of financial structure, non-financial factors and company age significantly negatively affect the company's profitability.

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1. Introduction

The company's financial performance is an indicator for investors to consider making decisions about the company and what it is one way to see the condition of a company. The purpose of measuring the company's financial performance is to determine the level of company profitability. Companies that have good financial performance will automatically increase the value of the company. For this reason, financial performance must be improved and considered by the company's management so that the company can see whether the company has been managed properly or not. The company's way to assess the company's condition is to calculate various financial ratio formulas and the data can also be seen from the financial statements (Amanda, 2019). According to Ruspandi and Asma (2014) he means that profitability is the ability of a company to create profits at certain levels of sales, assets and shares. To look at the prospects of a company that is by looking at the development of the company's profitability.

One example of a profitability case that occurred in Indonesia is the case of PT. Buana Finance Tbk whose profitability ratio declined throughout January to March 2018. This decline can be seen from the decline in the company's return on assets. It is known that at the beginning of 2018, the disbursed financing decreased by 34.7% from last year which was due to a decrease in the level of income achievement and also income related to administrative records also decreased. Considering how important the profitability of a company is, in general the company is operated by someone who has certain expertise and skills with the aim that the expectations of a company can be achieved properly. The main purpose of building a company is to optimize profits by optimizing the value of the company. The expertise of a company in generating profits depends on the effectiveness and efficiency of the operational activities carried out by a company and the resources owned by the company (Rice, 2014).

This research was conducted by researchers so that the case of profitability in Indonesia can be reduced and researchers also hope that this research can help companies to maintain their level of profitability. Researchers also view that profitability plays a very important role for a company because profitability is an important indicator in seeing the prospects of a company in the future. If a company has high profitability, the company will have the opportunity to get a large amount of funds injected. The injection of these funds can be in the form of loans or in the form of capital that the company will use to



reinvest because shareholders must have a desire to receive greater profits from the investments they make in the company. Therefore, the researcher wishes to develop research on “Financial Determinants of Earnings Management and Profitability of Companies Listed on the Indonesia Stock Exchange”.

Profitability is the ability of a company to create profits at a certain level of sales, assets or shares. To look at the prospects of a company that is by looking at the development of the company's profitability. Companies with large levels of profitability, the company has the opportunity to obtain a large source of funds either in the form of loans or capital provided by shareholders that can be used for reinvestment because shareholders definitely expect to get big profits. One of the markers to view the prospects of a company in the future is by looking at the development of the company's profitability. The greater the profitability of a company, the opportunity to obtain an injection of funds will be greater, the injection of these funds can be in the form of loans or in the form of capital that will be used by the company to be reinvested because shareholders expect to receive greater profits from the investments they make. against the company (Ruspandi & Asma, 2014).

According to Ulzanah & Murtaqi (2015) earnings capability which is one of the factors that affect the company's profitability which can be calculated by comparing the profits generated by the company with those issued. Where can be seen firm each share outstanding how much profit will be obtained by the company. According to Samo & Murad (2019), the ability of the financial structure. which is also a factor affecting profitability, refers to the amount of cash or liquid assets owned by the company. There are different opinions regarding the capability of the financial structure. Some researchers state that the higher the debt owned by the company, the better, but there are also researchers who state that the higher the debt means that the company is unable to pay off its debts and is a bad thing for the company (Barus & Leliani, 2013).

According to Ado et al. (2020) non-financial factors are also factors that affect the company's profitability where non-financial factors will show how high the level of profit that will be obtained by a company, dividend payments and the company's financial ability. Taiwo Razaq and E (2017) states that the size of the company is one of the factors that affect the profitability of the company where if a company that is already large has an advantage over a company that has just been established or a small one because large-scale companies must have a larger market share. Compared to small companies and large companies, they must also have greater capital so they can take on large projects that are impossible for small-scale companies to take. The age of the company, which is the length of time a company has been established, is also a factor that affects the company's profitability. Juniarti (2014) states that if the age of the company is long, the company has learned to use company assets efficiently and generate high profits, but there are also different opinions, where it is stated that companies that have been around for a long time tend to be more rigid than other companies, and will lose its competitiveness as stated by (Akben-Selcuk, 2016).

The variables that the researcher uses in this study are earnings capability, financial structure capability, non-financial factors, firm size and firm age. The variables that the researcher uses in this study are earnings capability, financial structure capability, non-financial factors, firm size and firm age. The hypotheses for this study include:

- H₁: Earnings ability has a significant positive effect on the profitability of public companies in Indonesia.
- H₂: The ability of the financial structure has a significant negative effect on the profitability of public companies in Indonesia.
- H₃: Non-financial factors have a significant positive effect on the profitability of public companies in Indonesia.

RESEARCH METHOD

The approach used by the researcher is research that belongs to the historical group where in this approach the object of research is data from companies from 2016 to 2020. This research can also be considered as quantitative research where this research is based on tests using theory from the journals that have been researched beforehand and the figures taken for each variable are obtained from the Indonesian Stock Exchange website and the researcher's data are analyzed using statistical procedures. The researcher uses explanatory research in which the research is used to examine the relationship between several hypothesized variables.

The research object that the researcher uses is all companies listed in the report on the Indonesia Stock Exchange from 2016 to 2020. The sample method that will be used by the researcher this time is using the



purposive sampling method, which is the selection of samples based on predetermined criteria. The criteria that the researcher uses for sampling are companies that are registered and listed on the Indonesia Stock Exchange for a period of 5 years calculated from 2016 to 2020, where the companies used as samples must have complete financial data reports for the 5 years and must also have the data that researchers need to calculate the variables owned by researchers, both independent, dependent and control variables.

Based on Juniarti (2014), data obtained through reading, understanding and studying from existing sources is referred to as secondary data. The research that the researcher examines uses secondary data to be the sample in the test. This secondary data the researcher obtained from the website (<http://www.idx.co.id/>). The data that researchers need to calculate the variables that researchers can find in the financial statements are total assets, total debt, total equity, net income, number of shares outstanding and dividends.

Several stages that can be done first before testing the samples that are owned are tests carried out using the SPSS program where the program is used to test the descriptive statistical values that are analyzed to display various kinds of data samples used to be tested in table format so that they can be understood easily and value *outlier* which is data that is inconsistent with other data that has been collected. The cause of the emergence of data outliers is usually because there is wrong data or there is a failure of the researcher to find out the missing value, so the data must be deleted so that in further testing there will be no error data in the sample studied. Meanwhile, for testing the Chow test, Hausman, F test which was carried out so that researchers knew the significant relationship between the independent and dependent variables and the t test which was commonly used to determine the significant effect of each independent variable on the dependent variable was tested using the *E-views*.

RESULT AND DISCUSSION

The results of descriptive statistical tests that have been carried out with 1733 samples used. The minimum value on profitability is -4.798697 which can be concluded that in the data tested there are companies that experience losses, this is because the company's net profit is lower than the total assets of the following companies are companies that experience this such as Polychem Indonesia Tbk, PT . Bank Agris Tbk, Asuransi Harta Aman Pratama, Akbar Indomakmur Stimec Tbk, Alumindo Light Metal Industry Tbk, Tri Banyan Tirta Tbk and Asahimas Flat Glass Tbk. The maximum value on profitability is 2.192031 where it can be concluded that in the data tested there are several companies that have profits above the average of 0.0072 which include Mahaka Media Tbk, Ace Hardware Indonesia Tbk, Akasha Wira International Tbk and PT. Majapahit Inti Corpora Tbk.

Earnings Ability variable is measured by the profit generated by the company divided by the number of shares outstanding. The minimum value on earnings capability is -102689.6 which is found in the company PT. Acset Indonusa Tbk in 2019 and it can be concluded that the company generates the smallest earnings per share compared to other companies. The maximum value on earnings capability is 37424.24 which is owned by the company Adira Dinamika Multi Finance Tbk where it can be concluded that the company's ability to have the highest earnings per share compared to other companies tested. For the average profit capability is 95,65592.

The next variable is the ability of the financial structure as measured by total liabilities divided by total equity where this variable can determine the company's ability to pay its debts. The minimum value on the ability of the financial structure is -40820.77 which is found in the company Akbar Indomakmur Stimec Tbk in 2017 where it can be concluded that the company has the least debt compared to other companies while the company ABM Investama Tbk in 2016 has a maximum value of 851,6431 where the risk owned by the company is high because the company has a lot of debt so that the results obtained are high. The average financial structure capability is -78.77466.

The next variable is the non-financial factor which is calculated by looking at the dividend percentage of a company. The minimum value obtained for non-financial factors is -35,65632 obtained from the Asahimas Flat Glass Tbk company in 2019 where the company suffered a loss so that the company could not distribute dividends to shareholders. The maximum value obtained is 85.50436 which was also produced by the Asahimas Flat Glass Tbk company in 2018. The average value is 0.185897.

The results of the first control variable study are company size by measuring using the total asset log method which produces a minimum of 20,03157 billion. While the maximum value owned is 34,88715 billion, where the result is still relatively small because it does not exceed the criteria listed on the IDX, which is 50 billion rupiah and the average value generated is 28,70689 billion.

The next variable is the age of the company where it is measured by subtracting the year the company was founded with the current year. The minimum results obtained are 2 years and the maximum results obtained are 108 years while the average obtained is 33 years.

Table 1. Descriptive Statistics Test Results

| Variable | Min | Max | Average | Standard Deviation |
|-----------------------------|-------------|----------|------------|--------------------|
| Profitability | -(4.798697) | 2.192031 | 0.007288 | 0.245021 |
| Earnings Ability | (102689.6) | 37424.24 | 95.65592 | 3084.553 |
| Ability Financial Structure | -(40820.77) | 851.6431 | (78.77466) | 1613.809 |
| Non-Financial Factors | (35.65632) | 85.50436 | 0.185897 | 2.250131 |
| Company Size | 20.03157 | 34.88715 | 28.70689 | 1.8434069 |
| Company Age | 2.000.000 | 108.000 | 33.63220 | 16.20885 |

Test *outlier* show that from the testing of 2210 data that the researcher has entered there are 477 outlier data that must be the researchers deleted so that the total data used for the next test was 1733 data.

Table 2. Chow Test

| Effect Test | Statistics | df | Prob. |
|--------------------------|-------------|------------|--------|
| Cross-section F | 5.697718 | (434.1276) | 0.0000 |
| Cross-section Chi-square | 1849.347141 | 434 | 0.0000 |

From the test results above it can be seen that the test results are 0.0000 and it can be concluded that the best model which the researcher will use is the fixed effect model. This will cause the pooled least square to be a model that the researcher will not use. After finding the model to be used, the next step is to perform the Hausman test to determine the selection of the best regression model to be used in this study.

After getting the results from the Chow test which shows that the model to be used is the fixed effect model. In table 3 it can be seen the results of the Hausman test where it can be seen that the value of the test results is 0.0000 where the results are below 0.05 and the suitable research model is the random effect model. while if the results obtained are more than 0.05 then the best research model which will be used is the fixed effect model.

Table 3. Hausman Test

| Test Summary | Chi-Sq. statistics | Chi-Sqdf | Prob. |
|----------------------|--------------------|----------|--------|
| Cross-section random | 77.870133 | 5 | 0.0131 |

F-testing is carried out so that researchers can find out whether each independent variable affects the dependent variable simultaneously or does not affect it simultaneously. If the results of the F test show a value below 0.05, it can be concluded that the independent variable has a simultaneous effect on the dependent variable and vice versa if the value of the F test results is above 0.05, it can be concluded that the independent variable does not significantly affect the dependent variable. From the tests that the researchers have done, it can be seen from Table 4 that the prob value (F Statistics) is 0.000000. Therefore, it can be concluded that the variables in the form of earnings capability, financial structure capability, non-financial factors, firm size and firm age affect profitability simultaneously.

Tabel 4. Adjusted (R²) Test

| Dependent Variable | Adjusted R Square |
|--------------------|-------------------|
| Profitability | 0.126859 |

The independent variables consist of earnings capability, financial structure capability, non-financial factors, firm size and age of the firm which explain as much as 12.68% of profitability while the remaining 88.32% is influenced by variables that researchers do not use.



Table 5. F Test

| <i>Effects Specification</i> | <i>Prob Test Results (F-statistics)</i> |
|------------------------------|---|
| Cross-section fixed | 0.000000 |

The t-test is carried out with the same purpose as the F-test, where in the t-test the researcher can get results about the partial effect of the independent variable on the dependent variable. This test also produces a value that can determine the effect of the independent variable on the dependent. Where if the results obtained are below 0.05, the researcher concludes that the independent variable significantly affects the dependent variable, whereas if the results obtained are above 0.05, it can be concluded that the independent variable does not significantly affect the dependent variable. The value of the t test can be seen from the sig column, contained in table 5. The positive and negative values of the t test results determine how much influence the independent variable has on the dependent variable.

Table 6. Results of t-test

| Variables | Coefficients | Sig | Conclusion |
|-----------------------------|---------------------|------------|------------------------|
| Earnings Ability | 0.000143 | 0.0000 | Significantly Positive |
| Ability Financial Structure | -0.000006 | 0.4013 | Significantly Negative |
| Non-Financial Factors | -0.004378 | 0.3204 | Significantly Negative |
| Company Size | 0.036642 | 0.0000 | Significantly Positive |
| Company Age | -0.005040 | 0.0008 | Significantly Negative |

Profitability variable is the first independent variable in the researcher's research. In table it can be seen that the earnings capability has a coefficient of 0.000001 which meets the criteria and a significance value of 0.1214 which can be concluded that the earnings ability variable has no significant effect on profitability. company. The results of this test are not the same as the results of researchers Ulzanah & Murtaqi (2015), Latif *et al.* (2017), Aryantika & Sujana (2018), Taiwo Razaq & E (2017) and (Ayulia & Djawoto, 2016).

The second independent variable is the ability of the financial structure. The test results show that the financial structure capability variable has a significant negative effect on the company's profitability because its significance value exceeds the prob value criterion, which is 0.4725 while the coefficient value is -0.000003 which does not meet the prob value criteria because it is above 0.05. This research is the same as research that has been previously studied by researchers Samo & Murad (2019) and Agustina *et al.* (2018). Samo & Murad (2019) and Agustina *et al.* (2018). However, the research results are different from the results obtained by Ulzanah & Murtaqi (2015), Barus & Leliani (2013) and Henny & Susanto (2019) where the results obtained indicate that the ability of financial structure has a significant negative effect on profitability. Researchers Ruspandi & Asma (2014) also have different results from other researchers where the results obtained are the ability of financial structures to have a significant positive relationship with profitability.

Non-financial factor variables which are the last independent variables used by researchers. It can be seen in table shows a coefficient of -0.000433 which meets the criteria for the prob value which is below 0.05 while the nominal significance is 0.9593 which does not meet the criteria for the prob value. So it can be concluded that the non-financial factor variables do not significantly affect the company's profitability. These results are different from previous studies conducted by Al Nimer *et al.* (2015) and Memon *et al.* (2012) where the results obtained are that non-financial factors have a significantly negative effect on profitability while the research conducted by Ado *et al.* (2020), Thafani & Abdullah (2014) and Paminto *et al.* (2016) get the results that non-financial factors have a significant positive effect on profitability.

CONCLUSION

From the research that has been conducted by researchers, it can be concluded that of the five factors that affect the company's profitability, there are two factors that have a significantly positive influence, namely the Earnings Ability factor and company size which means that if the Earnings Ability increases then automatically The company's profitability also increases and larger-scale companies are more likely to get higher profitability while the other three factors have a significantly negative influence on company profitability, namely the fact that the ability of the financial structure, non-financial factors and the age of the

company where if there is an increase or decrease in these three factors, it will have an inverse effect on the profitability of the company.

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