IJSET

THE DETERMINANTS OF FIRM PROFITABILITY IN INDONESIA

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Abstract

Profitability is a metric that evaluates the efficiency of a company's operations, specifically its capacity to generate or accumulate profits. Examining profitability offers a thorough perspective on the efficacy of company policies, which in turn affects the performance of management and, ultimately, the company's financial gains. Nevertheless, diverse studies yield contrasting outcomes when examining the factors influencing a company's capacity to generate profits. Researchers utilize qualitative research methods, particularly systematic literature reviews, to identify shared factors that influence profitability, thereby revealing patterns in these determinants. The researchers examined 9 out of the 49 identified journals and discovered that a company's assets or size, working capital, and expenses have a significant influence on its ability to generate profits

Keywords : ***Company, Profitability, Indonesia***

1. INTRODUCTION

The objective of building a company is inherently tied to the generation of profits and the establishment of a financially sound and well-functioning organization. Evaluating the operational performance of a company is crucial in order to accomplish the objectives of establishing and running a business. Effective evaluations of the company will enable it to ascertain its future trajectory and secure aid or financial backing from external entities. According to companies that receive favorable ratings from investors, they are more likely to receive increased financial backing. This funding can be utilized to support operations and facilitate expansion, ultimately leading to higher profits and improved operational efficiency (Bahri, 2022).

Multiple analyses can be employed to evaluate a company's performance. Applicable analyses encompass profitability, liquidity, and solvency (Wahyuningtyas & Fatmawati, 2021). The profitability ratio is a crucial metric to utilize, as indicated by the analysis of these ratios. An evaluation based on profitability will examine the company's ability to achieve its primary objective of generating a financial gain since its establishment. According to the explanation provided by Lase et al. (2022), profitability ratios allow individuals, groups, organizations, and institutions to evaluate a company's performance amidst the uncertain and highly dynamic business environment of the present era. In addition, Martina & Hidayah (2022) elucidate the significance of profitability in evaluating major corporations. By employing profitability ratios, analysts can gain a comprehensive understanding of the company's overall performance, encompassing its profit-generating capacity, the efficacy of implemented policies, and the level of managerial effectiveness.

Profitability analysis is influenced by various factors that can result in either high or low profitability levels for a company. Lestari et al. (2020), Niati & Rinawati (2019), Pasupati (2020), and Sari & Indriani (2023) assert that profitability is influenced by various factors, including company size, working capital, labor costs, and liabilities. According to Restadila et al. (2020), workload is the primary factor that significantly impacts company profitability, particularly in the context of the COVID-19 pandemic. This study elucidates that numerous companies incur losses as a result of excessive labor burden. Hence, layoffs are frequently implemented by companies, both in the midst of the COVID-19 pandemic and in its aftermath. Swaputra et al. (2018) discovered contrasting findings, indicating that profitability is significantly influenced by working capital. Specifically, companies with higher working capital tend to achieve greater profits. In light of the varying conclusions drawn from previous studies, the researcher aims to identify the key determinants that exert a significant impact on company profitability in this study. The researchers aim to obtain a comprehensive understanding of the factors that impact the financial success of companies in Indonesia through their research.

2. IMPLEMENTATION METHOD

Researchers employed qualitative research methods, specifically systematic analysis review (SLR), to investigate the determinants that impact profitability. According to Harahap (2020), qualitative research methods involve employing an inductive thinking approach to address societal problems and obtain answers. SLR, or Systematic Literature Review, is a research method that involves analyzing patterns in a phenomenon by examining literature reviews or previous research as a source of data (Xiao & Watson, 2019).

The researchers gather data from research journals that employ quantitative methodologies to identify statistically significant factors that impact company profitability. The selected journals are required to be at least 5 years old to ensure the articles remain relevant to current market conditions. In the year 2023. Researchers utilize CrossRef as a database to conduct a search for journals, which are subsequently filtered based on the research question provided by the researcher.
Research Question 1: Does the journal in question address the factors that influence profitability?
Research Question 2: Does the journal employ quantitative research methodologies?

Based on these considerations, researchers determined that out of the 49 journals found, there were 9 research journals that contained relevant articles to be studied.

3. RESULTS AND DISCUSSION

The researcher compiles the research data from various journals into Table 1, summarizing the determinants that influence company profitability based on the selected journals.

Table 1. Summary of Relevant Research / Data Collection Results

No.	Author and Year of Research	Conclusion
1.	Wasisto & Rizal, 2021	Based on this research, it was found that the determinant factors that statistically significantly influence the profitability of the company are the size of the company and the burden or salary costs of employees.
2.	Wulandari et al., 2020	The research in question shows that the factors or determinants that influence the profitability of the company under study are the income and assets owned by the company in question.
3.	Amalia & Kurniasih, 2018	The determinants that significantly influence a company's profitability are working capital and liquidity as well as the assets owned by the company.
4.	Siwi, 2019	This research resulted in the conclusion that the determinants or factors that significantly influence the profitability ratio of the companies studied are employee salary expenses and the size or size of the company's income.
5.	Putri & Suwarno, 2023	Based on this research, working capital and salary expenses from employees are determinants or factors that have a significant influence on the profitability of

		the companies studied in this research.
6.	Krisnawarti & Sholikin, 2019	This research found that there are 3 variables that are key variables or variables that have a significant impact on profitability, namely, income, cash turnover and receivables that the company has from consumers.
7.	Maulana et al., 2022	Researchers found that based on the companies studied, the profitability of the company was significantly influenced by the assets owned by the company and the income owned by the company.
8.	Hafiz & Sari, 2019	The assets owned by the company under study are the only variable that has a significant influence on the profitability of the company under study.
9.	Chusnul, 2018	Based on this research, it was found that a strong factor influencing company profitability is the company's burden factor, while the income factor does not have a significant influence on the company's profitability value.

4. DISCUSSION

Upon thorough analysis and data collection, as evidenced by Table 1, researchers have identified three overarching factors that have a significant impact on a company's profitability. The factors to consider are: (1) the company's size or the value of its assets, (2) the company's capital, and (3) the company's expenses. Furthermore, the researchers discovered that these factors have a greater impact on specific categories of companies compared to others.

Company's Size

Company Size refers to the magnitude or extent of a company, typically measured by the value of assets owned by the company. Researchers have discovered that the size of a company and the extent of its assets are key factors that typically impact the profitability of companies operating in Indonesia, particularly those that are listed on the Indonesian Stock Exchange (BEI / IDX). According to Saputra & Salim (2020), the measurement of company size, also known as firm size, can be determined by assessing the quantity of assets owned by the company. Hence, researchers will analyze the variables of company size and the value of assets possessed by the company, as the assessment of company size is contingent upon the examination of its owned assets.

Researchers have determined that the profitability of companies is influenced by the size of the company or the assets it possesses, based on data collected from previously published studies or journals. In simpler terms, a company's chances of gaining or making profits increase as its assets and size grow. According to the findings of Zefanya Elnathan & Susanto's (2020) research, a company's substantial assets or a large firm size can significantly impact its market share. This is because the public tends to trust larger companies, which enhances their credibility. Conversely, companies with a small firm size may be disregarded by consumers due to perceived lack of credibility, leading to decreased profits resulting from low income. In addition, according to Darmanto & Ardiansari (2017), companies with larger assets have better access to resources, including financial resources. This enables them to pursue innovation and research to enhance and advance the quality of their services, thereby creating a competitive advantage and yielding higher profits.

Previous research has shown that the assets owned by a company, or the size of the company, have the greatest impact on the profitability of banks in Indonesia. This discovery elucidates that bank assets, primarily consisting of deposited funds, grant banks the autonomy to establish credit facilities for the general public, generating revenue through these loans. Therefore, it can be inferred that in the banking sector, the bank's level of assets, particularly in the form of customer deposits, directly correlates with the bank's ability to extend loans and generate profits through interest payments from borrowers. Company's Capital Ownership Capital refers to the resources possessed by a company, such as money, movable objects, non-physical assets, and investments. These resources serve as the company's source of funds to conduct its operations (Dewi et al., 2014). In the context of this research, company capital refers to all assets owned by the company that originate from owners or investors and are not in the form of loans. It is worth noting that loans are sometimes also considered as capital for establishing a business or company, as explained by Handayani (2020).

Based on the researcher's literature review, it was concluded that the company's capital would affect its ability to generate profits. According to Ginting (2018), working capital offers immediate advantages by providing financial stability and assets to support a company's operations and their growth. This allows the company to offer services or goods that are more satisfying to the public, users, or consumers compared to their competitors. As a result, the company can achieve higher profits than before. Having sufficient working capital can enhance a company's capacity to engage in significant or strategic projects that have the potential to generate substantial revenue for the company (Noviani et al., 2019).

Upon examining the gathered literature, researchers discovered that working capital factors exert a more pronounced influence on manufacturing companies, such as factories and construction companies, compared to other types of companies, albeit both types of companies exhibit a substantial impact. This demonstrates that, as stated in the preceding paragraph, manufacturing or construction firms with substantial capital possess a higher bargaining power with clients due to their ability to offer superior services or facilities compared to other companies in the industry. Have significantly less capital available for bidding as a company that intends to offer services to the client in question.

Corporate Expenditures

Researchers have discovered that the financial obligations carried by companies significantly affect their profitability, as indicated by the explanations provided in academic journals and research studies. According to Risal et al. (2020), company expenses refer to all the costs that companies need to pay or incur in order to conduct their operations. These expenses can range from fixed costs like building rent to variable costs like incentive salaries, bonuses, employee overtime, and distribution costs. Researchers in this study discovered that the salary burden of company-owned employees was the primary factor contributing to the "company burden" and had the most substantial impact on the company's ability to generate significant profits.

According to Firdiansyah et al. (2019), the company's profits will be affected by its expenses as these expenses will decrease the company's income. Nevertheless, Kuswindi et al. (2022) presented an alternative perspective by asserting that higher costs correspond to higher company revenue. This distinction is influenced by the assertion made by J et al. (2020) that profitability is not determined by the level of costs, but rather by the optimization of costs. This implies that higher costs can lead to higher income, but the impact on profits depends on the efficiency with which the costs are managed by the company. Profitability in labor-intensive businesses or those with a large workforce, such as factories or manufacturing companies, is significantly impacted by increased labor costs, according to research conducted and analyzed from various journals.

5. CONCLUSION

Researchers analyzed 9 journals that were relevant to the research from a total of 49 journals found using the CrossRef application and found that there were 3 major factors that generally had an influence on the profitability of the companies studied. These factors include those listed below:

1. The size of the company and the value of the assets owned by the company will influence the ability of a company to make a profit because the greater the asset resources owned, the greater the company's freedom to carry out development in the business sector which will increase the company's income. Generally, this influence occurs in the banking sector.
2. The working capital owned by the company will have an impact on the profitability of the company concerned because with the large amount of capital the company has, the company will be more likely to provide quality services or products and generally working capital will affect the income or profit of manufacturing companies or construction company.
3. The costs incurred by the company will influence how the company's ability to gain profits means that costs must be managed optimally so that the costs incurred by the company can have a positive impact instead of reducing the profits obtained by the company concerned

Acknowledgement

This article is a part of joint research and publication between Faculty of Economics and Business, Universitas Nasional, Jakarta and Faculty of Business, Economics, and Social Development, Universiti Malaysia Terengganu.

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