E-ISSN 2988-2664

UPH UNIVERSITAS PELITA HARAPAN | FACULTY OF ECONOMICS AND BUSINESS

PROCEEDING 4th ICONENT

THE FUTURE OF WORK: ADVANCING EMPLOYMENT AND ENTREPRENEURSHIP FOR SUSTAINABLE ECONOMIC GROWTH

JAKARTA, NOVEMBER 14 2024

CONTACT US

iconent@uph.edu

iconent.uph.edu

Jalan M.H. Thamrin Boulevard No.1100 Lippo Village, Tangerang 15811. Indonesia

IConEnt

The 4th International Conference on Entrepreneurship

THE IMPACT OF COVID-19 PANDEMIC TOWARDS STOCK RETURN IN INDONESIA

(Empirical Study on Companies Listed in IDX during period of 2019–2020)

Meiliana Jaunanda[a], Gabrielle Angelica Beatrice Inzen[b]

[a]Universitas Pelita Harapan, Tangerang, Indonesia
[b]Universitas Pelita Harapan, Tangerang, Indonesia

ABSTRACT

This research was conducted to analyze the impact of Return on Asset (ROA), Market Capitalization, COVID-19 Pandemic, and Stock Sector towards Stock Return in Indonesia. The independent variables used in this study are Return on Asset (ROA), Market Capitalization, Daily Increase of COVID-19 Total Confirmed Cases, and Stock Sector as a dummy variable. The control variables used in this study are Debt-to-Equity Ratio (DER) and Company Size. The dependent variable used in this study is Stock Return. The population of this study is the companies that are listed in Indonesia Stock Exchange (IDX) during 2019 and 2020. A total of 776 samples are collected based on the purposive sampling method used in this study. The results showed that: (1) Return on Asset (ROA) has a significant positive impact towards stock return; (2) Market Capitalization has a significant positive impact towards stock return; (3) Daily Increase of COVID-19 Total Confirmed Cases has a significant negative impact towards stock return; and (4) Stock Sector has an insignificant negative impact towards stock return.

Keywords: **Return on Asset, Market Capitalization, COVID-19 Pandemic, Stock Returns.**

INTRODUCTION

Indonesia, the largest economy in Southeast Asia, has been recognized for its substantial economic growth, ranking 7th globally by GDP and 15th by nominal GDP. The country's stock market has evolved significantly, with the number of listed companies growing from 24 in 1987 to over 700 by 2020. In an effort to further stimulate the market, the Indonesian government launched the "Yuk Nabung Saham" campaign in 2015 to promote stock investing among the population. This initiative aimed to transition Indonesia from a savings-focused society to one more engaged in investment, leading to a notable increase in market participation, with capital market investors rising from 1.6 million in 2018 to 6.1 million by August 2021.

Despite these advancements, Indonesia's annual GDP growth has been slowing, dropping from 6.224% in 2010 to 5.018% in 2019. This economic deceleration was exacerbated by the COVID-19 pandemic, which led to a global economic downturn, causing Indonesia’s GDP to shrink by 2.04% in 2020. As of September 2021, Indonesia had over 4.1 million confirmed COVID-19 cases, and globally, the pandemic caused severe disruptions, including to stock markets.

Historically, stock returns have been impacted by significant events, such as pandemics. The 2002–2004 SARS outbreak and other health crises like Zika and Ebola have all shown the potential to influence stock returns negatively. During the COVID-19 pandemic, Indonesia's stock market also experienced substantial volatility. The Jakarta Composite Index saw a 16% drop in March 2020 following the announcement of the country’s first COVID-19 cases, though the market began to recover after social distancing measures were implemented.

Stock return, the profit or loss investors realize from their investments, can be analyzed through two main approaches: technical analysis and fundamental analysis. Technical analysis involves studying past price movements to predict future returns, while fundamental analysis assesses a company's financial health through indicators like profitability ratios, leverage ratios, and market value ratios. Among these, return on assets (ROA), market capitalization, and debt-to-equity ratio (DER) are critical in understanding a company's performance and its impact on stock returns.

ROA measures how efficiently a company uses its assets to generate profit, with a higher ROA indicating better profitability and potentially higher stock returns. A company with a high ROA is more attractive to investors, which can drive up its stock price and returns. Similarly, market capitalization, which reflects the total value of a company's outstanding shares, positively correlates with stock return as higher market caps signal investor confidence and company stability.

On the other hand, DER, which measures a company's reliance on debt, has a negative impact on stock returns. A high DER suggests that a company is heavily indebted, which can deter investors due to the increased financial risk. Companies with lower debt are generally seen as more stable, making their stocks more attractive and increasing their returns.

Another important factor in determining stock return is company size, typically measured by total assets. Larger companies are perceived as safer investments due to their ability to generate consistent profits and weather economic downturns. Consequently, stock returns tend to be higher for larger companies compared to smaller, riskier firms.

The COVID-19 pandemic affected different sectors of the Indonesian stock market unevenly. Sectors like healthcare and consumer goods experienced positive stimuli due to increased demand for medical services and essential goods. Conversely, sectors like transportation were negatively impacted by social distancing measures and travel restrictions. The varying responses of different sectors to the pandemic illustrate how external shocks can have diverse effects on stock performance.

This research builds upon previous studies, such as those by Abdullah M. Al-Awadhi and colleagues, which analyzed the impact of COVID-19 on stock returns. While earlier research focused on market capitalization and market-to-book ratio, this study introduces additional variables like ROA, DER, and company size to provide a more comprehensive understanding of stock return determinants. By incorporating these financial indicators, the research aims to offer a deeper analysis of how company fundamentals, combined with market and pandemic-related factors, influence stock returns in Indonesia.

There is also a significant gap in research on the effects of COVID-19 on stock returns, particularly in relation to Indonesia's stock market. Previous pandemics, such as SARS and the Spanish flu, were less impactful on global stock markets compared to COVID-19, which has caused unprecedented economic and financial disruptions worldwide. Understanding how different factors, including company performance metrics and sector-specific dynamics, interact with such an extraordinary event can provide valuable insights for investors and policymakers.

In summary, the COVID-19 pandemic has underscored the importance of both financial fundamentals and external events in shaping stock market performance. By examining the roles of profitability, leverage, market valuation, and company size, this research seeks to shed light on the

key drivers of stock return in the context of a global health crisis, offering practical implications for investors navigating the volatile market environment.

LITERATURE REVIEW

Theoretical Framework

Efficient Market Hypothesis

The efficient market hypothesis suggests that the market is said to be efficient when the prices are a full reflection of all existing information. There are three information subcategories: First, historical information such as historical prices of the stock; second, publicly available information such as annual income, stock split, etc.; and third, insider information that is retrieved monopolistically (Anggraini, 2021). According to (Shleifer, 2003), the efficient market hypothesis contains three assumptions: 1) Investors are assumed to act rationally and would value stocks based on rational reasoning. 2) Some of the investors would act irrationally. However, their actions are assumed to be random, hence there would be no significant effect as they will cancel each other out. 3) Rational arbitrary investors would minimize the effects of irrational investors towards the stock prices in the capital market. According to (Hasanuddin, 2015), there are several things that should be fulfilled in order to achieve an efficient market: 1) There are a big number of investors who are considered rational and are eager to gain maximum profit. Those investors are actively participating in the market by analyzing, evaluating, and trading. 2)All market participants can receive information at the same time, at a low cost, and in an easy way. 3) The information sent out is random. 4) Investors would quickly react towards the information received; hence stock prices will move according to their appropriate value. This means, because the information sent out is random, it means that each of the changes in stock prices are both independent and random. The changes in stock prices today are not affected by the changes in the past as the recent change is a result of the new information received recently.

Conceptual Framework

Model 1 (Year 2019)

Model 1 uses data from the year 2019.

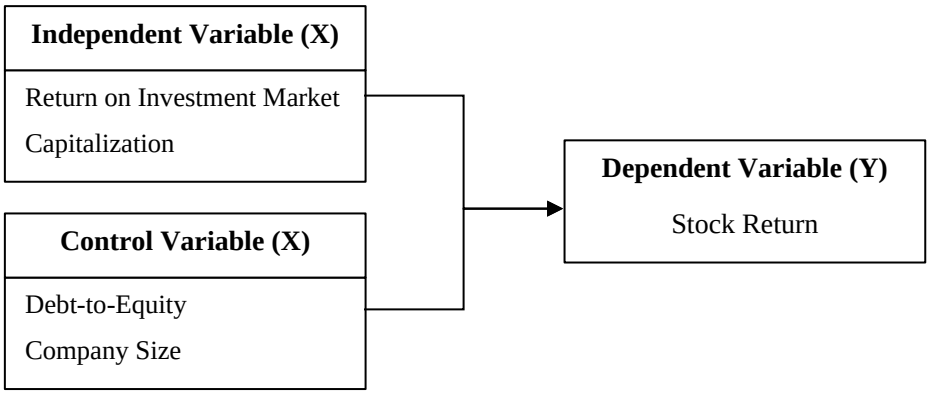


Figure 2.2 Conceptual Framework Model 1

Model 2 (Year 2020)
Model 2 uses data from the year 2020.

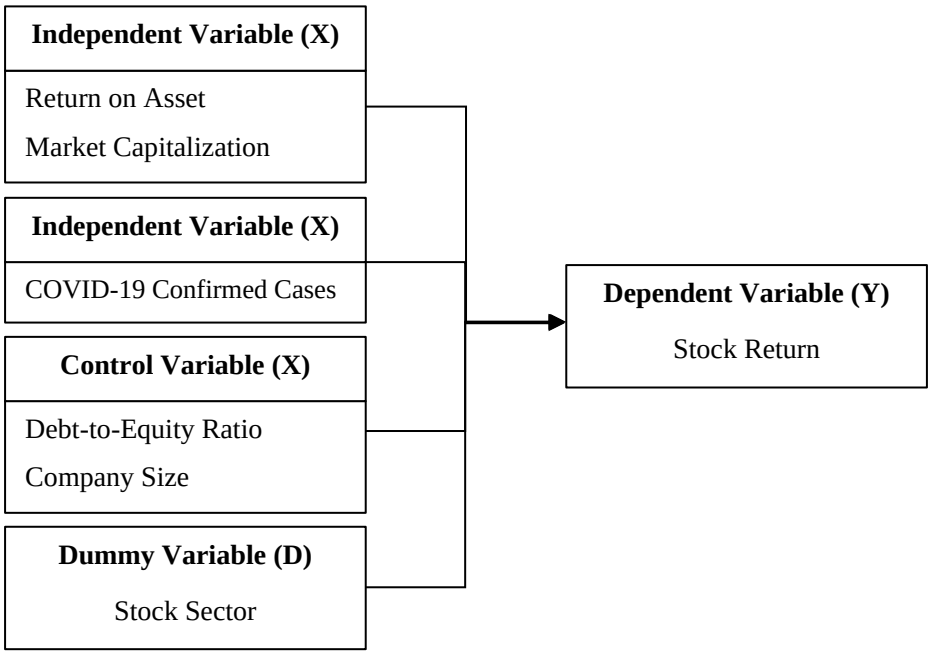


Figure 2.3 Conceptual Framework Model 2

Hypothesis Development

The Impact of Return on Asset Towards Stock Return in Indonesia

Return on asset is a financial ratio that measures a company's profitability. This ratio can be used to indicate a company's ability to create profits based on the quantity of assets it owns. The better the return on investment (ROI), the more profitable the company is.A study conducted by (Nugroho, 2020) found that ROA has significant positive effect towards stock return. Another study conducted by (Mogonta & Pandowo, 2016) also agrees that ROA has a significant positive effect towards stock return. A study conducted by (Permatasari et al., 2019) found that ROA has significant effects towards stock return. However, a study conducted by (Mangantar et al., 2020) found that ROA has insignificant negative effects towards stock return. Hence, based on the statements above, the hypothesis that can be drawn is:

H1: Return on asset has a positive impact towards stock return

The Impact of Market Capitalization Towards Stock Return in Indonesia

Market capitalization is a measure of total value in money of a company's outstanding share of stock. Market capitalization can be used to compare one company's stock with the others. Market capitalization can help compare the size of companies. A study conducted by (Tahir et al., 2013) found that market capitalization has a positive and significant effect towards stock return. Another study conducted by (Wahyudi et al., 2020) also found that market capitalization has a positive effect towards stock return. Hence, based on the statements above, the hypothesis that can be drawn is:

H2: Market capitalization has a positive impact towards stock return.

The Impact of Daily Increase of COVID-19 Total Confirmed Cases Towards Stock Return in Indonesia

The daily increase of COVID-19 total confirmed cases measures the total number of people tested positive for COVID-19 in one particular day. A study conducted by (Anh & Gan, 2020) revealed that daily cases of COVID-19 negatively affect stock return significantly. This result is on par with a study done by (Tek & Madai, 2021) which stated that COVID-19 daily infected cases are significantly negatively related with stock returns. Another study conducted by (Xu, 2021) also agrees that stock return is negatively affected by COVID-19 cases. These results are consistent with a study conducted by (Zach, 2003) which stated that stock returns may be affected by major events. Hence, based on the statements above, the hypothesis that can be drawn is:

H3: Daily increase of COVID-19 total confirmed cases has a negative impact towards stock return.

The Impact of Stock Sector Towards Stock Return in Indonesia

Stock sector is defined as the categorization of companies' stock based on its sector of operations. The Indonesia Stock Exchange categorized the stock into 9 sectors: agriculture; mining; basic industry and chemicals; miscellaneous industry; consumer goods; property, real estate and building construction; infrastructure, utility and transportation; finance; and trade, service and investment. These stock sectors have different amounts of stocks listed in them. For the purpose of this study, several stock sectors that are viewed to be more impacted by COVID-19 are getting the value 1, whereas the stock sectors that are not affected are getting the value 0. A study conducted by (Karim & Saba, 2021) shows different results regarding the effect of COVID-19 cases towards stock return. The study concluded that different sectors' stock return reacted differently towards COVID-19 cases. Several sectors were impacted by the number of COVID-19 cases, while the other sectors were not impacted. Another study conducted by (Trisnowati & Muditomo, 2021) also found that only 6 out of 9 stock sectors in Indonesia are affected by COVID-19. Hence, based on the statements above, the hypothesis that can be drawn is:

H4: Stock sector has a negative impact towards stock return.

METHODOLOGY

Sample

Sample is defined as a certain portion of a population (Banerjee & Chaudhury, 2010). Purposive sampling, also known as judgment sampling, is the intentional selection of a participant based on the individual's characteristics (Etikan, 2016). Based on this interpretation, this research uses purposive sampling technique by defining a few characteristics and criteria that must be fulfilled in order to qualify as a part of the sample. The sample data used for Model 1 is taken from the year 2019, whereas the sample used for Model 2 is taken from the year 2020. The criteria for the samples are as follows:

1. The company is listed on the Indonesia Stock Exchange during the period of 2018–2020.
2. The company's IPO date is before 1 January 2018.
3. The company should publish annual financial reports during the period of 2019–2020.

4. The company is not experiencing bankruptcy.
5. The company published financial reports that contain information that is necessary for this research.
6. The company is not operating in the financial sector.

Empirical Model

The empirical models used to analyze the impact of COVID-19 pandemic towards stock return in Indonesia are as follows:

Model 1 (Year 2019)

$Y = \alpha + \beta1X1 + \beta2X2 + \beta3X3 + \beta4X4 + e$

Model 2 (Year 2020)

$Y = \alpha + \beta1X1 + \beta2X2 + \beta5X5 + \beta3X3 + \beta4X4 + \square0D + e$

where:

Y : Stock return
α : Constant
β1, 2, 3, 4, 5 : Regression coefficient
□0 : Regression coefficient
X1 : Return on asset
X2 : Market capitalization
X3 : Debt-to-equity ratio
X4 : Company Size
X5 : COVID-19 cases
D : Stock sector
e : error

RESULT

Descriptive Statistical Analysis

Descriptive statistical analysis provides a summarization of the quantitative explanations and the characteristics of the data analyzed by using total number of observations (N), maximum value, minimum value, average value (mean), and standard deviation.

TABLE 1
DESCRIPTIVE STATISTICS

	N	Minimum	Maximum	Mean	Std. Deviation
STOCK_RETURN	776	-.9564	2.0423	-.105553	.3365343
ROA	776	-.3143	.3163	.013050	.0769456
DER	776	-3.9969	12.1409	.653370	1.0016123
COM_SIZE	776	10.6474	19.6790	14.976026	1.6632418
M_CAP	776	2.1958	12.9024	7.396371	1.8599009
COV_CASE	776	.0000	7.6161	3.808042	3.8104982
D_SECTOR	776	0	1	.81	.395
Valid N (listwise)	776				

Coefficient of Determination (R^2)

TABLE 2
COEFFICIENT OF DETERMINATION (R^2) RESULT FOR REGRESSION MODEL 1 AND 2

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.354[a]	.126	.121	.3154999
2	.452[b]	.204	.198	.3014155
a. Predictors: (Constant), M_CAP, DER, ROA, COM_SIZE				
b. Predictors: (Constant), M_CAP, DER, ROA, COM_SIZE, D_SECTOR, COV_CASE				
c. Dependent Variable: STOCK_RETURN				

Coefficient of determination (R^2) test is useful to test how far the independent variables can explain and represent the dependent variable. As seen on Table 4.7, the R Square (R^2) value of regression model 1 is 0.126. For a more accurate result, we should use the value of the Adjusted R Square, which is 0.121. This means the independent variables in this study manage to explain the dependent variable as much as 12.1%, whereas the remaining 87.9% is explained by other factors and variables.

However, for regression model 2, as seen on Table 4.7, the R Square (R^2) value is 0.204, which is 0.078 higher than model 1. For a more accurate result, we can refer to the Adjusted R Square value, which is 0.198 for model 2, resulting in a 0.077 increase compared to model 1. This means the independent variables in model 2 are able to explain the dependent variable as much as 19.8%, whereas the remaining 80.2% is explained by other factors and variables. This shows that the independent variables in model 2 can explain the dependent variable 7.7% more than model 1.

Simultaneous Significance (F-Statistics)

Table 3 F-Statistics Result for Regression Model 1 and 2

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.027	4	2.757	27.696	.000[b]
	Residual	76.746	771	.100		
	Total	87.773	775			
2	Regression	17.908	6	2.985	32.853	.000[c]
	Residual	69.865	769	.091		
	Total	87.773	775			

a. Dependent Variable: STOCK_RETURN
b. Predictors: (Constant), M_CAP, DER, ROA, COM_SIZE
c. Predictors: (Constant), M_CAP, DER, ROA, COM_SIZE, D_SECTOR, COV_CASE

A simultaneous significance (F-statistics) test is used to analyze whether the regression model's independent variables as one whole affects the dependent variable. Looking at Table 4 we can see that the F value for regression model 1 (year 2019) equals to 27.698 with a significance level of 0. This significance level is lower than $\alpha = 0.05$. From this, we can conclude that the independent variables from regression model 1, which are return on asset (ROA) and market capitalization (M_CAP), simultaneously and significantly affect the dependent variable. As a

result, the regression model 1 (year 2019) can be used to explain the dependent variable stock return (STOCK _RETURN).

Looking at Table 3, we can see that the F value for regression model 2 equals to 32.853 with a significance level of 0. This significance level is lower than $\alpha = 0.05$. From this, we can conclude that the independent variables from regression model 2 (year 2020), which are return on asset (ROA), market capitalization (M_CAP), total increase in daily covid confirmed cases (COV_CASE), and stock sector (D_SECTOR), simultaneously and significantly affects the dependent variable. As a result, the regression model 2 (year 2020) can be used to explain the dependent variable stock return (STOCK_RETURN).

Partial Significance (t-Statistics)

TABLE 4
T-STATISTICS RESULT FOR REGRESSION MODEL 1 AND 2

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.577	.126		4.577	.000
	ROA	.885	.165	.202	5.376	.000
	DER	.013	.012	.038	1.077	.282
	COM_SIZE	-.085	.013	-.422	-6.806	.000
	M_CAP	.078	.012	.430	6.716	.000
2	(Constant)	.608	.122		5.003	.000
	ROA	.681	.159	.156	4.282	.000
	DER	.010	.011	.029	.845	.399
	COM_SIZE	-.075	.012	-.373	-6.267	.000
	M_CAP	.071	.011	.392	6.338	.000
	COV_CASE	-.025	.003	-.282	-8.592	.000
	D_SECTOR	-.035	.028	-.041	-1.259	.209

Significance (t) test can be used to analyze whether each of the independent variables has any significant effect towards the dependent variable. Looking at Table 4 based on the significance level of the t-test, most of the independent variables in regression model 1 (year 2019) significantly affect the dependent variable. The independent variables that have a significance level that is lower than 0.05 are return on asset (ROA) and market capitalization (M_CAP). These independent variables are considered to have a partial significant effect towards the dependent variable stock return (STOCK_RETURN), which means each of the independent variables strongly affects stock return.

Looking at Table 4, based on the significance level of the t-test, most of the independent variables in regression model 2 (year 2020) significantly affect the dependent variable. The variables that have a significance level that is lower than 0.05 are return on asset (ROA), market capitalization (M_CAP) and covid confirmed cases (COV_CASE). These independent variables

are considered to have a partial significant effect towards the dependent variable stock return (STOCK_RETURN), which means each of the independent variables strongly affects stock return. However, the dummy variable stock sector (D_SECTOR) has a significance level of 0.209, which is higher than 0.05. This means, the dummy variable stock sector (D_SECTOR) has insignificant effect towards stock return (STOCK_RETURN).

Analysis of Regression

The Impact of Return on Asset towards Stock Return

Based on the partial significance test (t-test) results on Table 4 the independent variable return on asset (ROA) has a positive significant impact towards the dependent variable stock return (STOCK_RETURN). In regression model 1 (year 2019), ROA has a significance level of 0.000, which is under the 5 percent significance rate ($\alpha = 0.05$). ROA also has an unstandardized beta of 0.885. In regression model 2 (year 2020), ROA has a significance level of 0.000, which is under the 5 percent significance rate ($\alpha = 0.05$). ROA also has an unstandardized beta of 0.681. As a result, we accept H_1 that return on assets has a positive impact towards stock return.

Investors tend to analyze companies' performance by looking at their annual financial report. They use tools such as financial ratios to measure the company's performance. One of the financial ratios that investors often use is the profitability ratio return on assets. This ratio measures how well a company can generate profits using their assets. As the main objective of a business in making profits, companies with high profitability rates are more interesting for investors. Investors are more likely to invest in a stock from a company that is more profitable, which translates to having a higher ROA rate. This then makes the price of the stocks increase, which results in a higher stock return. Companies with higher profitability rates are also more likely to grow and expand their business. This is because they can use the profits earned to further improve their business operations. Another aspect that investors seek in a company is growth. As a company grows, that company increases in value, which means their stock is likely to also increase in value. This then results in a higher stock return, which is what investors are seeking for.

Comparing results from regression model 1 and 2, we can see that both models gave significant results. The significance level for both model 1 and 2 is 0, which is below the 5 percent significance rate ($\alpha = 0.05$). This means, ROA for both year 2019 and 2020 significantly impacts stock return. This proves that even with the existence of an unusual major event such as COVID-19 pandemic, ROA maintains its position as a significant factor that affects stock return. Even amid high levels of uncertainty, investors still believe that ROA is an important financial ratio that is considered when investing in stocks.

The result of this study is consistent with the first hypothesis (H_1) which states that ROA has a positive impact towards stock return. This is also consistent with the study conducted by (Mogonta & Pandowo, 2016) and (Nugroho, 2020) which states that ROA has a significant positive effect towards stock return. However, it is inconsistent with the study conducted by (Mangantar et al., 2020) which states that ROA has insignificant negative effect towards stock return.

The Impact of Market Capitalization towards Stock Return

Based on the partial significance test (t-test) results on Table 4 the independent variable market capitalization (M_CAP) has a positive significant impact towards the dependent variable stock return (STOCK_RETURN). In regression model 1 (year 2019), M_CAP has a significance level of 0.000, which is under the 5 percent significance rate ($\alpha = 0.05$). M_CAP also has an unstandardized beta of 0.078. In regression model 2 (year 2020), M_CAP has a significance level of 0.000, which is under the 5 percent significance rate ($\alpha = 0.05$). M_CAP also has an unstandardized beta of 0.071. As a result, we accept H_2 that market capitalization has a positive impact towards stock return.

Market capitalization measures a company's outstanding share of stock's total value in money. It is generally used as a tool to compare one stock to another. It can also be used to compare the size of a company and its stock valuation. Generally, investors are more willing to invest their money in stocks with higher valuation. This is because stocks that are high in value are usually owned by larger companies. Larger companies have more resources and therefore are more likely to generate profits. They are also more likely to grow and expand their business because they have more resources to do so. In addition to that, larger companies are also less likely to go bankrupt. This causes investors to have more trust in companies that are larger in size, and they proceed to invest in their stocks. Another reason investors prefer to invest their money in larger cap stocks is because they are less volatile. This gives investors a sense of security, while also giving investors a good future prospect.

Humans are generally loss averse. They tend to minimize and escape from loss. This is also prevalent in investors. Because investors are loss averse, they are more likely to invest their money in stocks with mid to high market capitalization. Market capitalization shows us a company's business development stage. Larger cap stocks are considered mature and are lower in risk, but also lower in growth prospect. Because larger cap companies have grown and mature so much, there is less room for it to grow exponentially. Their growth rate is lower compared to the newly established companies. Nevertheless, because they have stood their ground and built that foundation, it is also less likely for larger cap companies to go bankrupt, hence the risk of loss is much lower. Middle cap stocks are usually companies that have passed their early stage of growth, have built a good foundation, and are ongoing to reach their maximum potential and maturity. These stocks offer higher potential in growth but also with a higher risk. Because middle cap companies have not reached their maturity, there is still room for growth and expansion. Their growth rate is higher than larger cap companies, but lower than the smaller cap companies. However, the risk of bankruptcy and loss for middle cap companies is higher than large cap companies. Investors who are seeking higher growth prospects with the exchange of higher risk tend to invest their money in middle cap companies. Lastly, we have small cap companies. Smaller cap companies offer bigger potential for growth and expansion. However, these are the companies who just started their journey and have not built a strong foundation. Hence, these companies are more likely to file for bankruptcy. Investing in a small cap stock is highly risky. Therefore, investors are less likely to invest their money in smaller cap stocks. Usually, only a small portion of an investor's portfolio will go to small cap stocks. Because smaller cap stocks have higher volatility, and with a major unusual event such as COVID-19 pandemic happening, the volatility

of the stock market is even higher. This causes investors to invest less on smaller cap stocks, which causes stock prices to decrease, and stock return also decreases.

The result of this study is consistent with the second hypothesis (H_2) which states that market capitalization has a positive impact towards stock return. This is also consistent with the study conducted by (Tahir et al., 2013) and (Wahyudi et al., 2020) which states that market capitalization has a significant positive effect towards stock return.

The Impact of Daily Increase of COVID-19 Total Confirmed Cases towards Stock Return

Based on the partial significance test (t-test) results on Table 4 the independent variable covid case (COV_CASE) has a negative significant impact towards the dependent variable stock return (STOCK_RETURN). In regression model 2 (year 2020), COV_CASE has a significance level of 0.000, which is under the 5 percent significance rate ($\alpha = 0.05$). COV_CASE also has an unstandardized beta of –0.075. As a result, we accept H_3 that the daily increase of COVID-19 total confirmed cases has a positive impact towards stock return.

The COVID-19 pandemic can be categorized as a major unusual event. A major event can affect stock returns as investors' behavior can be affected by that major event. The increase in total confirmed cases causes investors to be fearful as it relates to the severity of COVID-19 pandemic. This fearful behavior causes investors to change their investing pattern and reduces their trust in stocks. A lot of investors choose to withdraw their money from the stock market. This causes the price of stocks to fall, hence reducing the stock return.

The decrease in stock return is also affected by the COVID-19 protocols and lockdowns. As social distancing protocols are instilled, consumer behavior changes and their buying pattern also changes. Lockdown policies also cause production rate to decrease. This means companies cannot function properly, hence causing them to generate less profits. This causes investors to be less willing to invest their money on stocks, which eventually causes a decrease in stock price and stock return.

The result of this study is consistent with the third hypothesis (H_3) which states that the daily increase of COVID-19 total confirmed cases has a negative impact towards stock return. This result is consistent with a study done by (Tek & Madai, 2021) which stated that COVID-19 daily infected cases are significantly negatively related with stock returns. It is also consistent with a study conducted by (Xu, 2021) which agrees that stock return is negatively affected by COVID-19 cases.

The Impact of Stock Sector towards Stock Return

Based on the partial significance test (t-test) results on Table 4 the dummy variable stock sector (D_SECTOR) has a negative but insignificant impact towards the dependent variable stock return (STOCK_RETURN). In regression model 2 (year 2020), D_SECTOR has a significance level of 0.209, which is greater than the 5 percent significance rate ($\alpha = 0.05$). D_SECTOR also has an unstandardized beta of –0.033. As a result, we accept H_4 that the stock sector has a negative impact towards stock return.

Stocks in Indonesia are divided into 9 sectors: agriculture; mining; basic industry and chemicals; miscellaneous industry; consumer goods; property, real estate and building construction; infrastructure, utility and transportation; finance; and trade, service and investment.

These sectors are categorized by their business operations. Different stimuli have different effects towards each sector. Based on the 2020 GDP growth rate data provided by Statistics Indonesia, the stock sectors most affected by COVID-19 pandemic are: trade; property, real estate, and building construction; mining; infrastructure, utility, and transportation; consumer goods; and basic industry and chemicals. However, based on the result of this study, the stock sector does not significantly affect stock return. The significance level of D_SECTOR is 0.209, which is way above the 5 percent significance rate ($\alpha = 0.05$). This result is concurrent with a previous study conducted by (Mugiarni & Wulandari, 2021) which reveals that only two out of six chosen stock sectors have significant impact towards stock return, which are consumer goods and basic industry and chemicals. This means most of the stock sectors do not have significant impact towards stock return in Indonesia.

The result of this study is consistent with the fourth hypothesis (H_4) which states that the stock sector has a negative impact towards stock return. This is consistent with the study conducted by (Karim & Saba, 2021) and (Trisnowati & Muditomo, 2021) which states that several stock sectors are more affected than others regarding to COVID-19.

CONCLUSION

This study is conducted to learn the impact of COVID-19 pandemic towards stock return. This research topic is interesting as COVID-19 pandemic is a relatively new and unusual phenomenon. This study uses independent variables namely return on asset (ROA), market capitalization and daily increase of COVID-19 total confirmed cases. This study also uses a dummy variable of the stock sector which represents the sectors most affected by COVID-19 pandemic. The dependent variable for this study is stock return. The companies observed in this study are the public companies listed in Indonesia Stock Exchange (IDX) during the period of 2019 to 2020. There are a total of 388 companies that fulfills the criteria described in Chapter 3 and are used as samples in this study. Based on the results of the tests done to the models used in this study, the author found that:

1. Return on asset has a significant positive impact towards stock return. This means we can accept the first hypothesis (H1) as ROA has a positive impact towards stock return.
2. Market capitalization has a significant positive impact towards stock return. This means we can accept the second hypothesis (H2) as market capitalization has a positive impact towards stock return.
3. Daily increase of COVID-19 total confirmed cases has a significant negative impact towards stock return. This means we can accept the third hypothesis (H3) as daily increase of COVID-19 total confirmed cases has a negative impact towards stock return.
4. Stock sector has an insignificant negative impact towards stock return. This means we can accept the fourth hypothesis (H4) as the stock sector has an impact towards stock return.

Implication of Results

Based on the results of this study, the author is able to recognize several implications, such as:
This study can help investors in making decisions regarding their investment in the Indonesia Stock Exchange (IDX), especially during the era of COVID-19 pandemic. It is hoped that investors can have a better understanding regarding the use of financial ratios and which financial ratios

have greater impact towards stock return. Moreover, it is hoped that investors can further understand how the daily increase of COVID-19 total confirmed cases in Indonesia impacts the stock return in Indonesia Stock Exchange (IDX). This study can help future and further researchers to have a better knowledge and understanding regarding the impact of COVID-19 pandemic towards stock return in Indonesia.

REFERENCE

Acheampong, P., Agalega, E., & Shibu, A. K. (2014). The Effect of Financial Leverage and Market Size on Stock Returns on the Ghana Stock Exchange: Evidence from Selected Stocks in the Manufacturing Sector. *International Journal of Financial Research*, *5*(1). https://doi.org/10.5430/IJFR.V5N1P125

AFM. (2020, June 3). *Indonesia Economy – Tremendous progress over the last two decades*. https://www.asiafundmanagers.com/int/indonesia-economy-outlook/

Anggraini, D. (2021). Dampak COVID-19 Terhadap Perubahan Harga Saham. *JBEMK*, *1*(1), 1–13. https://ihsg-idx.com/

Anh, D. L. T., & Gan, C. (2020). The impact of the COVID-19 lockdown on stock market performance: evidence from Vietnam. *Journal of Economic Studies*, *48*(4), 836–851. https://doi.org/10.1108/JES-06-2020-0312

Badan Pusat Statistik. (2021). *Pertumbuhan Ekonomi Indonesia Triwulan IV-2020*. https://www.bps.go.id/pressrelease/2021/02/05/1811/ekonomi-indonesia-2020-turun-sebesar-2-07-persen--c-to-c-.html

Banerjee, A., & Chaudhury, S. (2010). Statistics without tears: Populations and samples. *Industrial Psychiatry Journal*, *19*(1), 60. https://doi.org/10.4103/0972-6748.77642

Brooks, C. (2014). *Introductory Econometrics for Finance* (3rd ed.). MPG Printgroup Ltd. http://prof.iauba.ac.ir/images/Uploaded_files/Introductory%20Econometrics%20for%20Finance%20(2014)[3523178].PDF

Burns, A., Mensbrugghe, D. van der, & Timmer, H. (2006). Evaluating the Economic Consequences of Avian Influenza. *Global Development Finance*. http://www.worldbank.org/gdf2006.

Chen, M. H., Jang, S. C. (Shawn), & Kim, W. G. (2007). The impact of the SARS outbreak on Taiwanese hotel stock performance: An event-study approach. *International Journal of Hospitality Management*, *26*(1), 200–212. https://doi.org/10.1016/j.ijhm.2005.11.004

Claessens, S., & Kose, M. A. (2013). Financial Crises: Explanations, Types and Implications. *SSRN Electronic Journal*. https://doi.org/10.2139/SSRN.2295201

Clauss, F. J. (2010). *Corporate financial analysis with Microsoft Excel*. McGraw Hill.

Connelly, B. L., Certo, S. T., Ireland, R. D., & Reutzel, C. R. (2011). Signaling theory: A review and assessment. In *Journal of Management* (Vol. 37, Issue 1, pp. 39–67). https://doi.org/10.1177/0149206310388419

Cousineau, D., & Chartier, S. (2010). Outliers detection and treatment: a review. *International Journal of Psychological Research*, *3*(1), 58–67. https://doi.org/10.21500/20112084.844

Dang, C., & Li, Z. F. (2013). Measuring Firm Size in Empirical Corporate Finance. *SSRN Electronic Journal*. https://doi.org/10.2139/SSRN.2345506

Davis, C. P. (2021, March 29). *Medical Definition of Pandemic*. MedicineNet. https://www.medicinenet.com/pandemic/definition.htm

Dwi Putra R.A., & Rahmanti, W. (2013). Return dan Risiko Saham Pada Perusahaan Perata Laba dan Bukan Perata Laba. *Jurnal Dinamika Akuntansi*, *5*(1), 55–66.

Etikan, I. (2016). Comparison of Convenience Sampling and Purposive Sampling. *American Journal of Theoretical and Applied Statistics*, *5*(1), 1. https://doi.org/10.11648/J.AJTAS.20160501.11

Fernando, J., Boyle, M. J., & Rathburn, P. (2021, August 19). *Market Capitalization*. How to Value a Company. https://www.investopedia.com/terms/m/marketcapitalization.asp

Ghozali, I. (2006). *Aplikasi analisis multivariate dengan program SPSS*. Badan Penerbit Universitas Diponegoro.

Gordon, J. (2020, December 19). *Capital Markets - Definition*. The Business Professor. https://thebusinessprofessor.com/en_US/investments-trading-financial-markets/capital-markets-definition

Hasanuddin. (2015). Analisis Komparatif Abnormal Return Saham JII dan Non JII Sebelum dan Sesudah Libur Idul Fitri (Periode 2009-2013). *Jurnal MIX*, *VI*(2), 246–259. https://mix.mercubuana.ac.id/media/154222-analisis-komparatif-abnormal-return-saha-6599c6a7.pdf

Healy, P. M., & Palepu, K. G. (2001). Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature. *Journal of Accounting and Economics*, *31*(1–3), 405–440.

IDX. (2016). *Laporan Tahunan 2015*. https://www.idx.co.id/media/1210/2015.pdf

IDX. (2021). IHSG Index Fact Sheet. *IDX Stock Index Handbook*, *1.2*, 16. https://www.idx.co.id/media/9816/idx-stock-index-handbook-v12-_-januari-2021.pdf

Julianto, A. R., & Syafarudin, A. (2020). Stock Return Analysis and Implications in Company Value (Plastic and Packaging Companies Listed in IDX). *International Journal of Engineering Technologies and Management Research*, *6*(7), 101–118. https://doi.org/10.29121/ijetmr.v6.i7.2019.420

Karim, M. R., & Saba, S. A. (2021). COVID-19 and Stock Return: Empirical Evidence from Developing Economy. *International Journal of Management, Accounting and Economics*, *8*(6). www.ijmae.com

Madhav, N., Oppenheim, B., Gallivan, M., Mulembakani, P., Rubin, E., & Wolfe, N. (2017). Pandemics: Risks, Impacts, and Mitigation. *Disease Control Priorities: Improving Health and Reducing Poverty (3rd Edition)*, *9*, 315–345. https://doi.org/10.1596/978-1-4648-0527-1_CH17

Majid, M. S. Abd., & Benazir. (2015). An Indirect Impact of the Price to Book Value to the Stock Returns: An Empirical Evidence from the Property Companies in Indonesia. *Jurnal Akuntansi Dan Keuangan*, *17*(2), 91–96. https://doi.org/10.9744/jak.17.2.91-96

Mangantar, A. A. A., Mangantar, M., & Baramuli, D. N. (2020). Pengaruh Return on Asset, Return on Equity dan Debt to Equity Ratio Terhadap Return Saham Pada Subsektor Food and Beverage di Bursa Efek Indonesia. *Jurnal EMBA : Jurnal Riset Ekonomi, Manajemen, Bisnis Dan Akuntansi*, *8*(1), 272–281. https://doi.org/10.35794/EMBA.V8I1.27527

McLeod, S. A. (2019, August 1). *What are Independent and Dependent Variables*. Simply Psychology. https://www.simplypsychology.org/variables.html

Mogonta, K., & Pandowo, M. (2016). *Analyzing The Effect of Return on Assets, Return on Equity and Earnings Per Share on Market Share Price: A Study of LQ-45 Mining Companies Listed on Indonesia Stock Exchange*. *4*(2), 703–713.

Mugiarni, A., & Wulandari, P. (2021). The Effect of Covid-19 Pandemic on Stock Returns: An Evidence of Indonesia Stock Exchange. *Journal of International Conference Proceedings*, *4*(1), 28–37. https://doi.org/10.32535/jicp.v4i1.1122

Nugroho, B. Y. (2020). The Effect of Book to Market Ratio, Profitability, and Investment on Stock Return. *SSRG International Journal of Economics and Management Studies (SSRG-IJEMS)*, *7*(6), 102–107. www.internationaljournalssrg.org

Permatasari, N. D., Nurlaela, S., & Titisari, K. H. (2019). Return on Assets, Return on Equity, Earning Per Share Terhadap Harga Saham Perusahaan Sektor Jasa Di Bursa Efek Indonesia. *Jurnal Ilmiah Edunomika*, *3*(01), 90–96. https://doi.org/10.29040/JIE.V3I01.412

Porta, M. (2014). A Dictionary of Epidemiology. In M. Porta (Ed.), *A Dictionary of Epidemiology (DRAFT)* (6th ed.). Oxford University Press. https://doi.org/10.1093/ACREF/9780199976720.001.0001

Qiu, W., Rutherford, S., Mao, A., & Chu, C. (2017). The Pandemic and its Impacts. *Health, Culture and Society*, *9*(0), 1–11. https://doi.org/10.5195/hcs.2017.221

Santoso, Y. W. (2018). Penyebab Krisis Finansial Global tahun 2008: Kegagalan Financial Development dalam Mendorong Pertumbuhan dan Stabilitas Ekonomi. *Jurnal Hubungan Internasional*, *11*(1), 155–169. https://doi.org/10.20473/JHI.V11I1.5853

Shleifer, A. (2003). Inefficient Markets: An Introduction to Behavioral Finance. *Inefficient Markets*. https://doi.org/10.1093/0198292279.001.0001

Skrivanek, S. (2009). *The Use of Dummy Variables in Regression Analysis What is a Dummy variable?* http://www.moresteam.com

Tahir, S. H., Sabir, H. M., Alam, T., & Ismail, A. (2013). Impact of Firm's Characteristics on Stock Return: A Case of Non-Financial Listed Companies in Pakistan. *Asian Economic and Financial Review*, *3*(1), 51–61. https://www.researchgate.net/publication/279930853_Impact_Of_Firm's_Characteristics_On_Stock_Return_A_Case_Of_Non-Financial_Listed_Companies_In_Pakistan_Toheed_Alam

Tek, A., & Madai, B. (2021). *Impact of COVID-19 Pandemic on Stock Market Returns*. https://ssrn.com/abstract=3794199

Trisnowati, Y., & Muditomo, A. (2021). COVID-19 and Stock Market Reaction in Indonesia. *Journal of Accounting and Investment*, *22*(1), 23–36. https://doi.org/10.18196/JAI.V22I1.8859

Violita, C. E. (2019). Stock Liquidity and Stock Return. *Ekspektra : Jurnal Bisnis Dan Manajemen*, *3*(2), 111. https://doi.org/10.25139/EKT.V3I2.2047

Wahyudi, A. S., Beny, & Daniel. (2020). Analisis Pengaruh Kapitalisasi Pasar dan Rasio Keuangan Terhadap Return Saham. *Media Bisnis*, *12*(1), 9–16. https://doi.org/10.34208/MB.V12I1.875

WHO. (2020). *Listings of WHO's response to COVID-19*. World Health Organization. https://www.who.int/news/item/29-06-2020-covidtimeline

Wijaya, C. (2020, April 7). PSBB Jakarta mulai 10 April selama dua minggu, namun pakar menyebut hasil efektif satu bulan untuk tekan Covid-19 - BBC News Indonesia. *BBC*. https://www.bbc.com/indonesia/indonesia-52194441

World Bank. (n.d.). *GDP growth (annual %) - Indonesia | Data*. Retrieved September 15, 2021, from https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2020&locations=ID&start=1961&view=chart

World Bank. (2021). *World Development Indicators*.

Wu, Y. C., Chen, C. S., & Chan, Y. J. (2020). The outbreak of COVID-19: An overview. *Journal of the Chinese Medical Association*, *83*(3), 217–220. https://doi.org/10.1097/JCMA.0000000000000270

Xu, L. (2021). Stock Return and the COVID-19 pandemic: Evidence from Canada and the US. *Finance Research Letters*, *38*, 101872. https://doi.org/10.1016/J.FRL.2020.101872

Zach, T. (2003). Political Events and the Stock Market: Evidence from Israel. *International Journal of Business*, *8*(3), 244–266. https://doi.org/10.2139/ssrn.420242

IConEnt

The 4th International Conference on Entrepreneurship

THE INFLUENCE OF AUDIT COMMITTEE, FIRM SIZE, AND SALES GROWTH TOWARD TAX AVOIDANCE IN COAL MINING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

Thomson Sitompul[a], Velda Aldora[b]

[a]Universitas Pelita Harapan, Lippo Plaza Medan, Jl. Imam Bonjol No.6, Medan, 20112, Indonesia
[b]Universitas Pelita Harapan, Lippo Plaza Medan, Jl. Imam Bonjol No.6, Medan, 20112, Indonesia

ABSTRACT

Coal is valued for its energy content and since the 1880s has been widely used to generate electricity. In Indonesia coal mining sector is one of the drivers of economic development, because of its role as a provider of energy resources indispensable for the economic growth of a country. The research designs used in this research are quantitative. There are 23 companies which are taken as the number of samples with period from 2019-2022. The data analysis method includes: descriptive statistic, normality test, multicollinearity test, heteroscedasticity test, autocorrelation test, validity test and hypothesis test. Based on the data analysis, this research reveals that Audit Committees have a positive and significant influence towards Tax Avoidance in Coal Mining Companies Listed on The Indonesia Stock Exchange, Firm Size have a positive and significant influence towards Tax Avoidance in Coal Mining Companies Listed on The Indonesia Stock Exchange and Sales Growth do not have influence towards Tax Avoidance in Coal Mining Companies Listed on The Indonesia Stock Exchange.

Keywords - **Audit committee, firm size, sales growth, tax avoidance**

INTRODUCTION

Coal mining is the process of extracting coal from the ground or from a mine. Coal is valued for its energy content and since the 1880s has been widely used to generate electricity. Steel and cement industries use coal as a fuel for extraction of iron from iron ore and for cement production. Coal mining sector is one of the drivers of economic development acountries, especially in Indonesia, because of its role as a provider of energy resources indispensable for the economic growth of a country. The potential in Indonesia which is rich in natural resources will be able to foster the opening of companies to conduct mining exploration of these resources. The nature and characteristics of the mining industry are different from other industries. One of them is that the mining industry requires long-term, risk requirements and high uncertainty make funding problems a major issue related to company development (Susilo and Adil, 2023).

Tax avoidance is of great importance because it restricts state's ability to collect money and to put policies into practice as taxpayers find ways to reduce their taxable base. This is the reason why investigating the determinants of tax avoidance has been an important concern in the accounting field for the past two decades (Halioui et al, 2019). Therefore, tax avoidance behavior includes tax planning activities that are legal or approaching the gray area. Indeed, there is no criminal element of tax avoidance behavior because the company deals properly, clearly, and it is accompanied by accurate evidence and does not violate the rules. (Nurhayati, 2022). Tax avoidance in this study was measured using the Effective Tax Rate (ETR).

An audit committee is a sub-group of a company's board of directors responsible for the oversight of the financial reporting and disclosure process. To be successful, the audit committee should be aware of the processes and internal controls in the organization (Baidhani, 2019). The study of the size of a business is important because it significantly affects the efficiency and profitability of the firm (Li, et al, 2022). Firm sizes are more likely to utilize the resources they have than to use financing from debt. Large companies will be in the spotlight of the government

so that there will be a tendency for company managers to act aggressively or obediently (Kurniasih and Sari, 2019). The greater the size of the company, then the company will consider more risks in terms of managing the tax burden.

Sales growth is the increase in sales of a product or service over time. It measures how well a business performs in terms of its revenue from sales. Sales growth can be measured by comparing the year-over-year, quarter-over-quarter, or month-over-month sales (Goh, et al, 2022). Sales have a strategic influence on the company because sales made by companies must be supported by assets in which if sales are increased then assets must be added (Aprianto and Dwimulyani, 2019).

The writer formulates several questions, follows:

1. Does Audit Committees have a positive and significant influence towards Tax Avoidance in Coal Mining Companies Listed on The Indonesia Stock Exchange?
2. Does Firm Size have a positive and significant influence towards Tax Avoidance in Coal Mining Companies Listed on The Indonesia Stock Exchange?
3. Does Sales Growth have a positive and significant influence towards Tax Avoidance in Coal Mining Companies Listed on The Indonesia Stock Exchange?

The reason researchers chose tax avoidance to be a theme in this study because undetected tax avoidance can develop into a major scandal that harms the country. The reason for choosing the audit committee is that the existence of an effective audit committee in the company can improve company performance, competitiveness, and is considered able to reduce agency in preventing management from taking profit maximizing actions. The reason why choosing the size of the company as an independent variable in this study is because the size of the company is a reflection of the total assets owned by a company, and with a large total assets it will make it easier for companies to obtain resources good funding. Sales growth is a parameter used to measure the performance of the sales team to increase revenue over a predetermined period of time. Sales growth can also be used as an important parameter for the survival and financial growth of a company.

LITERATURE REVIEW

The audit committee is one of the committees established by the board of commissioners to can carry out their duties and responsibilities related with corporate governance in order to create effectiveness control in the management of management. The firm size is a scale that determines the size companies that can be seen from the value of equity, sales value, number employees and the total value of assets which is a context variable measure the demands of an organization's services or products. Sales growth is a metric that measures the ability of your sales team to increase revenue over a fixed period of time. Sales growth is calculated by comparing percentage showing changes in sales in a particular year compared sales in the previous year, high sales growth will encourage increased profits earned by companies that will also encourage increase in retained earnings and will ultimately affect growth own capital, on the contrary, low sales growth will encourage the decline profit earned which will ultimately affect the amount retained earn and growth of own capital. Tax avoidance is a way to avoid legal tax payments made by taxpayers by reducing the amount of tax owed without violating tax regulations or in other terms looking for regulatory weakness.

In the company the audit committee is tasked to assist the audit committee in controlling and ensuring that the company's financial statements are presented reasonably in accordance with generally accepted accounting principles, in addition the audit committee also supervises and controls related to the process of preparing the company's financial statements so as to minimize

the occurrence of acts of manipulation and tax avoidance (Tahilia, et al 2022). When implementing tax avoidance behavior, the manager considers the benefits achieved, which include the benefits that the manager receives (rewards, promotions) versus the costs that may arise (auditing costs, fines, reputational damage). Thus, the tax avoidance behavior depends mainly on the representatives (i.e. managers) as well as the control system to oversee the manager's decision.

Firm size shows the stability and ability of the company to conduct its economic activity. Company size can be seen of total sales owned by a company. Through total sales of the company can be categorized as large or small based on the scale of production produced by company compared with the costs incurred by the company. The greater the total sales indicate the greater the company's profit. The larger the size of the company. Thus, the company will pay a large amount of tax. Companies can do tax avoidance by charging depreciation fees on assets owned by the company (Khuong, et al, 2022). Sales growth is a comparison of sales levels from previous year to current year. Sales growth has significant effect towards tax avoidance. Increase in sales growth allows the company to earn high profits, resulting in a high tax burden received by the company. Therefore, the company will look for a way to minimize the tax burden. This allows the company to take tax avoidance measures. Increase in sales growth, the company's efforts to practice tax avoidance will be higher (satria and Lunardi, 2023).

METHODOLOGY

The writer employs quantitative research in this study. By using quantitative methods researchers can understand the quantity of a phenomenon that can be used later for comparison. Using inferential statistics, researchers can see patterns of relationships, interactions, and causality over observed phenomena. The population in the study is Coal Mining companies listed on the Indonesia Stock Exchange (IDX) in 2019-2022, whose financial report data can be accessed through www.idx.id. The number of companies that became the population in this study is 82 companies. As for sample selection criteria in this study are: Coal Mining Companies that are listed on the IDX for 4 years consecutive in 2019-2022, Coal Mining Companies that are publish financial reports on the IDX for 4 years consecutive in 2019-2022, Coal Mining Companies that have not suffered loss in 2019-2022. Relationship between variables in the study identified and explained through empirical models which can strengthen hypothesis testing. This study uses multiple linear regression model to test variables that have an influence on the value of the company. Model empirical in this study is formulated as:

$$TA = a + \beta 1\ AC + \beta 1\ FS + \beta 1\ SG + \varepsilon$$

RESULTS

The results of the normality test using the Kolmogorov Smirnov test in table 4.5 show a significant value of 0.200 > 0.05 so that the results of the Kolmogorov Smirnov test show that data is normally distributed.

TABLE 1.
NORMALITY TEST

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		81
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.11469331
Most Extreme Differences	Absolute	.050
	Positive	.050

	Negative		-.036
Test Statistic			.050
Asymp. Sig. (1-tailed)[c]			.200[d]
Monte Carlo Sig. (1-tailed)[e]	Sig.		.898
	99% Confidence Interval	Lower Bound	.890
		Upper Bound	.906
a. Test distribution is Normal.			
b. Calculated from data.			
c. Lilliefors Significance Correction.			
d. This is a lower bound of the true significance.			
e. Lilliefors' method based on 10000 Monte Carlo samples with starting seed 221623949.			

Source: Prepared by the Writer (SPSS 27, 2023)

The results show that the value of the tolerance > 0.1 and the vif value <10. This suggests that the occurrence of no multicollinearity in this study.

TABLE 2.
MULTICOLLINEARITY TEST

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.388	.137		-2.843	.006		
	X1	.065	.027	.268	2.432	.017	.778	1.285
	x2	.020	.004	.560	5.223	.000	.823	1.215
	x3	-.006	.007	-.084	-.821	.414	.905	1.105
a. Dependent Variable: Y								

Source: Prepared by the Writer (SPSS 27, 2023)

Significant value to the Audit Committees (0.875 > 0.05), significant value to the Firm Size (0.370 > 0.05), and significant value to Sales Growth (0.829 > 0,05). This suggests that the occurrence of no heteroscedasticity in this study.

TABLE 3.
HETEROSCEDASTICITY TEST

Correlations						
			X1	x2	x3	Unstandardized Residual
Spearman's rho	X1	Correlation Coefficient	1.000	-.196	-.094	.018
		Sig. (2-tailed)	.	.080	.404	.875
		N	81	81	81	81
	x2	Correlation Coefficient	-.196	1.000	-.045	.101
		Sig. (2-tailed)	.080	.	.692	.370
		N	81	81	81	81
	x3	Correlation Coefficient	-.094	-.045	1.000	.024
		Sig. (2-tailed)	.404	.692	.	.829
		N	81	81	81	81
	Unstandardized Residual	Correlation Coefficient	.018	.101	.024	1.000
		Sig. (2-tailed)	.875	.370	.829	.
		N	81	81	81	81

Source: Prepared by the Writer (SPSS 27, 2023)

Table below that the significant value obtained by 0.219 > 0.05. It can be concluded that there was no autocorrelation in this study.

TABLE 4.
AUTOCORRELATION TEST

	Unstandardized Residual
Test Value[a]	-.00153
Cases < Test Value	40
Cases >= Test Value	41
Total Cases	81
Number of Runs	36
Z	-1.229
Asymp. Sig. (2-tailed)	.219
a. Median	

Source: Prepared by the Writer (SPSS 27, 2023)

Anova is used to determine whether the independent variables simultaneously have a significant effect on the dependent variable. Table 5, the results of the simultaneous test can be explained that significant value 0.000 < 0.05, then Audit Committees, Firm Size and Sales Growth have a significant influence towards Tax Avoidance in Coal Mining Companies Listed on The Indonesia Stock Exchange.

TABLE 5.
F VALUE ANOVA[A]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.394	3	.131	9.602	.000[b]
	Residual	1.052	77	.014		
	Total	1.446	80			

a. Dependent Variable: Y
b. Predictors: (Constant), x3, x2, X1

Source: Prepared by the Writer (SPSS 27, 2023)

Determination test results obtained adjusted R square value of 0.244, this means 10.8% of the Tax Avoidance which can be explained by the Audit Committees, Firm Size and Sales Growth variable while the remaining 75.6% is explained by other variables which was not used in this study.

TABLE 6.
DETERMINATION TEST

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.522[a]	.272	.244	.1169062
a. Predictors: (Constant), x3, x2, X1				
b. Dependent Variable: Y				

Source: Prepared by the Writer (SPSS 27, 2023)

Testing of the hypothesis of this study was given to the coefficients β1. This study predicts that the coefficient of β1 is positive which means that the audit committees have a positive influence on tax avoidance. From the table 4.10 above, it can be seen that β1 shows a positive number of 0.065 and is significant. Thus, the hypothesis proposed in this study accepted. Testing of the hypothesis of this study is given in the coefficient β2. This study predicts that the coefficients of β2 is positive, which means that Firm Size has a positive effect on tax avoidance. From the table 4.10 above, it can be seen that β2 shows a positive number of 0.020 and is significant. Thus, the

hypothesis proposed in this study was accepted. Testing of the hypothesis of this study is given in the coefficient β3. This study predicts that the coefficient of β3 is negative, which means that Sales Growth has a negative effect on tax avoidance. From the table 4.10 above, it can be seen that β3 shows a negative number of 0.006 and is not significant. Thus, the hypothesis proposed in this study was rejected.

TABLE 7.
PARTIAL TEST COEFFICIENTS[A]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.388	.137		-2.843	.006
	X1	.065	.027	.268	2.432	.017
	x2	.020	.004	.560	5.223	.000
	x3	-.006	.007	-.084	-.821	.414

a. Dependent Variable: Y

Source: Prepared by the Writer (SPSS 27, 2023)

The results of the partial test can be explained that t_{count} (2.432) < t_{table} (1.991) and significant value 0.017> 0.05, then H_1 is accepted, namely: Audit Committees have a positive and significant influence towards Tax Avoidance in Coal Mining Companies Listed on The Indonesia Stock Exchange. This result is in line with Diantari and Ulupui (2019) also did similar research and the results support that the audit Committee and tax avoidance by companies is mutually influential and positive. However, different results obtained by Fadhilah, et al (2023) showed a negative influence between the audit Committee and tax avoidance by the company. The results of the partial test can be explained that t_{count} (5.223) < t_{table} (1.991) and significant value 0.000 < 0.05, then H_2 is accepted, namely: Firm Size have a positive and significant influence towards Tax Avoidance in Coal Mining Companies Listed on The Indonesia Stock Exchange. This result is in line with Badriyah (2019), large companies have resources with superior quality compared to small companies. Getting bigger company then the transaction will be more complex. That thing allows companies to take advantage of existing gaps to perform tax avoidance from any transaction. However, different results obtained by Barli (2019), sales growth does not influence tax avoidance. The results of the partial test can be explained that t_{count} (-0.821) < t_{table} (1.991) and significant value 0.414 > 0.05, then H_3 is rejected, namely: Sales Growth do not have influence towards Tax Avoidance in Coal Mining Companies Listed on The Indonesia Stock Exchange. This result is in line with Titisari and Mahanani (2019), research that sales growth does not influence tax avoidance. However, different results obtained by Puspita and Febrianti (2018)), sales growth has an influence impact on tax avoidance. This shows sales growth that can present the success of investment from the previous period and can be used forecast of growth in the future.

CONCLUSION

The following are the conclusion drawn on this research:

1. The results of the partial test can be explained that t_{count} (2.432) < t_{table} (1.991) and significant value 0.017> 0.05, then H_1 is accepted, namely: Audit Committees have a positive and significant influence towards Tax Avoidance in Coal Mining Companies Listed on The Indonesia Stock Exchange.
2. The results of the partial test can be explained that t_{count} (5.223) < t_{table} (1.991) and significant value 0.000 < 0.05, then H_2 is accepted, namely: Firm Size have a positive and significant influence towards Tax Avoidance in Coal Mining Companies Listed on The Indonesia Stock

Exchange.

3. The results of the partial test can be explained that t_{count} (-0.821) < t_{table} (1.991) and significant value 0.414 > 0.05, then H_3 is rejected, namely: Sales Growth do not have influence towards Tax Avoidance in Coal Mining Companies Listed on The Indonesia Stock Exchange.REFERENCES

REFERENCES

Aprianto, M., & Dwimulyan, S. (2019). Pengaruh Sales Growth Dan Leverage Terhadap Tax Avoidance Dengan Kepemilikan InstitusionalSebagai Variabel Moderasi. Prosiding Seminar Nasional Pakar ke 2 Tahun 2019 https://core.ac.uk/download/pdf/276279205.pdf

Budiman, Raymond. (2020). Rahasia Analisis Fundamental Saham: Memahami Laporan Keuangan. Jakarta: Elex Media Komputindo.

Christy, J., & Subagyo. (2019). Pengaruh Firm Size, Sales Growth, dan Roa Terhadap Penghindaran Pajak Dengan Komite Audit Sebagai Variabel Moderasi. Akuntansi Krida Wacana VOL. 19, NO. 2. https://garuda.kemdikbud.go.id/documents/detail/1600852

Darmawan, I G. H., & Sukartha, I Made. (2020). Pengaruh penerapan corporate governance, leverage, roa, dan ukuran perusahaan pada penghindaran pajak. *E-Jurnal Akuntansi*, Vol. 9, No. 1, p. 143-161.

Dewianawati, D. (2022). Faktor - Faktor Nilai Penentu Perusahaan Transportasi. Cipayung: Pascal Book.

Dewinta, R. Ida A., & Putu, E.S. (2019) Pengaruh Ukuran Perusahaan, Umur Perusahaan, Profitabilitas, Leverage, Dan Pertumbuhan Penjualan Terhadap Tax Avoidance. E-Jurnal Akuntansi, Vol. 14, No. 3, p.1584-1615.

Diantari, Putu Rista; ULUPUI, IGK Agung. Pengaruh Komite Audit, Proporsi Komisaris Independen, Dan Proporsi Kepemilikan Institusional Terhadap Tax Avoidance. *E-Jurnal Akuntansi*, Vol.6, No. 1, p. 702-732. https://ojs.unud.ac.id/index.php/akuntansi/article/view/20664

Edisi 10. Badan Penerbit Universitas Diponegoro.

Fadhilah, K., Dwi P. D., & Ahmar, N. (2023). Determinan Financial Distress Dengan Komite Audit Sebagai Pemoderasi. *Jurnal Ilmu Manajemen Retail (JIMAT)*, 2023 Vol. 4, No. 1. https://jurnal.ummi.ac.id/index.php/jimat/article/view/1926/1013

Fauzan, F. Dyah A.A., & Nurharjanti, N. N. · (2019). The Effect of Audit Committee, Leverage, Return on Assets, Company Size, and Sales Growth on Tax Avoidance. *Jurnal riset akuntansi dan keuangan indonesia*. https://journals.ums.ac.id/index.php/reaksi/article/view/9338/5084.

Firmansyah, A., & Triastie, G.A. (2020). Bagaimana Peran Tata Kelola Perusahaan Dalam Penghindaran Pajak, Pengungkapan Tanggung Jawab Sosial Perusahaan, Pengungkapan Risiko, Efisiensi Investasi?. Indramayu: Adab.

Ghozali, I. (2018). Aplikasi Analisis Multivariate Dengan Program IBM SPSS 26.

Handayani, A. (2018) pengaruh karakter eksekutif, komite audit, ukuran perusahaan, leverage, sales growth dan kualitas audit terhadap penghindaran pajak. S1 thesis, Universitas Muhammadiyah Yogyakarta. https://etd.umy.ac.id/id/eprint/25477/

Hidayat, H. & Wijaya, S. (2020). Penghindaran Pajak: Manajemen Laba Dan Transfer Pricing. Jakarta: Guepedia.

Hitijahubessy, William I., & Rusli, Sulistyowati, D. (2022). Pengaruh Profitabilitas, Leverage, Ukuran Perusahaan terhadap Tax Avoidance pada Perusahaan Manufaktur yang Terdaftar

di BEI periode 2017-2020. *Jurnal STEI Ekonomi (JEMI) Volume 31 Number 02*. https://ejournal.stei.ac.id/index.php/JEMI/article/download/676/408/

Indraini, S. (2019). Nilai Perusahaan Melalui Kualitas Laba: (Good Governance Dan Kebijakan Perusahaan). Surabaya: Scopindo Media Pustaka.

Indriansih, D. (2020). Kompetensi Auditor Internal & Karakter Komite Audit: (Terhadap Fraudulent Financial Reporting). Bandung: Cendekia Press.

Kasmir. (2018). Analisis Laporan Keuangan. Edisi Pertama. Cetakan Keduabelas. PT Raja Grafindo Persada. Jakarta.

Krisyadi, Robby and Novilim. (2020). Analisis Faktor-Faktor yang Mempengaruhi Penghindaran Pajak pada Perusahaan yang Terdaftar di Bursa Efek Indonesia. *Conference on Management, Business, Innovation, Education and Social Science Vol.1(1).* https://journal.uib.ac.id/index.php/combines/article/download/4572/1286/

Lukamn, L. (2023). Menyingkap Misteri Pasar Keuangan dan Keberhasilan Bisnis. Yogyakarta: Deepublish.

Margareta, M., & Jenni. (2019). Pengaruh Profitabilitas, Sales Growth Dan Leverage Terhadap Tax Avoidance (Studi Empiris Pada Perusahaan Sub Sektor Farmasi Yang Terdaftar di Bursa Efek Indonesia Periode 2013- 2017). Akuntoteknologi : Jurnal Ilmiah Akuntansi Dan Teknologi - Vol. 11. No. 2. https://jurnalekonomi.unisla.ac.id/index.php/jpensi/article/view/1117/pdf_7 2

Pranoto, Sulaksono S. (2021). Pengaruh Karakteristik CEO Terhadap Penghindaran Pajak Dengan CSR Sebagai Variabel Mediasi (Pada perusahaan manufaktur Go Publik di BEI). Thesis thesis, Universitas Airlangga. https://repository.unair.ac.id/110060/

Puspita, Deanna, & Meiriska Febrianti. (2018). Faktor-faktor yang Memengaruhi Penghindaran Pajak pada Perusahaan Manufaktur di Bursa Efek Indonesia. *Jurnal Bisnis dan Akuntansi*, vol. 19, no. 1, pp. 38-46, doi:10.34208/jba.v19i1.63.

Putra, Cahyadi I., & Merkusiwati, N. (2020). Pengaruh Komisaris Independen, Leverage, Size Dan Capital Intensity Ratio Pada Tax Avoidance. E-Jurnal Akuntansi, 17(1), 690–714.

Sari, Maydiani Putri Herlina. (2022). Pengaruh Profitabilitas, Leverage, Sales Growth, dan Komite Audit terhadap Tax Avoidance pada Perusahaan Manufaktur Sektor Industri yang terdaftar di Bursa Efek Indonesia tahun 2017-2021. Fair Value: Jurnal Ilmiah Akuntansi dan Keuangan Vol. 5 No. 3.

Sinambela. (2022). Pengaruh ukuran perusahaan, pertumbuhan penjualan, dan komite audit terhadap tax avoidance. *Online jurnal UNJA*. https://online-journal.unja.ac.id/paradigma/article/view/15253

Sudirman, G. (2018). Pengaruh Komite Audit Komisaris Independen Dan Ukuran Kap Terhadap Manajemen Laba Pada Perusahaan Manufaktur Sektor Aneka Industri Yang Terdaftar Pada Bei Tahun 2012-2015. Jurnal Harian Resgional.

Sugiyono. (2019). Metodelogi Penelitian Kuantitatif dan Kualitatif Dan R&D. Bandung: Alfabeta.

IConEnt

The 4th International Conference on Entrepreneurship

THE IMPACT OF FIRM SIZE, CAPITAL INTENSITY RATIO, INVENTORY INTENSITY RATIO AND LEVERAGE TOWARD EFFECTIVE TAX RATE ON CONSUMER GOODS COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

Jeniefer Lu [1], Yanuar Dananjaya[2]

[1,2]Department of Management Study Program, UPH Surabaya Campus

ABSTRACT

Effective Tax Rate is an indicator of tax management as measured by comparing tax burden to pre-tax income. The effective tax rate is used to measure the amount of tax that is borne by the company against the company's accounting profit, so the company can know the performance of its tax management. The objective of this research is to analyze the impact of firm size, capital intensity, inventory intensity, and leverage toward effective tax rate in consumer goods companies listed on Indonesia Stock Exchange (IDX) during the period 2018-2021. The population of this research is the state-owned enterprises listed on Indonesia Stock Exchange during 2018-2021. Further, with the employed purposive sampling and determined criteria, 32 companies are chosen as the samples. The data analysis method applied is multiple linear regression which is processed through SPSS 26th version. The result of this research shows that firm size, capital intensity have no impact toward effective tax rate. However, inventory intensity has an insignificant positive impact toward effective tax rate. Furthermore, leverage has a significant positive impact toward effective tax rate.

Keywords - **Capital Intensity Ratio, Effective Tax Rate, Firm Size, Inventory Intensity Ratio, Leverage.**

INTRODUCTION

Indonesia is categorized as a country with a growing economy. In this regard, taxation serves as a key factor in transforming Indonesia's status. Tax is an important source of country contribution which comes from taxpayers (individuals or entities). Hence, the government may need a large amount of funding by collecting taxes as the state revenue's most significant source of funding. This is because the greater the amount of tax received by the state, the better its financial condition. To minimize the tax burden, the company as a taxpayer can legally reduce the effective tax rate assessed to taxpayers by utilizing the applicable tax provisions. Companies typically create a transaction plan that is as methodical as feasible to reduce the effective tax rate. The company's capacity to manage taxes can be gauged by the effective tax rate. The effective tax rate is unique because of its ability to compile the effects of numerous tax breaks and adjustments to corporate tax rates, where the lower the effective tax rate, the lower the tax burden borne by the taxpayer so that it can save on paying corporate taxes. According to Putu and I Made (2021) taxes within the company get significant attention due to corporate tax being a burden that can reduce total profit or net income obtained by the company, so the company will try to pay taxes as low as possible. The company can do tax planning with various policies implemented in the company to minimize the tax burden that must be paid by the company (Darsani & Sukartha, 2021).

In this research, the object is the consumer goods business which, composed of stock companies involved in the sale of goods for individuals and households, has historically been considered stable, making it attractive for long-term investment. However, the COVID-19 pandemic revealed that this sector is not immune to economic shocks. Many consumer goods companies, particularly in the cosmetics and household goods sub-sectors, experienced substantial financial strain. Fluctuations in demand, supply chain disruptions, and financial pressures, as highlighted in recent studies, caused volatility in what was once seen as a stable investment. Thus, while consumer goods remain essential, their financial performance has proven vulnerable to external crises like the pandemic (Desshyfa & Purwanto, 2024). Currently, this sector consists of 80 companies that contribute to producing

consumer goods with several sub-sectors such as houseware, food and beverages, cosmetics and household, pharmaceuticals, tobacco, and other sectors.

From the background above, there are several factors that can impact the effective tax rate such as firm size, capital intensity ratio, inventory intensity ratio, and leverage. Firm size is the first variable that can impact the effective tax rate. A scale known as "firm size" depicts a company's size based on its total assets, market value, stock value, and other factors. The results of earlier studies indicated that the effective tax rate could be influenced by a firm's size. Comparatively, the findings from other studies indicate that the firm size has no impact on the effective tax rate (Widati, Asiah, Kamela, & Hidayat, 2024). Capital intensity is a ratio used to measure the amount of capital in the form of assets that used to yield income from the sale of goods (Waluyo, 2019). The findings of earlier studies indicated that capital intensity can have an impact on the effective tax rate. The effective tax rate is unaffected by capital intensity, according to an additional study. Inventory intensity is a ratio used to measure the firm's inventory compared to the firm's total assets. Firms with high inventory intensity can reduce the amount of tax burden the firm pays (Syamsudin & Suryarini, 2020). The results of previous studies stated that inventory intensity affects the Effective Tax Rate. Other research shows that the inventory intensity does not affect the Effective Tax Rate. Leverage is a ratio used to gauge whether a firm's assets are bear by debt. The financing can be in the form of investments (internal parties) and creditors (third parties). Obligations to third parties will incur interest, so the firm's obligations will be increased (Kasmir, 2019) . The results of previous studies stated that leverage affects the effective tax rate. In contrast, other research shows that the leverage does not affect the effective tax rate. Departing from the description above, the formulation of the problems raised in this study are: Does firm size, capital intensity ratio, inventory intensity ratio, and leverage significantly influence the effective tax rate in the Consumer Goods Sector Listed on the Indonesia Stock Exchange Year 2018-2021.

LITERATURE REVIEW

Based on Agency Theory Jensen & Meckling, (1976) describes an agreement between parties in which the principal acts as granting authority and an agent acts as receiving authority to take decisions in running the company. The principal assigns specific tasks to the agent; then, the agent agrees to carry out the task by giving some consideration to the principal. So, it can be said that the principal is usually the shareholder in the company while the agent is the company manager. In taxation, agency theory appears when a firm's supervision tries to minimize taxes to earn a large company value. Otherwise, the agent assumes that tax avoidance will increase profits and firm's value, attract investors, so that the agent's prosperity is obtained.

The term "firm size" refers to a metric used to categorize businesses as large or small based on various factors, including total assets, logarithmic size, or stock market value. Larger organizations often benefit from economies of scale and have more access to resources, which enables them to implement more sophisticated tax planning strategies. This can result in a lower effective tax rate as these companies can allocate significant resources to tax avoidance or reduction strategies. Firm size positively influences the effective tax rate, suggesting that as companies grow, their tax obligations may increase proportionally (Batmomolin, 2018). However, this view contrasts with other studies, who argue that business size negatively affects the effective tax rate. They suggest that larger firms have more opportunities to minimize their tax liabilities, leading to a lower effective tax rate as firm size increases (Gazali & Damayanti, 2020).

H_1: Firm size has a significant effect on Effective Tax Rate

Depreciation charges play a significant role in offsetting earnings and reducing taxable income, particularly as a company's fixed asset base grows. As companies invest in more capital assets, their depreciation expenses increase, further lowering their taxable income. Given that depreciation

expenses are tax-deductible, higher capital intensity often correlates with a lower effective tax rate, as companies can claim more depreciation deductions. Leverage positively affects the effective tax rate, indicating that firms with higher debt levels may experience an increase in their tax obligations (Rahmawati, 2021). However, this is contested by other studies, who argue that leverage negatively impacts the effective tax rate (Sjahril, Yasa, & Dewi, 2020). Their findings suggest that firms with greater leverage might benefit from interest tax shields, which reduce the effective tax rate as debt levels rise.

H_2: Capital intensity has a significant effect on Effective Tax Rate

Large firm inventories, combined with sporadic turnover, result in higher inventory-related expenditures, including rental, maintenance, and supervision costs. High inventory intensity can lead to a lower effective tax rate since storage costs can be used as deductions from taxable income. While higher inventory levels increase company costs and taxable income, they are followed by a reduction in the effective tax rate. Inventory intensity positively impacts the effective tax rate (Syamsudin & Suryarini, 2020). However, other studies discover that inventory intensity negatively affects the effective tax rate (Rahmawati, 2021).

H_3: Inventory intensity has a significant effect on Effective Tax Rate

In equity funding, returns are received in the form of dividends, which cannot be treated as company expenses. Consequently, many companies prefer debt financing over equity, as higher debt levels lead to increased interest expenses. These interest expenses can be deducted from taxable income, resulting in a lower effective tax rate (ETR). Therefore, companies with higher debt financing are expected to have lower ETRs since interest costs are included in operating expenses, reducing both operating and fiscal profits, and ultimately the tax burden. The results of earlier studies show that leverage negatively affects the effective tax rate (Gazali & Damayanti, 2020).

H_4: Leverage has a significant effect on Effective Tax Rate

The effect of firm size, capital intensity, inventory intensity, and leverage may be significant factors influencing the effective tax rate (ETR). These elements reflect key aspects of a company's financial and operational strategy, which in turn shape how tax obligations are managed. Larger firms often possess more flexibility in tax planning, while higher capital and inventory intensities directly impact deductions, such as depreciation and storage costs. Additionally, leverage plays a crucial role in reducing taxable income through interest expenses. Understanding the combined influence of these variables is essential not only for optimizing tax efficiency but also for aligning financial strategies with corporate goals. Therefore, the following hypotheses are proposed to explore their simultaneous effects on financial performance among these factors.

H_5: Firm Size, Capital Intensity, Inventory Intensity, and Leverage simultaneous have significant effects towards Effective Tax Rate

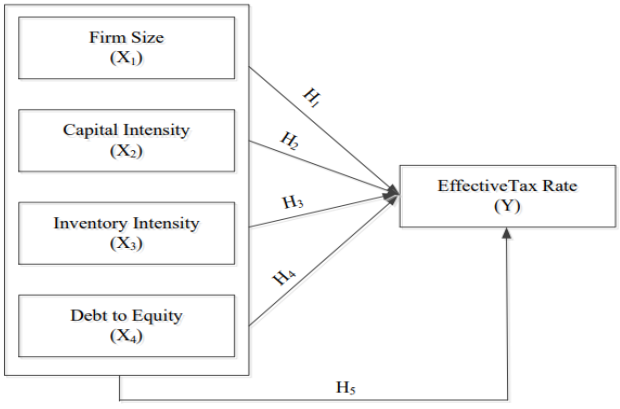


Fig. 1. Conceptual Framework

METHODOLOGY

All companies selling consumer goods that were listed between 2018 and 2021 on the website of the IDX make up the population. All businesses that have registered with the Indonesia Stock Exchange are trustworthy since anyone with access to the internet can view their financial information and as a result verify the data's openness. Since the study used data from the previous four years, its credibility is still very high. The sample is a subset of the population in terms of size and characteristics. Samples drawn from the population must be representative of the population being studied (Sugiyono, 2018). As a result, the writer should verify that samples drawn from the population accurately reflect the population.

In order to measure a variable using an instrument, the variable must be defined as an Operational Definition of a variable. This operational definition is important and necessary so that the measurement of a variable or data collection is consistent between one data source and another. In this research, the dependent variable is the Effective Tax Rate. The independent variables are Firm Size, Capital Intensity ratio, Inventory Intensity ratio, and Leverage.

Effective Tax Rate is a tool for calculating the impact of tax policy changes on a company's tax burden. Effective Tax Rate (ETR) is measured by the following formula:

$$\text{ETR} = \frac{Income\ Tax\ Expense}{Income\ before\ Income\ Tax\ Expense}$$

Firm size is a scale that can be used to categorize the size of the firm. Total assets or net sales can be used to convey the firm size, which is the size of the business. In this study, firm size is calculated as the ln of the firm's total assets. Firm size is measured by the following formula:

Firm Size = ln (Total Asset)

Depreciation costs may be used by the business to lower its profit. Capital Intensity Ratio is total fixed assets vs total assets of the company are compared. The capital intensity ratio is calculated using the following formula:

$$\text{Capital Intensity Ratio} = \frac{Total\ Fixed\ Assets}{Total\ Asset}$$

Inventory Intensity Ratio is a tool to know the company's efficiency level between the goods that have been sold and the existing in the company. Inventory intensity is the value of existing inventory in the form compared to the total assets of the company. The inventory intensity ratio is calculated using the following formula:

$$\text{Inventory Intensity Ratio} = \frac{Total\ Inventory}{Total\ Asset}$$

Leverage is a ratio used to gauge the extent of a firm's assets financed with debt. Leverage ratio is used to measure the firm's ability to fulfill all its obligations, both short-term and long-term obligations. The leverage (DER) is calculated using the following formula:

$$\text{Debt-to-Equity Ratio (DER)} = \frac{Total\ Liabilities}{Total\ Equity}$$

Financial analysis and statistical analysis are the methods of data analysis that are employed. The independent and dependent variable are both calculated using financial analysis. The 26th version of the SPSS application was used as the statistical tool for data analysis in this research. A data set's trends, patterns, and relationships are found through statistical analysis, which is also utilized to determine whether or not the hypotheses are correct. Descriptive statistics analysis, traditional assumption tests, multiple linear regression analysis, and hypothesis testing comprise the statistical analysis in this report (Ghozali, 2017).

There are several stages in this research. The first is descriptive statistics which is useful for providing an overview of the data description of all variables in research seen from the minimum

value, maximum value, average (mean) and standard deviation (Ghozali, 2017). Furthermore, the classical assumption test is also carried out and aims to determine whether the data meets the basic assumptions. It is important to avoid biased estimates. Classic assumption tests in research include: a) Normality Test, b) Multicollinearity Test, c) Heteroscedasticity Test and d) Autocorrelation Test. The hypothesis test in research includes: a) Partial T-test, b) Simultaneous F-Test, and c) Coefficient of Determination. Furthermore, to find out the relationship between the independent variables and dependent variable, performed Multiple Linear Regression Analysis. As for the formula analysis Multiple regression used in this study is as follows:

$$\mathbf{Y = a + b_1 X_1 + b_2 X_2 + b_3 X_3 + b_4 X_4 + e}$$

Y : Effective Tax Rate
α : Constanta
β_1- β_4 : Regression Coefficient
X_1 : Firm Size
X_2 : Capital Intensity
X_3 : Inventory Intensity
X_4 : Leverage
e : Error

RESULTS

Descriptive Statistics

In this study, descriptive statistics are used to describe the frequency of each research variable as well as its mean, minimum, maximum, and standard deviation values. Researchers can see the minimum value, the maximum value, the average value (mean), and the company's standard deviation of each variable used in the study based on data taken from the financial statements of consumer goods industries listed on the Indonesia Stock Exchange and used as research samples for period of 2018 to 2021, as shown in Table 1 as follows:

TABLE 1.
DESCRIPTIVE STATISTIC

	N	Minimum	Maximum	Mean	Std. Deviation
Firm_Size	128	25.96	32.83	29.1138	1.49854
Capital_Intensity	128	.05	.77	.3469	.15567
Inventory_Intensity	128	.02	.56	.1982	.12228
DER	128	.13	3.83	.7415	.62840
ETR	128	.03	2.38	.2716	.21273
Valid N (listwise)	128				

Source: Processed by writer using SPSS (2022)

Based on table 1, it is known that there are 128 observational data used for observation on consumer goods companies listed on the Indonesia Stock Exchange during the period 2018 to 2021.

Classical Assumption Tests

The normality test results in this study can be seen in the following table:

TABLE 2.
NORMALITY TEST

		Unstandardized Residual
N		112
Normal Parameters A,b	Mean	.0000000
	Std. Deviation	.05551485
Most Extreme Differences	Absolute	.069
	Positive	.069
	Negative	-.065
Test Statistic		.069
Asymp. Sig. (2-tailed)		.200c,d

Source: Processed by writer using SPSS (2022)

The table shows that the asymptotic significance (2-tailed) value is greater than 0.05 so that the data is ensured that the data is normally distributed. Therefore, it can be concluded that all the normality tests conducted in this research fulfills the normality assumption.

Multicollinearity Test

The results of the multicollinearity test can be seen in the following table:

TABLE 3
MULTICOLLINEARITY TEST

Model			Unstandardized Coefficients		Standardized Coefficients	Collinearity Statistics	
			B	Std. Error	Beta	Tolerance	VIF
1	(Constant)	.400		.114			
	Firm_size	-.006		.004	-.145	.923	1.084
	Capital _intensity	-.050		.040	-.123	.770	1.298
	Inventory _intensity	.046		.057	.075	.853	1.173
	DER	.053		.010	.463	.890	1.124

Source: Processed by writer using SPSS (2022)

Based on table 3, the Variance Inflation Factor (VIF) for each independent variable does not have a value under 10. Firm size (X1) is equal to 1.084, Capital Intensity ratio (X2) is equals to 1.298, Inventory Intensity ratio (X3) is equals to 1.173, and Debt-to-Equity ratio is equals to 1.124. The tolerance value for each variable does not have a tolerance value of 0.10, as shown in the table below. Firm size (X1) is equal to 0.923, Capital Intensity ratio (X3) is equal to 0.853, and DER ratio is equal to 0.890.

Heteroscedasticity Test

Heteroscedasticity Test results by observing the Spearman Test

TABLE 4.
HETEROSCEDASTICITY TEST

Correlations							
			Firm_size	Capital_ intensity	Inventory_ intensity	DER	Unstandardize Residual
Spearman's rho	Firm_size	Correlation Coefficient	1.000	-.103	-.121	.231*	-.009
		Sig. (2-tailed)	.	.279	.205	.014	.926

TABLE 4.
HETEROSCEDASTICITY TEST

Correlations

			Firm_size	Capital_ intensity	Inventory_ intensity	DER	Unstandardize Residual
		N	112	112	112	112	112
	Capital_ intensity	Correlation Coefficient	-.103	1.000	-.401**	.337**	-.016
		Sig. (2-tailed)	.279	.	.000	.000	.865
		N	112	112	112	112	112
	Inventory_ intensity	Correlation Coefficient	-.121	-.401**	1.000	-.040	.084
		Sig. (2-tailed)	.205	.000	.	.676	.381
		N	112	112	112	112	112
	DER	Correlation Coefficient	.231*	.337**	-.040	1.000	-.184
		Sig. (2-tailed)	.014	.000	.676	.	.052
		N	112	112	112	112	112
	Unstandardized Residual	Correlation Coefficient	-.009	-.016	.084	-.184	1.000
		Sig. (2-tailed)	.926	.865	.381	.052	.
		N	112	112	112	112	112

Source: Processed by writer using SPSS (2022)

Based on table 4, a residual variable is said not to have heteroscedasticity if the significant value is above 0.05. The result for firm size (0.926), capital intensity ratio (0.865), inventory intensity ratio (0.381), and leverage (0.052) means the residual variable has no heteroscedasticity or is usually referred to as homoscedasticity.

Autocorrelation Test

The results of the autocorrelation test can be seen in the following table:

Table 5. Autocorrelation Test

Runs Test	
	Unstandardized Residual
Test Values	-.00581
Cases < Test Value	56
Cases >= Test Value	56
Total Cases	112
Number of Runs	47
Z	-1.898
Asymp. Sig. (2-tailed)	.058

Source: Processed by writer using SPSS (2022)

A regression model is said to be free of autocorrelation if the value of significance is above 0.05. Based on table 5, significance is 0.058 which is above 0.05. In conclusion, the regression model has passed the autocorrelation test.

Multiple Linear Regression Analysis

TABLE 6.
MULTIPLE LINEAR REGRESSION ANALYSIS

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.400	.114		3.515	.001
	Firm_size	-.006	.004	-.145	-1.617	.109
	Capital_intensity	-.050	.040	-.123	-1.250	.214
	Inventory_intensity	.046	.057	.075	.805	.422
	DER	.053	.010	.463	5.053	.000

Source: Processed by writer using SPSS (2022)

Based on table 6, the multiple linear regression model is representing as the table above:

$$\mathbf{Y = 0.400 - 0.006X_1 - 0.050X_2 + 0.046X_3 + 0.053X_4 + e}$$

Hypothesis Test

First Hypothesis Testing (H_1)

Based on the test result in the table above, the variable firm size on ETR indicates a t-count value of -1.617 and a significance level of 0.109. The t-count is higher than the t-table value, namely -1.617 > -1.98238. The significance value of firm size is also higher than 0.05, namely 0.109 > 0.05. Therefore, the conclusion can be drawn if H_0 is accepted and H_1 is rejected. It means that firm size negatively and insignificant affects the effective tax rate in consumer goods companies Listed on Indonesia Stock Exchange.

Second Hypothesis Testing (H_2)

From the results above, the variable capital intensity on the effective tax rate indicates the t-count value of -1.250 and a significance level of 0.214. The t-count is lower than the t-table value, namely -1.250 < 1.98238. The significance value of capital intensity is also higher than 0.05, namely 0.214 > 0.05. Therefore, it can be concluded that H_0 is accepted and H_2 is rejected means that capital intensity has a negative and insignificant effect on the effective tax rate in consumer goods companies listed on Indonesia Stock Exchange.

Third Hypothesis Testing (H_3)

From the results above, the variable inventory intensity on ETR indicates a t-count value of 0.805 and a significance level of 0.422. The t-count is lower than the t-table value, namely 0.805 < 1.98238. The significance value of inventory intensity is also higher than 0.05, namely 0.422 > 0.05. Therefore, the conclusion can be drawn if H_0 is accepted and H_3 is rejected. It means that inventory intensity has a negative and insignificant effect on the effective tax rate in consumer goods companies listed on Indonesia Stock Exchange.

Four Hypothesis Testing (H_4)

From the results above, the variable leverage on the effective tax rate indicates a t-count value of 5.053 and a significance level of 0.000. The t-count is higher than the t-table value, namely 5.053 < 1.98238. The significance value of leverage is also lower than 0.05, namely 0.000 < 0.05. Therefore, the conclusion can be drawn if H_0 is rejected and H_4 is accepted. It means that leverage positively and significantly affects the effective tax rate in consumer goods companies listed on Indonesia Stock Exchange.

Simultaneous Hypothesis Testing

TABLE 7.
SIMULTANEOUS HYPOTHESIS TESTING

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.086	4	.022	6.741	.000[b]
	Residual	.342	107	.003		
	Total	.428	111			

Source: Processed by writer using SPSS (2022)

As a result, a conclusion can be drawn if H0 is rejected and H5 is accepted. It means all independent variables significantly affect the effective tax rate in consumer goods companies listed on Indonesia Stock Exchange.

Coefficient of Determination Test (R^2)

TABLE 8.
COEFFICIENT OF DETERMINATION TEST

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.449[a]	.201	.171	.05654	1.746

Source: Processed by writer using SPSS (2022)

Based on the table above, the value of adjusted R square is 0.171, which equals 17.1%, which means only 17% of the dependent variable of the ETR is explained by the independent variable, which is firm size, capital intensity, inventory intensity, and leverage. The rest of 82.9% is explained by other variables not discussed in this research paper.

DISCUSSION

The impact of firm size towards effective tax rate.

According to the T-test results, the company size, the first independent variable of this study, has a negligible impact on the effective tax rate in consumer goods companies listed on the Indonesia Stock Exchange. In other words, -1.617 > -1.98238, the minus t_{count} value is greater than the minus t_{table} value. The significance value is 0.109 > 0.05, which is likewise greater than 0.05. The significance value indicates that there is no significant impact of firm size, however the negative t_{count} result demonstrates a negative correlation between firm size and effective tax rate.

The first hypothesis (H_1) claimed that firm size partially has a significant effect on the effective tax rate in consumer goods companies listed on Indonesia Stock Exchange is rejected, and H_0 is accepted. This means no matter how much the amount increases or decreases in firm size; it will not affect the effective tax rate. Meanwhile, the negative relationship shows that the greater the firm size, the lower the effective tax rate. With a high level of firm size, the firm's ability to reduce tax payments is also increasing because the larger the firm size, the better the firm's decision in managing resources is also getting better, so the firm's tax rate will be lower.

Based on agency theory, agents (managers) who are given the authority to manage the company will try their best to utilize the firm's assets so that the firm's performance remains high. Agents will try to improve their performance and earn high profits. To maintain the profits obtained, the agents will carry out tax planning so that the real taxes paid do not burden the profits that will be used again for the company's operations in the future.

The results of this research align with the research which stated that firm size has no significant effect on the effective tax rate (Husni & Wahyudi, 2022). However, this study is not in line with other research which stated that firm size has a significant influence on the effective tax rate (Batmomolin, 2018) (Gazali & Damayanti, 2020).

The impact of capital intensity ratio towards effective tax rate.

The T-test results indicate that the second independent variable of this research, namely capital intensity, partially has no significant effect on the effective tax rate in consumer goods companies listed on Indonesia Stock Exchange. The minus t_{count} value is higher than the minus t_{table} value, namely -1.250 > -1.98238. The significance value is also higher than 0.05, namely 0.214 > 0.05. The significance value means that capital intensity has no significant effect, while the negative result of t_{count} shows a negative relationship between capital intensity and effective tax rate.

The second hypothesis (H_2) claimed that capital intensity partially affects the effective tax rate in consumer goods companies listed on Indonesia Stock Exchange is rejected, H_0 is accepted. This means no matter how much the amount increases or decreases in capital intensity; it will not affect the effective tax rate. Meanwhile, the negative relationship shows that the greater the capital intensity, the lower the effective tax rate. With a high level of capital intensity, the firm's tax payments will decrease because there is a depreciation expense arising from the size of the firm's assets that can be used as a tax deduction. As a result, the firm's tax rate will be lower.

Based on agency theory, agents (managers) are required to manage the company by utilizing their fixed assets to be able to generate profits. The increase in fixed assets will give the company sufficient capital to finance its operations so that it can create high profits. Earning a high profit for the company will increase the tax burden that must be paid to encourage managers to make tax savings through the effective tax rate. However, the difficulty of knowing how much the actual depreciation costs on fixed assets whose economic benefits have been exhausted has made the company only include a portion of the depreciation expense that it should have. This makes it an obstacle to making tax saving through the effective tax rate by the firm's management.

The results of this research align with the research stating that capital intensity has no significant effect on the effective tax rate (Gazali & Damayanti, 2020) (Syamsudin & Suryarini, 2020). However, this study is not aligned with other research which stated that capital intensity has a significant influence on the effective tax rate (Rahmawati, 2021).

The impact of inventory intensity ratio towards effective tax rate.

The t-test results indicate that the third independent variable of this research, namely inventory intensity, partially has no significant effect on the ETR in consumer goods companies listed on Indonesia Stock Exchange. The t_{count} value is lower than the t_{table} value, namely 0.805 < 1.98238. The significance value is also higher than 0.05, namely 0.422 > 0.05. The significance value means that inventory intensity has no significant effect, while the positive result of t_{count} shows a positive relationship between inventory intensity and effective tax rate.

On this basis, the third hypothesis (H_3) claimed that inventory intensity partially has a significant effect on the effective tax rate in consumer goods companies listed on Indonesia Stock Exchange is rejected, and H_0 is accepted. This means that no matter how much the amount increases or decreases in inventory intensity, it will not affect the effective tax rate. Meanwhile, the positive relationship shows that the higher the inventory intensity, the higher the effective tax rate. This is because the large inventory will incur additional costs associated with inventory. According to GAAP No. 14 Year 2014, the costs incurred to be removed will lead to reduced profits for the firm. In addition, the policy of the firm's management seeks to emphasize the value of tax rates using policies following existing regulations.

Based on the agency theory, the agency (manager) will try to minimize additional expenses due to a large inventory so as not to reduce profit. On the other hand, managers will maximize additional

costs which must be borne to reduce the tax burden. Managers charge additional inventory costs to reduce the company's taxable income.

The results of this research align with the research which stated that inventory intensity has no significant effect on the effective tax rate (Batmomolin, 2018). However, this study is not in line with other research, which stated that inventory intensity significantly influences the effective tax rate (Rahmawati, 2021).

The impact of leverage towards effective tax rate.

The T-test results indicate that the four independent variables of this research, namely leverage, partially have a significant effect on the effective tax rate in consumer goods companies listed on Indonesia Stock Exchange. The t_{count} value is higher than the t_{table} value, namely 5.053 > 1.98238. The significance value is also < 0.05, namely 0.000 < 0.05. The significance value means that leverage has a significant effect, while the positive result of t_{count} shows a positive relationship between leverage and the effective tax rate.

The fourth hypothesis (H_4) claimed that leverage partially has a significant effect on the effective tax rate in consumer goods companies listed on Indonesia Stock Exchange is accepted, H_0 is rejected. This means the higher the leverage, the higher the effective tax rate.

Based on agency theory it is explained that the higher the company's Leverage, the better the transfer of prosperity from creditors to company shareholders. Companies that have a larger proportion of debt in their capital structure will have higher agency costs. Therefore, the company with high leverage has higher liabilities to meet the information needs of long-term creditors.

The results of this research align with the research which stated that leverage has a significant effect toward the effective tax rate (Gazali & Damayanti, 2020). However, this study is not aligned with research which stated that leverage has no significant influence on the effective tax rate (Batmomolin, 2018) (Husni & Wahyudi, 2022).

The impact of firm size, capital intensity ratio, inventory intensity ratio, and leverage towards effective tax rate.

The result of the F-test demonstrates that all of the independent variables in this research, such as firm size, capital intensity, inventory intensity, and leverage, simultaneously have a significant effect on the ETR. It is proven that the $f_{count} > f_{table}$ value, namely 6.741 > 2.46. The significance value of the F-test < 0.05, namely 0.000 < 0.05. Therefore, it can be concluded that H_0 is rejected, and H_5 states that firm size, capital intensity, inventory intensity, and leverage simultaneously significantly affect the ETR in consumer goods companies listed on Indonesia Stock Exchange, is accepted.

Additionally, the outcome of the adjusted R^2 shows a value of 0.171 which means the variability in the multiple linear regression model is 17.1%. In other words, the dependent variable of this research, namely the effective tax rate, is affected by the firm size, capital intensity, inventory intensity, and leverage for 17.1%. In contrast, the remaining 82.9% are affected by other predictive factors not examined in this research.

CONCLUSION

The goal of this study is to clarify the relationship between firm size, capital intensity, inventory intensity, and leverage with respect to the ETR for consumer goods companies listed on the IDX for the years 2018 through 2021. Purposive sampling is used in this research, which is conducted quantitatively. As a result, 112 samples have been taken following the outliers, and 49 businesses make up the population. Because agency theory establishes the relationship between the shareholder and taxpayer, the author has chosen this theory as her guide. The government is the principal in this study, while the consumer goods businesses are the agency.

Based on the result, the research shows that firm size, capital intensity has a negative insignificant impact toward the effective tax rate on Consumer Goods companies listed on Indonesia Stock

Exchange for 2018-2021. However, inventory intensity ratio has an insignificant positive impact toward effective tax rate on Consumer Goods companies listed on Indonesia Stock Exchange for 2018-2021. Furthermore, leverage has a significant positive impact toward effective tax rate on Consumer Goods companies listed on Indonesia Stock Exchange for 2018-2021. On the other hand, firm size, capital intensity ratio, inventory intensity ratio, and leverage have significant simultaneous impact toward effective tax rate on Consumer Goods companies listed on Indonesia Stock Exchange for 2018-2021.

REFERENCES

Batmomolin, S. (2018). Analisis leverage, firm size, intensitas aset tetap dan intensitas persediaan terhadap tarif pajak efektif (Pada Perusahaan Kimia Yang Terdaftar Di Bursa Efek Indonesia Tahun 2012-2017). *Jurnal Ilmiah*, 36-42.

Darsani, P. A., & Sukartha, I. M. (2021). The Effect of Institutional Ownership, Profitability, Leverage and Capital Intensity Ratio on Tax Avoidance. *American Journal of Humanities and Social Sciences Research (AJHSSR)*, 13-22.

Desshyfa, R. T., & Purwanto, E. (2024). Assessing Financial Performance in Consumer Goods Manufacturing: The Role of Debt to Assets Ratio, Current Ratio, and Inventory Turnover. *Widyakala Journal*, 9-17.

Gazali, M., & Damayanti, T. (2020). Effective Tax Rate pada Perusahaan Sub Konstruksi Bangunan di Bursa Efek Indonesia. *Prosiding Seminar Nasional Pakar ke 3 Tahun 2020 Buku 2: Sosial dan Humaniora*(ISSN 2615 - 2584), 2.77.1-2.77.6.

Ghozali, I. (2017). *Model Persamaan Struktural Konsep dan Aplikasi dengan Program Amos 24, ed.7.* Semarang: Badan Penerbit Universitas Diponegoro Semarang.

Husni, A. N., & Wahyudi, J. (2022). Faktor-faktor yang Mempengaruhi Effective Tax Rate. *Kompak :Jurnal Ilmiah Komputerisasi Akuntansi*, 255–268.

Kasmir. (2019). *Analisis Laporan Keuangan Edisi Revisi.* Jakarta: Rajawali Pers.

Rahmawati, V. (2021). Tax Facility Moderates Effect on Inventory and Capital Intensity on Effective Tax Rate. *Jurnal Ilmu dan Riset Akuntansi*(e-ISSN 2460-0585), 1 - 19.

Sjahril, R. F., Yasa, I. N., & Dewi, G. A. (2020, Agustus 31). nalisis Faktor-Faktor Yang Mempengaruhi Tarif Pajak Efektif Pada Wajib Pajak Badan. *JIMAT (Jurnal Ilmiah Mahasiswa Akuntansi) Universitas Pendidikan Ganesha*, 56-65.

Sugiyono. (2018). *Metode Penelitian Kuantitatif, Kualitatif dan R&D.* Bandung: Alfabeta.

Syamsudin, M., & Suryarini, T. (2020). Analisis Pengaruh Intensitas Modal, Intensitas Persediaan, Komisaris Independen dan Kepemilikan Manajerial Terhadap ETR. *Jurnal Penelitian Ekonomi dan Bisnis, 5*(ISSN : 2460 – 4291), 52-65.

Widati, S., Asiah, N., Kamela, H., & Hidayat, T. A. (2024). Effective Tax Rates: Firm Size, Leverage and Return on Assets. *International Journal of Asian Business and Management (IJABM)*, 131-148.

IConEnt

The 4th International Conference on Entrepreneurship

THE EFFECT OF *FIRM PERFORMANCE , FINANCIAL DISTRESS,* AND OPERATIONAL COMPLEXITY ON *AUDIT REPORT LAG* WITH CORPORATE GOVERNANCE MECHANISM AND AUDIT QUALITY AS MODERATION

Eduard Ary Binsar Naibaho[1] *

Dewanti [2]

[1.2] Faculty of Economics and Business , Pelita Harapan University, Indonesia

Corresponding Author : eduard.naibaho@uph.edu

ABSTRACT

The purpose of this study is to examine the effect of firm performance, financial distress and complexity on audit report lag with corporate governance mechanisms and audit quality as moderating variables. Firm performance proxy Tobin's and ROA, financial distress proxy Altman's, managerial ownership, board size, and audit quality. The research uses secondary data from 128 companies in Indonesia, Australia and New Zealand, which are included in the office of manufacture and mining in the S&P Capital IQ for the period 2018-2022. The sample collection technique uses a purposive sampling method. This research found that company performance and financial distress had no effect, while complexity had an effect on audit report lag. Managerial ownership has an effect on Tobin, financial distress, and complexity on audit report lag, but managerial ownership has no effect on ROA. The size of the board of directors has an effect on Tobin but has no effect on ROA, financial distress, and complexity on audit report lag. Audit quality has no effect on company performance and complexity but does affect financial distress and audit report lag.

Keywords : **Audit report lag, Firm performance, Financial distress, Complexcity, Corporate Governance Mechanisms**

INTRODUCTION

At each the year increase along increase amount issuers listed on the stock exchange indonesia, australia stock exchange, and new zealand stock exchange. This figure jump up from 2018 to 2022, where the most companies late convey report his finances is Indonesia of 92 then ranked second is the country of new zealand by 83, then followed by Australia of 67.

Report lag become attention special for company because can reduce investor confidence in company. In Indonesia, the regulations are submitted through BEI Board of Directors Decree No. Kep-00066/BEI/09-2022, annual report company must reported no later than the end of month third after date closed book annual report company. If the company late report it so given sanctions like warning written and maximum material fine of Rp. 500,000,000,- (Indonesia Stock Exchange, 2022) . Australia, the deadline company convey report its financials are listed on *Australian Stock Exchange* (ASE) through regulations set out by *the Australian Securities and Investments Commission* (ASIC) *section* 319 and *Periodic Disclosure* 4.3 – 4.7A, require company. For convey report finance and publish report finance annually at the latest at the end month third . If it's too late company charged sanctions in the form of fine in accordance with long time report or maximum of AUD $40,000,- (ASIC, 2023) . New Zealand , the deadline company convey report his finances to the stock exchange New Zealand Stock Exchange through Financial Markets Conduct Act 2013, company must For

convey report annual report during time three month after date end year finance company (NZX, 2016) .

Condition this give perspective new that audit report lag no only become issue management company but also already become issue for investors. After collapse Enron, WorldCom and global audit firm Arthur Andersen, United States (US) passed the Sarbanes-Oxley Act (SOX) 2002 in effort increase quality reporting finance. Investors in Australian corporations also face failure commercial scale big similar that is the collapse of HIH Insurance is considered as collapse company the biggest in Australian (Singh & Sultana, 2011). The Australian government also responded decline quality reporting finance with implementing economic reform programs law companies, particularly the CLERP 9 (Corporate Audit and Disclosure Reform) Bill of 2004. The issue This cause reputation company will affected, so that its shares tend down price .

Based on growth data global economy 2020 – 2022 that In the Asian region, The Asian Development Bank in In 2021, the estimated total GDP of all ASEAN countries will be around 3.9 trillion US dollars or around 3.6% of global GDP. Indonesia is one of the countries in Southeast Asia that is predicted to as a developing country show performance a solid economy with grow amounting to 1.390 billion US dollars or around 5.20 percent (BPS, 2021).

Phenomenon about report lag in the company in the sector manufacturing and mining in convey report finances are still constrained in serve report finance annual that can cause audits report lag. Tolulola Lawal & Yoshikatsu Shinozawa (2022) to argue that accuracy time submission document disclosure influence price shares. Lack of accuracy time publication is phenomenon Serious Good it's in indonesia and also Australia and New Zealand, and failure for take the right action for reduce interval no handled in a way adequate by the party authorities.

Firm performance in study this measured with Tobin's Q and ROA. Company performance show ability For in a way effective, efficient and competitive exploit source power that can accessed For reach targeted goal (Abdullah & Tursoy, 2021). Research previously show that performance company find that market value can increase risk audit report lag in New (Bhuiyan & D'Costa, 2020).

Financial distress is condition the deterioration of the company's financial situation and if left alone will cause bankruptcy at the company. According to Nur Khamisah (Khamisah et al., 2023) shows data predictions in 2021 bankruptcy occurs in the sector mining by 62.5%. Research Desyana (D. Putri & Silaen, 2022) show that financial distress own influence positive to audit report . Difference results found by Wildan (Wildan Bani Adam et al., 2022) that is financial distress no can influence audit report lag because condition finance make the auditor permanent work in a way professional and competent in accordance with timetable time settlement audit report in appropriate time. This result is also supported by Cyntantya (Parahyta & Herawaty, 2020) with use Altman Z-Score variable, financial distress can influential negative to delay audit report .

Complex operation business company refers to the level complexity and diversity factors involved in operate a company, so that Can influence audit report lag in settlement report finance (Wildan Bani Adam et al., 2022)Research results Arinigtyastuti et al., (Ariningtyastuti & Rohman, 2021) complexity operation have a positive influence and provide impact on increasing audit report lag. Cause the more complex operation business , the longer the auditor has to finish reporting finance. Some study previously show internal and external factors external, such as role of governance company, the role of the board of directors and managerial ownership play a role as part important from governance framework company For determine

performance company, financial distress and complexity operation to audit report lag (Lee & Wong, 2016) .

Study previously tend focus on analysis impact complexity operational and financial distress towards audit reports include : Asfeni et al. (2023) and Desyana (D. Putri & Silaen, 2022) find financial have a influence to audit report lag due to existence complexity operation a company. Whereas results study Anggi et al. (Risanty et al., 2023) find proof empirical financial moderated audit quality has an effect negative to audit report lag and Wildan's research (2022) find No There is performance company between financial distress and complexity operation to audit report lag.

Study empirical This in a way special to study influence firm performance, financial distress and complexity operation to audit report lag not yet rampant conducted. The purpose of study for analyze influence from firm performance, financial distress, and complexity operation to audit report lag in companies listed on the stock exchange Indonesia, Australia and New Zealand . In addition study this done for analyze effect moderation governance mechanisms and audit quality. The use of variable moderation in the form of managerial ownership and board size which are unity from governance mechanism become differentiator with study before. Difference second namely analyze performance company to audit report lag . Difference third on use company listed on the stock exchange Indonesia with comparator company listed on the stock exchange Australia and new zealand as object research. Differences fourth namely there is a number of variable control for see results analysis with use size company, solvency, liquidity, leverage and GDP.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency theory Brahmadev Panda et al., (Panda & Leepsa, 2017) explain about agency happens in all type organization except owner - managed companies, they must employ agent or manager For manage company However, agents and owners own different goals and incentives, which can cause conflict interest called asymmetry information .

Delay in related audit reports problem accuracy time company publish report his finances Because can reduce its usefulness If reported in a way too late , which will bother interest agent and director. The role of external auditors can overcome delay audit report. Therefore that, report finance audited can provided by external auditors in a way appropriate time For reduce asymmetry information (Srbinoska & Srbinoski, 2021) .

According to Jeffrey J. Reuer et al., (Reuer et al., 2012) connection between organization no only can facilitate do exchange more economy fast and do performance , but also can increase benefit term length. Signal is form other information that shows How a party use information provided to other party to give description about company. According to theory signal Tolulola Lawal and Shinozawa (Lawal & Shinozawa, 2022) find that in japan own performance report finance Good more fast delivered in a way appropriate time than do delay, so that reflect success performance company. Level of trust party external to the signal given company own great influence to strength signal said. Therefore that, theory signal this explain why company possible decide for use service accountant public for to obtain audit quality that can trusted by investors and creditors. Because there are information important, then manager try give signal information to investors and stakeholders interest others. Manager ensure that the signal conveyed is information that can reliable and unreliable easy imitated. There are two schemes for convey signal. Both in terms of direct and also No directly. Disclosure in report annual is one of method company send the signal to stakeholders interest. Framework thinking on research This is explained in Figure 1

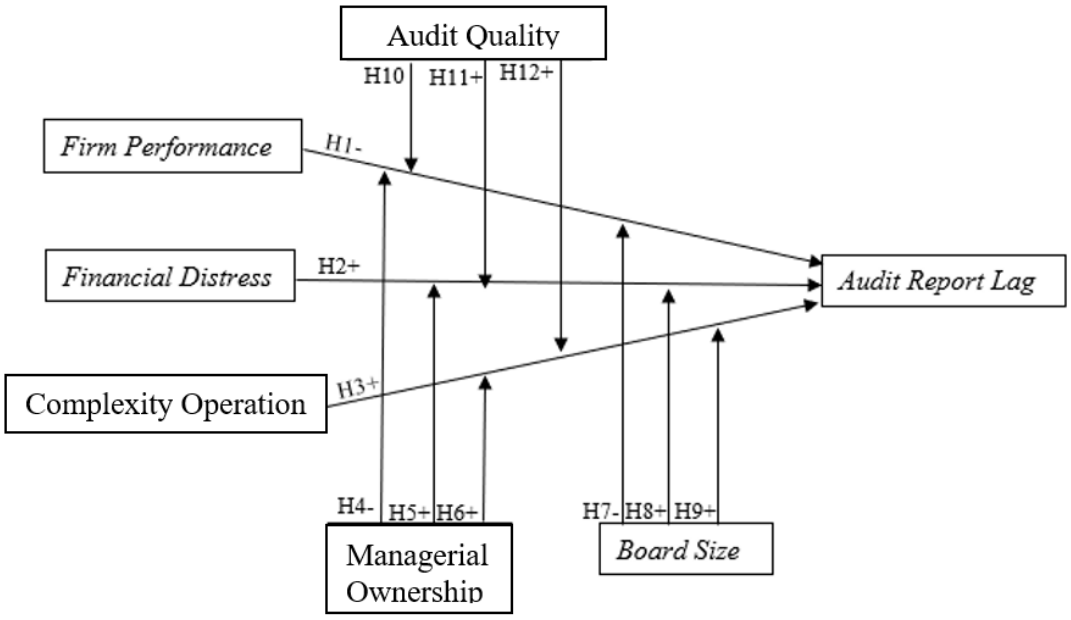


Figure 1 :
Framework thinking Influence Firm Performance, Financial Distress, and Complexity Operation to Audit Report Lag with Governance Mechanism and Audit Quality as Moderation

Firm Performance and Audit Report Lag

Firm performance with the proxy Tobin's Q can be interpreted as a description overall assets owned by the company (Akeem et al., 2020) . Tobin's Q is the relationship between the market value and the replacement value of the asset . The market can evaluate company in a way reasonable If there is The ideal number of Tobin's Q values is 1.0 .

Lawal Babatunde Akeem's (2020) research found evidence regarding the negative influence of Tobin's Q on audit report lag through sample manufacturing and mining companies. Looking at how Tobin's Q only can cause problems small on accuracy delivery report finance. There is still little research examining the impact of Tobin's Q on audit report lag for manufacturing and mining companies. So that Still need under review for can strong evidence and is the assumption that can be be novelty in the research.

Return on Asset that is ability company produce net income from a asset (Khaerunnisa & Amrulloh, 2022) . According to Desyana Putri et al., (2022) ROA can show how much big contribution asset for produce profit clean of total assets . ROA can measured through share total profit clean with total assets. Lailah Fujianti (Fujianti & Satria, 2020) say that inspection accounting carried out by the auditor will done secra slow in accordance with request companies that experience loss . However On the contrary, the auditor is asked more quickly by the company that gets big profit in inspection accountancy companies so that they can quick announce " news " both to investors and public.

Study previously by Christine Yos Febriani (2023) and Shabilla Ariningtyastuti (Ariningtyastuti & Rohman, 2021) show that ROA has level significant and has an impact on audit report lag For company manufacturing and mining . Whereas Hendrick Yohannes research (2022) own findings that ROA is not impact significant on audit report lag company mining . While that , research from Indar Khaerunnisa et al., (2022) , Ika Sulistiani et al., (2022)

and Lailah Fujianti & Indar Satria (Fujianti & Satria, 2020) find proof related influence negative performance company to report lag with ROA used as proxy . Based on from description said, then hypothesis in research This is compiled by the author as following :
H 1 .a : Tobin's Q has a negative effect on audit report lag
H1 . b : ROA has influence negative to audit report lag

Financial Distress and Audit Report Lag

Financial distress is a financial problem experienced by a company (D. Putri & Silaen, 2022) . Meanwhile, according to Melinda (Melinda & Wijaya, 2021) financial distress is a stage where a company's financial condition declines before the company goes bankrupt. This condition occurs because the company cannot manage the business properly, resulting in losses that impact business operations and reduce cash flow rather than operational profits.

According to I Kadek Pebri Artana (2021) , financial distress using the Altman Z-Score proxy is used to determine the company's financial condition and can be used as a calculation of the company's financial forecast. The Altman Z-score was developed by Edward Altman in 1968 and is used to predict the possibility of a company going bankrupt in the next two years (2021) . The Altman Z-Score can measure how bad the company's financial condition is, because the company's Altman is stated to be at high risk of bankruptcy if the Z-score result is <1.1, then with this calculation the company will quickly make decisions to improve the condition.

Based on the findings of previous researchers including Arif Arya Bimo (2022) and I Kadek Pebri Artana (2021), it shows that significant financial distress can have an impact on audit report lag for manufacturing and mining companies . So from this explanation, the author formulates the second hypothesis as follows :
H 2 : Financial Distress own influence positive to Audit report lag

Complexity Operation and Audit Report Lag

Complexity operation is the number of segment or child branches owned by companies with the same scope work business different operations and tasks in different department units (Wildan Bani Adam et al., 2022) . The total complexity of subsidiary operations indicates that the company examines more aspects of the business in each transaction with available records, making it necessary for auditors to longer time to complete the audit.

According to Vika Yuliana Putri's research (2022) show How complexity operation company influence duration audit report, because company with more from One will extend audit report. The auditor must expand coverage audit procedures for company with level different complexities in each segment company. As explained in theory agency , delay audit report can due to complexity the height required for audit conduct the initial audit process.

Based on findings of researchers previous including Nur Khamisah (Khamisah et al., 2023)and Wildan Bani Adam (Wildan Bani Adam et al., 2022) show that complexity operation cause report report long audit finance for company manufacturing and mining, then writer compile hypothesis this that is as following :
H3: Complexity Operation own influence positive to audit report lag

Governance Mechanisms and Firm Performance

Managerial ownership as variable moderation with indicator research by Wahyu Septian R (R & Nelvirita, 2023) is management that becomes holder share can participate at each taking

decision company in a way active , such as commissioner and director. Raja Andiani et al., (Sebriwahyuni & Kurniawan, 2020) succeed prove existence role ownership managerial impact weaken influence negative caused by Tobin's Q on audit report lag.

According to Ben Kwame et al., (Agyei-Mensah, 2018) in line with theory agency in test the influence of ROA has an impact to report lag reporting finance in Ghanaian companies requires reporting on date certain No means that law always obeyed , then need done investigation How law the obeyed. Research conducted by Albert Puni (Puni & Anlesinya, 2020) there is connection negative between ownership managerial and ROA for company increase with audit report lag.

Study from Hyun Min Oh (Oh & Jeon, 2022) show results board size No can influence on ROA against audit report lag, because of larger board size big maybe also can reflect lack of efficiency and effectiveness in structure organization . If internal processes are not elaborated with ok , this is it can slow down the audit process and increase audit report lag

H_4.a : Managerial Ownership strengthens influence Tobin's Q negative against audit report lag

H 4.b : Managerial Ownership strengthens the negative influence of ROA on audit report lag

H_7.a : Board Size strengthen influence Tobin's Q negative against audit report lag

H_7.b : Board Size strengthen influence negative ROA against audit report lag

Governance Mechanisms and Financial Distress

Research Sessy Wira Wandi et al., (Wandi, 2022)and Shujah -Ur-Rahman et al., (Rahman et al., 2023) factor condition bad finances can impact on integrity report finance, due to the pending audit process can influence quality and reliability information finances presented to public.

Managerial ownership with complexity no own significant and influential negative on audit report lag, then can it is said ownership managerial No Can influence accuracy time delivery report finance. Because the management involved in a way direct in the process of making reliability report accurate finance (Ahmet et al., 2022).

Study from Quang Linh Huynh et al., (Huynh et al., 2022) show results board size strengthen connection positive financial distress to audit report lag because the council with size big can influence efficiency board duties and quality report finance, as well as Because financial distress own influence positive on audit report lag

H 5 : Managerial Ownership Strengthens Influence positive financial distress on audit report lag

H 6 : Managerial Ownership strengthens influence positive complexity operation to audit report lag

H 8 : Board Size strengthen influence positive financial distress to audit report lag

Governance Mechanism and Complexity Operation

Lailah Fujian (Fujianti & Satria, 2020) when company own complex operations can influence audit report lag because the audit process becomes more complicated and requires long enough time to solve it . Complexity operation company identified become sufficient factors significant in influence duration time required for complete the audit.

Study from Yanu Chaerul Ifan et al., (Ifan & Durya, 2022) show results board size strengthen connection positive complexity operation to audit report lag Because a company that is increasingly complicated or have > 2 child company so make increasingly long audit process as consequence from its vastness scope of the audit so that the more Lots information that must be expressed .

H 6 : Managerial Ownership strengthens influence positive complexity operation to audit report lag
H 9 : Board Size strengthen influence positive complexity operation to audit report lag

Audit Quality and Firm Performance

Study previously Made Sunarsih (Sunarsih et al., 2021) state that audit quality is not influence in a way significant Tobin's Q relationship to audit report lag . Because of the audit process company with Tobin's Q value is small No different with company with Tobin's Q value is large. Quality reporting finance can reduce time delays that may occur harm company.

Findings research by Monica Kosasih et al., (Kosasih & Arfianti, 2020) show income profit company profits tend appropriate time in convey report its finances , which reduces audit report duration . However, if business experience loss, management as agent will ask the auditor to postpone settlement report finance to avoid from discomfort company consequence news news bad. As a result, the audit report was delayed. become longer. Management will get profit from high ROA in form incentives, reputation, and convenience For operate business in the future.

H10.a : Audit Quality strengthens influence Tobin's Q negative against audit report lag
H10.b : Audit Quality strengthens influence positive ROA against audit report lag

Audit Quality and Financial Distress

Findings from research by Melinda et al., (Melinda & Wijaya, 2021) show that financial distress No affect on audit report lag . However audit quality as moderation can influence financial distress on audit report lag. Situation financial distress often increases question about continuity life company. The auditor may need time longer for evaluate in a way careful whether company can survive, and things This can influence audit report lag.

H11 : Audit Quality strengthens influence positive financial distress to audit report lag

Audit Quality and Complexity Operation

Findings from study Shabila Ariningtyastuti et al., (Ariningtyastuti & Rohman, 2021) show amount time required For finish audit report is influenced by the level of complexity operations . In other words, complexity operation impact positive at rate audit report. However with support audit quality as moderation can influence connection negative on complexity operation to audit report lag. H elp negative between complexity operations and audit report lag becomes not enough significant or even changed become positive when audit quality is improved can interpreted as sign that when better audit quality well, the auditor is able handle more Good level complexity high operational and can complete the audit with more fast. The auditor may need time longer for evaluate in a way careful whether company can survive, and things This can influence audit report lag.

H12 : Audit Quality strengthens influence negative complexity operation to audit report lag

Research methods

Data in study This is period 2018 to 2022 for evaluate influence Firm performance, Financial Distress, and Complexity Operation to Audit Report Lag with Governance Mechanism and Audit Quality as Moderation.

TABLE 1
RESEARCH SAMPLE SELECTION

Information	Amount
Companies listed on the IDX, ASX and NZSE Stock Exchanges	**3,864**

Companies that do not publish managerial ownership	(640)
Incomplete Data For count Variables Operational	(1,470)
Companies that have report finance No complete	(980)
Outlier Data	(134)
Total Companies that become study	128
Period Study	5
Final Observation Total	**640**

Source : Researcher Data Processing , 2023

Study This to observe companies listed on stock exchanges in the countries of Indonesia, Australia and New Zealand, which have publish report finance audited during 2018 – 2022 period on each stock exchange website in the three countries or company website. Selection company based on category sector industry used in *S&P Capital IQ* . Research This focus on coverage sector industry *manufacturing* and *mining.*

Measurement performance variable dependent , independent and moderation consisting of from *Firm performance*, *Financial Distress* , and Complexity Operation , *Audit Report Lag* with Governance Mechanism and Audit Quality as Moderation that is :

TABLE 2
PERFORMANCE MEASUREMENT VARIABLES

Variables	**Proxy**	**Formula**	
Audit Report Lag	ARL	ARL =	Stock exchange deadline day - Amount day report company auditor finance
Firm Performance	*Tobin's Q*	Tobin =	Market Capitalization + Total Debt / Total Assets
Firm Performance	Return On Asset	*ROA* =	Total Liabilities / 'Total Asset
Financial Distress	Altman Z-Score	*Z-Score* =	1.2A + 1.4B + 3.3C + 0.6D + 1.0E alphabet criteria are : 1. *Working Capital / Total Assets* (A) 2. *Retained Earnings / Total Assets* (B) 3. *Earnings Before Interest and Taxes (EBIT) / Total Assets* (C) 4. *Market Value of Equity / Total Liabillities* (D) 5. *Sales / Total Assets* (E)
Complexity Operation	*Complexity*	*Comp* =	Variables *dummy* , 1 = Many companies child branch , 0 = Company does not own child branch
Managerial Ownership	*Managerial Ownership*	MO =	Total shares of managers and Board of Directors / Total shares outstanding
Board Size	*Board Size*	*Bsize* =	Number of board members
Audit Quality	*Audit quality*	KA =	Variables *dummy , 1 = big four* KAP , 0 = *non-big four KAP*
Size	*Size*	Size	Ln Total Asset

Solvency	Solvency	*Sol* =	Total Debt Total Asset
Liquidity	Liquidity	*Liq* =	Current Debt Current Asset
Leverage	*Leverage*	*Lev* =	Total Debt Total Equity
GDP	GDP	*GDP* =	Total Gdp in Year

RESULTS AND DISCUSSION

Statistics Descriptive

Table data results Above , there is a sample operation as many as 640 companies , consisting of from 128 companies with period 5 years research that is 2018 to 2022

TABLE 3
STATISTICS DESCRIPTIVE

Variables	Obs	Mean	Std. Dev	Min	Max
arl	640	74.52813	24.82759	0	180
tobinq	640	1.528835	2.113471	0.1166602	33.07464
road	640	0.0269766	0.1433046	-1.095498	0.3627171
zscore	640	5.85082	4.715405	-5.840629	19.99021
comp	640	0.7890625	0.4082932	0	1
mo	640	15.66228	20.94404	0.00045	88.1591
bsize	640	7.289063	2.149179	3	10
you	640	0.5546875	0.497389	0	1
size	640	15.1865	1.925943	10.56352	21.19421
sole	640	0.2476773	0.1885297	0.0003102	1.779897
liq	640	0.3300121	1.272133	0.0000265	29.00953
Lev	640	0.5531821	1.563526	-20.90491	12.10604
gdp	640	2.915095	2.363647	-2.065512	5.308595

Source : Stata Data Processing 17, 2023

Test Results

T-test is performed at the level significant , namely at 1%, 5%, and 10% significance . The research This perform a *one-tailed* test so that For testing hypothesis , p- *value* divided by two

TABLE 4
HYPOTHESIS T TEST RESULTS

ARL_bc	Coefficient	Std. err .	t	P>t
TOBINQ	-0.1058678	0.0511242	-2.07	0.122
ROA	0.4749412	0.6154506	0.77	0.441
ZSCORE	-0.0098267	0.0147376	-0.67	0.505
COMP	-0.1291236	0.1661242	-0.78	0.001***
MO	-0.0050467	0.0021593	-2.34	0.020***
BSIZE	0.0491512	0.0196184	2.51	0.012***
KA	-0.3217653	0.0844608	-3.81	0.000***

TOBINQxMO	0.0008932	0.0005997	1.49	0.137*
ROAxMO	0.0030896	0.0085145	0.36	0.717
ZSCORExMO	0.0003876	0.0001961	1.98	0.049**
COMPxMO	0.0034483	0.0021073	1.64	0.102*
TOBINQxBSIZE	0.0095925	0.0048085	1.99	0.046**
ROAxBSIZE	-0.0318119	0.0640444	-0.5	0.62
ZSCORExBSIZE	-0.0014119	0.0018808	-0.75	0.453
COMPxBSIZE	-0.0067706	0.0189854	-0.36	0.721
TOBINQxKA	0.0050779	0.026769	0.19	0.85
ROAxKA	-0.390133	0.3135871	-1.24	0.214
ZSCORExKA	0.0151812	0.0078693	1.93	0.054**
COMPxKA	0.0173815	0.081152	0.21	0.83

** *,* *,*, significant at the 0.01 (1%), 0.05 (5%), and 0.10 (10%) levels respectively. sequentially

DISCUSSION

Firm Performance own influence negative to audit report lag

Findings This in line with signaling theory that is disclosure information from the company's market value reflected through Tobin's Q score can give information with complete and accurate about condition ratio finance company as well as practice his business.

Findings This in line with study Arash Arianpoor et al., (Arianpoor, 2019)and Lawal Babatunde et al., (Akeem et al., 2020), previously find performance company Tobin's Q proxy can reduce audit report lag. From the findings study Here, the use of Tobin's Q can give signal about performance company to investors and is considered credible.

Findings testing hypothesis performance company ROA proxy has influence negative to audit report lag . Indar Khaerunnisa and Amrulloh (Khaerunnisa & Amrulloh, 2022), previously find that performance company with use ROA proxy can reduce audit report lag. The results of findings This find business with high ROA tend conduct further audit processes fast compared to business with low ROA business . Business with higher ROA tall No own reason For postpone publishing report finance, even tend speed up publishing report finance.

Financial Distress own influence negative to audit report lag

Findings testing prove that financial distress with Altman Z-Score proxy no existence significant influence to audit report lag . This is can caused by conditions finance company Still Can endure during company cash flow Enough For fulfil need operational or business , time rise report finance audited and the auditor's work is not affected.

In accordance with theory agency moment company experience condition financial distress so party management can give information to investors or holders shares . The results of study This in line with research by Arif Arya Bimo et al., (Arya Bimo & Rahma Sari, 2022)and Risanty et al., (Risanty et al., 2023) shows that the existence of financial difficulties has no bearing on the length of time required before the audit report is completed . With however , even though financial distress can add time audit report lag , management company need notice related reporting finance in delivery in a way appropriate time.

Complexity Operation own influence positive to audit report lag

Test results complexity operation with proxy complexity own existence influence significant to audit report lag , study find hypothesis which states complexity own influence positive to audit report lag can accepted.

Research result This in line with research by Nur Khamisah et al., (Khamisah et al., 2023)and Putri Abidin et al., (V. Y. Putri & Abidin, 2022), previously find that complexity operation can add time For delivery report finance . The cause the more Lots child companies involved in the audit then the time it takes the auditor is getting longer to finish it.

Managerial ownership strengthens influence Firm Performance to audit report lag

Findings in line with previous research by Albert Puni et al., (Puni & Anlesinya, 2020) managerial ownership has an impact positive to *report lag* . High managerial ownership will push effective board vigilance and participation in taking decision , so that produce improvement performance finance . However results different with study Septian's Revelation (R & Nelvirita, 2023) shows that management ownership does not affect the length of publication of audited financial statements.

Findings testing the hypothesis of managerial ownership absence significant impact on the relationship between ROA and *audit report lag* can be accepted . Previous research by Desyana Putri (D. Putri & Silaen, 2022)and Indah Fujian et al., (Fujianti & Satria, 2020) in a way partial interaction variable managerial ownership with ROA influence negative and no existence significant to *audit report lag* , then every the occurrence ROA increase will push decrease in *audit report lag.* Ownership shares by party management No can cause extension time publication report finance Because can be one of method For interesting investors so that invest in companies.

Managerial ownership strengthens influence *Financial Distress* to *audit report lag*

Findings testing the managerial ownership hypothesis does not provide significant impact on the relationship between Z-Score and *audit report lag.* According to Altman, the company stated at risk tall to bankruptcy if Z-score result < 1.1. Findings show *financial distress* No has an effect on *audit report lag* . The amount ownership management company No influence how long will it take For finish report finances that have been audited ; therefore that , ownership management create a sense of responsibility answer become more big Because every decisions made under consideration with be careful not to cause problem .

Managerial ownership strengthens influence Complexity Operation to *audit report lag*

Findings hypothesis testing reveals absence of managerial ownership significant impact on the relationship between *complexity* on *audit report lag*. Previous research Yoosita Aulia (Aulia & Setiawati, 2020) in a way partial interaction variable managerial ownership with *complexity* influential negative on *audit report lag*, then it is said ownership managerial no influence accuracy company in delivery report *annual report*. With ownership management expected can work more hard use repair performance to be obtained achievement objective profit .

Board Size* strengthen influence *Firm Performance* to *audit report lag

Findings study disclose *board size* can give significant impact on Tobin's Q on audit *report lag* . The findings different findings previously by Bayelign Abebe et al., (Abebe Zelalem et al., 2022) show that variable moderation *board size* influence negative on *audit*

report lag. The board of directors is more small tend more active, more collaborative, and create decision more fast than a larger board of directors big.

Research result *board size* strengthens the negative influence of ROA on *audit report lag*. The results of this study can be interpreted that the level of size directors as proxy from the increasingly larger *board size* can result in problem coordination in the company . Research by Hyun min oh et al., (Oh & Jeon, 2022) This in accordance with findings study *board size* can reduce influence negative caused by ROA on *audit report lag* . But different with research by Indar Khaerunnisa et al., (Khaerunnisa & Amrulloh, 2022) that *board size* No own influence ROA on *audit report lag.*

Board Size* strengthen influence negative *Financial Distress* to *audit report lag

Findings show *board size* strengthen influence negative *financial distress* on *audit report lag.* Some company to form committee finance or audit committee for handle issues finance in a way specific. Presence committee This can overcome a number of possible obstacles arise consequence large board size . Circumstances *financial distress* often create uncertainty and confusion among board members. Research by Quang Linh hyunh et al., (Huynh et al., 2022) This different with results findings study that *board size* can own influence positive caused by *financial distress* in *audit report lag.*

Board Size* strengthen influence negative Complexity Operation to *audit report lag

Findings *board size* strengthen influence negative complexity operation on *audit report lag.* Although large board size, if members of the board have relevant specialization and expertise with complexity operation company , they Possible can give effective contribution . Research by Yanu Chaerul et al., (2022) and Ngatno Apriatni et al., (Ngatno et al., 2021) This different with results findings study, *board size* can own influence positive caused by complexity operation on *audit report lag.*

Audit quality strengthens influence negative *Firm Performance* to *audit report lag*

Findings audit quality strengthen influence negative Tobin's Q on *audit report lag.* Audit quality is factor important in the audit process, research show that audit quality is not in a way direct influence *audit report lag* in context connection with Tobin's Q. The results of the research found by Ni Made Sunarsih et al., (2021) and Sulistiani et al., (Sulistiani et al., 2022) in accordance with findings study that audit quality can own influence negative caused by Tobin's Q on *audit report lag.*

Findings audit quality strengthen influence negative ROA on *audit report lag*. Quality auditors can help company in identify and fix problem possible finances affect ROA, so that can speed up the audit process and reduce *audit report lag*. Findings research by Monica Kosasih et al., (Kosasih & Arfianti, 2020) different with findings study This audit quality can own influence positive caused by ROA on *audit report lag.*

Audit quality strengthens influence negative *Financial Distress* to *audit report lag*

Findings audit quality strengthen influence positive *financial distress* to *audit report lag*. High audit quality tend have careful approach on detection and management risk . When the company experience *financial distress*, high audit quality can help auditors identify more beginning potential problems and risks finances that can influence report finance and speed up the audit process. The findings of the study Melinda et al., (Melinda & Wijaya, 2021) in accordance findings results study audit quality can own influence positive caused by *financial distress* on *audit report lag.*

Audit quality strengthens influence negative Complexity Operation to *audit report lag*

Findings audit quality strengthen influence negative complexity operation on *audit report lag.* Due to this reason that , the more big level audit quality , the more the audit can finish more fast settlement audit report time finance although company own level business its more operations complex . Qualified auditors can more efficient in handle aspect complexity operations . The results of the research findings Shabila Ariningtyastuti et al., (Ariningtyastuti & Rohman, 2021) different results findings study find audit quality can influential positive caused by complexity operation on *audit report lag.*

CONCLUSION, LIMITATIONS AND IMPLICATIONS

Conclusion

Based on testing and discussion findings , research find proof : *Firm Performance* with proxy Tobin's Q has influence negative to *audit report lag* . *Firm Performance* proxy ROA also has influence negative to *audit report lag. financial distress* Altman Z-Score proxy no have influence significant to *audit report lag.* Complexity operational influence in a way significant on *audit report lag.* Ownership managerial significant against Tobin's Q and *audit report lag* , but ownership managerial No influential positive between ROA and audit *report lag* . Ownership managerial give influence significant Z-Score on *audit report lag* . Ownership managerial No influential significant on influence complexity to *audit report lag* . *Board size* can significant to connection between Tobin's Q and *audit report lag* . *Board size* influential negative *Return On Assets* (ROA) against *audit report lag* . *Board size* strengthen influence negative *financial distress* and complexity operational on delay audit report . Audit quality strengthens influence negative Tobin's Q and ROA and complexity operational on *audit report lag* , audit quality affects *financial distress* .

Implications For future research

Intended For company , it is expected results study Can made into information in frame overcome *audit report lag* that occurs in company consequence from impact *firm performance* , *financial distress* and complexity operation . Intended for investors, results study This Can made into source information for investors who want to do investment in a company in order to be able to see risks . Intended For researcher Next , research results This Can become guidelines and references addition For donate contribution related importance accuracy time in minimize *audit report lag* . Therefore that , it is expected in the research Next , the use of sample extended research and period study can used throughout companies in developing and developed countries .

REFERENCE

Abdullah, H., & Tursoy, T. (2021). Capital structure and firm performance: a panel causality test. *Munich Personal RePEc Archive*, *105871*, 1–18.

Abebe Zelalem, B., Ali Abebe, A., & Wodajo Bezabih, S. (2022). Corporate governance and financial performance in the emerging economy: The case of Ethiopian insurance companies. *Cogent Economics and Finance*, *10*(1). https://doi.org/10.1080/23322039.2022.2117117

Agyei-Mensah, B. K. (2018). Impact of corporate governance attributes and financial reporting lag on corporate financial performance. *African Journal of Economic and Management Studies*, *9*(3), 349–366. https://doi.org/10.1108/AJEMS-08-2017-0205

Ahmet, S., Halil, E. I., & Burcu, B. (2022). How Important is Corporate Governance Features and the Lags on Audit Reports in Firm Performance: The Case of Turkey. *Studies in Business and Economics*, *17*(1), 218–237. https://doi.org/10.2478/sbe-2022-0015

Akeem, L. B., Rufus, A. I., Abiodun, S. W., & Olawum, L. B. (2020). Audit Reporting Lag and Firm Value in Nigerian Food and Beverage Companies. *Market Forces*, *15*(2), 12. https://doi.org/10.51153/mf.v15i2.458

Arianpoor, A. (2019). Impact of Audit Report Lag , Institutional Ownership and Board Characteristics on Financial Performance. *Iranian Journal of Accounting, Auditing & Finance*, *3*(2), 83–97. https://doi.org/10.22067/ijaaf.v3i2.88870

Ariningtyastuti, S., & Rohman, A. (2021). Pengaruh Efektivitas Komite audit, Kondisi Keuangan, Kompleksitas Operasi, Profitabilitas, dan Karakteristik Auditor Eksternal Terhadap Audit Report Lag (Studi Empiris Pada Perusahaan Manufaktur di Bursa Efek Indonesia Pada Tahun 2017 - 2019). *Diponegoro Journal of Accounting*, *10*(2), 1–15.

Artana, I. K. P., Indraswarawati, S. A. P. A., & Putra, C. G. B. (2021). Pengaruh Ukuran Perusahaan, Kompleksitas Operasi Perusahaan, Reputasi Auditor, Dan Financial Distress Terhadap Audit Delay Di Bursa Efek Indonesia Tahun 2016 S/D 2018. *Hita Akuntansi Dan Keuangan*, *2*(1), 120–143. https://doi.org/10.32795/hak.v2i1.1494

Arya Bimo, A., & Rahma Sari, I. (2022). *The Effect Of Audit Complexity, Financial Distress And Institutional Ownership On Audit Report Lag(Empirical Study on Property and Real Estate Sub-Sector Companies Listed on the Indonesia Stock Exchange for the 2017-2021 Period)*. *2*(1), 75–89.

ASIC. (2023). ASIC prosecutes fifteen companies for failing lodge financial reports. *ASIC*, 1–2. https://doi.org/10.1088/1751-8113/44/8/085201

Aulia, Y., & Setiawati, W. (2020). Diterminasi Faktor Yang Memengaruhi Audit Delay. *Journal Of Applied Managerial Accounting*, *4*(1), 94–101.

Bhuiyan, M. B. U., & D'Costa, M. (2020). Audit committee ownership and audit report lag: evidence from Australia. *International Journal of Accounting and Information Management*, *28*(1), 96–125. https://doi.org/10.1108/IJAIM-09-2018-0107

BPS. (2021). Laporan Perekonomian Indonesia. *Badan Pusat Statistik Indonesia*, 1–210.

Christine Yos Febriani, & Juniati Gunawan. (2023). Faktor-Faktor Yang Mempengaruhi Audit Report Lag Pada Manufaktur Di Indonesia Dengan Reputasi Kap Sebagai Pemoderasi. *Jurnal Ekonomi Trisakti*, *3*(1), 1383–1400. https://doi.org/10.25105/jet.v3i1.16236

Fujianti, L., & Satria, I. (2020). Firm size, profitability, leverage as determinants of audit report lag: Evidence from Indonesia. *International Journal of Financial Research*, *11*(2). https://doi.org/10.5430/ijfr.v11n2p61

Huynh, Q. L., Hoque, M. E., Susanto, P., Watto, W. A., & Ashraf, M. (2022). Does Financial Leverage Mediates Corporate Governance and Firm Performance? *Sustainability (Switzerland)*, *14*(20), 1–20. https://doi.org/10.3390/su142013545

Ifan, Y. C., & Durya, N. P. M. A. (2022). Pengaruh Ukuran Perusahaan, Kompleksitas Operasi Perusahaan Dan Ukuran Kantor Akuntan Publik (KAP) Terhadap Audit Report Lag. *Accounting Cycle Journal*, *3*(2), 43–63.

Indonesia Stock Exchange. (2022). SURAT KEPUTUSAN DIREKSI PT BURSA EFEK INDONESIA Nomor Kep-00066/BEI/09-2022. *Indonesia Stock Exchange*, *8.5.2017*, 2003–2005.

Khaerunnisa, I., & Amrulloh, A. (2022). Effect of Company Size and ROA on Audit Report Lag (Empirical Research of Real Estate and Property Companies listed on the IDX). *The Accounting Journal of Binaniaga*, *7*(2), 247–260. https://doi.org/10.33062/ajb.v7i2.8

Khamisah, N., Nurullah, A., & Kesuma, N. (2023). Pengaruh Agresivitas Penghindaran Pajak,

Kompleksitas Operasi Perusahaan, Audit Fee, dan Financial Distress terhadap Audit Report Lag. *Reviu Akuntansi Dan Bisnis Indonesia*, *7*(1), 232–247. https://doi.org/10.18196/rabin.v7i1.18005

Kosasih, M., & Arfianti, R. I. (2020). Kemampuan Spesialisasi Industri Auditor Memoderasi Pengaruh Audit Tenure Dan Kualitas Audit Serta Pengaruh Rasio Keuangan Terhadap Audit Report Lag. *Jurnal Akuntansi*, *9*(1), 86–106. https://doi.org/10.46806/ja.v9i1.660

Lawal, T., & Shinozawa, Y. (2022). Financial reporting lag during COVID-19: evidence from flash reporting in Japan. *Asia-Pacific Journal of Accounting and Economics*, *00*(00), 1–19. https://doi.org/10.1080/16081625.2022.2147967

Lee, H., & Wong, B. Y. H. (2016). Ways to implement global financial initiatives of the G20 after the financial crisis: the enforcement roles of the BCBS and the IASB. *Law and Financial Markets Review*, *10*(4), 193–200. https://doi.org/10.1080/17521440.2017.1311557

Melinda, M., & Wijaya, T. (2021). Pengaruh Financial Distress Dan Reputasi Kap Terhadap Opini Audit Going Concern Dengan Audit Report Lag Sebagai Variabel Intervening (Studi Empiris Pada Perusahaan Pertambangan Yang Terdaftar Di Bursa Efek Indonesia Periode 2017-2019). *Publikasi Riset Mahasiswa Akuntansi*, *2*(2), 135–154. https://doi.org/10.35957/prima.v2i2.927

Ngatno, Apriatni, E. P., & Youlianto, A. (2021). Moderating effects of corporate governance mechanism on the relation between capital structure and firm performance. *Cogent Business and Management*, *8*(1). https://doi.org/10.1080/23311975.2020.1866822

NZX. (2016). *Transition to Financial Markets Conduct Act 2013 for its shares and bonds–Master Trust Deed Amendments*. NZX announcement.

Oh, H. M., & Jeon, H. J. (2022). The Effect of Board Characteristics on the Relationship between Managerial Overconfidence and Audit Report Lag: Evidence from Korea. *International Journal of Applied Economics, Finance and Accounting*, *13*(2), 50–60. https://doi.org/10.33094/ijaefa.v13i2.616

Panda, B., & Leepsa, N. M. (2017). Agency theory: Review of theory and evidence on problems and perspectives. *Indian Journal of Corporate Governance*, *10*(1), 74–95. https://doi.org/10.1177/0974686217701467

Parahyta, C. H., & Herawaty, V. (2020). Pengaruh Financial Distress, Profitabilitas, dan Audit Tenure terhadap Audit Report Lag dengan Ukuran Perusahaan sebagai Variabel Moderasi. *KOCENIN Serial Konferensi*, *1*(1), 1–9.

Puni, A., & Anlesinya, A. (2020). Corporate governance mechanisms and firm performance in a developing country. *International Journal of Law and Management*, *62*(2), 147–169. https://doi.org/10.1108/IJLMA-03-2019-0076

Putri, D., & Silaen, K. (2022). Analisis Pengaruh Profitabilitas Dan Financial Distress Terhadap Audit Report Lag Pada Perusahaan Pertambangan Yang Terdaftar Di Bursa Efek Indonesia Periode 2014-2018. *Jurnal Ilmiah Ekonomi Dan Bisnis*, *19*(2), 133–139. https://doi.org/10.31849/jieb.v19i2.6172

Putri, V. Y., & Abidin, K. (2022). Pengaruh Opini Audit, Profitabilitas, Serta Kompleksitas Operasi Perusahaan Terhadap Audit Report Lag Pada Perusahaan Manufaktur Sub Sektor Makanan Dan Minuman. *Inisiatif: Jurnal Ekonomi, Akuntansi Dan Manajemen*, *1*(4), 98–119.

R, W. S., & Nelvirita, N. (2023). Pengaruh Kepemilikan Manajerial, Ukuran Perusahaan dan Kompleksitas Perusahaan terhadap Audit Report Lag: Studi Empiris pada Perusahaan Sektor Pertambangan. *Jurnal Eksplorasi Akuntansi*, *5*(1), 305–319. https://doi.org/10.24036/jea.v5i1.692

Rahman, S. U., Chen, S. S., Al-Faryan, M. A. S., Ahmad, I., Hussain, R. Y., & Saud, S. (2023). Audit services and financial reporting quality: The role of accounting expertise auditors. *Cogent Business and Management*, *10*(1). https://doi.org/10.1080/23311975.2022.2164142

Reuer, J. J., Tong, T. W., & Wu, C. W. (2012). A Signaling theory of acquisition premiums: Evidence from IPO targets. *Academy of Management Journal*, *55*(3), 667–683. https://doi.org/10.5465/amj.2010.0259

Risanty, A. S., Alfurkaniati, & Burhanuddin. (2023). Analisis Pengaruh Ukuran Perusahaan, Financial Distressdan Opini Audit Terhadap Ketepatan Waktu Pelaporan Keuangan Pada Perusahaan Industri Barang Konsumsi Yang Terdaftar Di Bursa Efek Indonesia (Bei) Periode 2018-2020. *Journal of Islamic Finance And Accounting Research*, *2*(1), 32–43.

IConEnt
The 4th International Conference on Entrepreneurship

THE INFLUENCE OF FINANCIAL DISTRESS AND PROFITABILITY ON AUDIT REPORT LAG IN CONSUMER CYLICALS SECTOR COMPANY LISTED ON THE INDONESIA STOCK EXCHANGE IN 2020-2022

Tanggor Sihombing[a], Vega Yulia Azzahra[b]

[a]Universitas Pelita Harapan
[b]Universitas Pelita Harapan

ABSTRACT

This study aims to examining the effect of Financial Distress and Profitability on Audit Report Lag in companies operating in the Consumer Cyclicals sector listed on the Indonesia Stock Exchange and S&P Capital IQ platform. The independent variables used in this study are Financial Distress and Profitability. The dependent variable in this study is Audit Report Lag. The sample collected and used in this study is secondary data from the financial statements of Consumer Cyclicals companies available on the official website of the IDX from 2020–2022. The technique for collecting samples was using the purposive sampling method and analyzed using the multiple regression method with a total sample of 276 data using STATA software. The results of this study indicate that Financial Distress has a positive effect on Audit Report Lag and Profitability has no effect on Audit Report Lag in Consumer Cyclicals companies listed on the IDX during 2020–2022.

Keywords - **Audit report lag, financial distress, profitability, company size, company age, audit quality, COVID-19**

INTRODUCTION

Financial reports provide important information about a company's financial position, performance and cash flow, which is useful for internal and external users in decision making. To be relevant and reliable, financial reports must meet the characteristics of PSAK 1, including timeliness. Timeliness is important because delayed reports reduce their usefulness. Audit report lag, namely the time difference between closing the books and the audit report, is an important indicator in this case. External auditors play a key role in ensuring the timely publication of audited financial reports.

In Indonesia, one way to increase the relevance of a financial report is for the regulator, namely the OJK, to set a time limit regarding the submission of financial reports. In 2022, the Financial Services Authority issued OJK regulation number 14/POJK.04/2022 concerning Submission of Periodic Financial Reports for Issuers or Public Companies. In this regulation, the regulator stipulates that annual financial reports must be submitted to the OJK and announced to the public no later than the end of the third month (90 days) after the date of the annual financial report. Policies or regulations issued regarding time limits for submitting financial reports can reduce the quality of audit reports because auditors are under pressure regarding the time or period in carrying out the audit process. Audit Report Lag in companies can be reduced because of this policy, but the results of the company's audit quality can also be reduced. The Financial Services Authority as the regulator needs to understand what factors influence Audit Report Lag before issuing regulations and policies aimed at reducing Audit Report Lag.

Audit Report Lag is influenced by several factors, one of which is Financial Distress. The company's financial condition is an important factor in the audit process, because this is a factor the auditor considers in determining an opinion on the audit of the company's financial statements. The company's financial condition is stated to be important because it is related to the survival (going concern) of a company after the company has been audited. Research conducted by Deliana et al. (2022) stated that Financial Distress affects Audit Delay or Audit Report Lag. Pingass & Dewi (2022) also conducted research and the results of this research stated that Financial Distress had an effect

on Audit Delay. However, according to Parahyta & Herawaty (2020) Financial Distress has no influence on Audit Report Lag.

The next factor is Profitability, Amalia & Sugianto Yusuf (2023) conducted research and the results of this research stated that Profitability has a significant influence on audit delay. Profitability affects audit delay because a company's high level of profitability will tend to experience shorter audit delays, so that good news can be quickly conveyed by interested parties. However, based on research conducted by Gustiana & Rini (2022), the results of their research state that profitability has no effect on audit delay.

Based on several previous studies, there are differences in results on independent variables, so this research is still relevant to study by providing additional variables, replacement variables and a different scope. From the explanation above, researchers are motivated to analyze more deeply the determinant factors of audit report lag. In this research, the author will look at and test the factors that influence audit report lag in companies in the Consumer Cyclicals Sector listed on the Indonesia Stock Exchange in the 2020–2022 period.

The selection of companies with the Consumer Cyclicals Sector is based on the fact that this sector is a stock category that is very dependent on the business cycle and economic conditions. Because this research period was carried out in the period affected by the 2019 Corona Virus Disease Pandemic, where this Pandemic had an impact on economic conditions in Indonesia, the Consumer Cylinical Sector is an interesting sector to research. This research also uses the most recent period compared to previous studies. Based on the background explanation above, the author proposes the research title "The Influence of Financial Distress and Profitability on Audit Report Lag in Consumer Cyclical Sector Companies Listed on the Indonesian Stock Exchange in 2020-2022".

LITERATURE REVIEW

Agency Theory

Agency theory according to Jensen and Meckling (1976) explains agency theory, a theory that can be used to understand the relationship between owners and management (Idawati et al., 2023). In agency theory, the relationship between agents, namely management and company owners, is explained. In agency theory, there is a contract between one or more people (principal) and another person (agent) to perform a service on behalf of the owner of the company (principal) by giving authority to the agent to run the business and make the best decisions for the owner (principal). Financial reports are a communication medium between the agent and the principal to convey information contained in the company. Presenting reliable and relevant financial reports is a measure that the principal expects of the agent as the party running the company. Relevant financial reports also function to reduce information asymmetry between management and the principal (Khamisah et al., 2021). The agent of course expects the best feedback from the principal, of course the agent should also be given incentives and carry out proper supervision so that he can carry out his work optimally. If these things have been fulfilled, the agent will certainly present a comprehensive report so that there is a good response from the principal.

Financial Statements

Financial reports are part of the financial reporting process, whereas according to PSAK 1 revised 2014, financial reports are performance reports aimed at meeting the needs of report users (Bagaskara et al., 2023). Based on the two definitions above, financial reports published by companies are the basis for stakeholders and shareholders in making business decisions. A good financial report is a financial report that is able to provide a complete picture of the company's performance and can be used to make economic decisions for company owners. Financial reports

based on PSAK No. 1 revision 2014, aims to provide data relating to the financial position, performance and changes in the financial position of an entity that can be used or utilized when making decisions. The benefits and objectives of financial reports will vary depending on the stakeholders who use them. Financial reports can also be used and used as a measure to see management's accountability for the resources entrusted to them in making economic decisions for company owners.

Based on the SAK (Financial Accounting Standards) Statement Number. 1 revision of 2014, which was ratified on 27 August 2014 and became effective for the financial year period after 1 January 2015, financial statements can be said to be complete if the financial statements have the following components:

1. Report of financial position at the end of the period
2. Comprehensive income statement
3. Report on changes in equity
4. Cash flow report
5. Notes to financial reports and comparative information regarding the nearest previous period
6. Report of financial position at the beginning of the comparative period which is presented when the company applies policies retrospectively or restates financial reporting items, or when the entity or company reclassifies items in the financial statements.

According to PSAK No.1, paragraph 10, other information can be presented in order to produce fair financial reports even though the disclosure is not required by accounting standards.

Profitability

Profitability is a description of a company's performance in generating profits, both from sales activities and investment activities. Stakeholders, especially potential investors, will closely observe the company's business performance and ability to generate profits (profitability). This is because investors expect dividends and the market price of their shares. Profitability measurement is intended to measure the efficiency of using company assets (Sihombing & Aldanny, 2023).

Profitability describes the effectiveness capabilities possessed by company operations. The greater the level of profitability of a company, it can indicate that the company is managed well in generating profits. When a company experiences profits, company management usually wants to report its financial reports more quickly compared to companies that have a higher level of profitability (Mardjono & Astutie, 2022).

METHODOLOGY

In this study the dependent variable is audit report lag. Audit report lag is the time difference between the date of the financial report and the date the audit opinion is issued, which indicates the length of time for the auditor to complete the audit. Audit report lag is measured by calculating the length of time between the date the financial report ends until the audited financial report is signed. The formula used for the audit report lag variable is formulated as follows:

Audit Report Lag = Audit Report Date - Financial Report Date – 1

In this research, the author uses two independent variables that influence audit report lag, namely:

a. Financial Distress

   In this research, the probability of bankruptcy is used as a proxy in assessing the company's financial condition which is estimated from the bankruptcy prediction model using the modified Altman Z Score model, namely:

   Z = 6,56X1 + 3,26X2 + 6,72X3 + 1,05X4

b. Profitabilitas

Profitability is used to measure the overall effectiveness of management as indicated by the size of the profits obtained by the company in relation to sales, profits and investments. This research uses ROA (Return on Assets) as a reference for calculating company profitability. ROA is used to see the company's ability to efficiently use total assets for company operations. Measurement for profitability uses a ratio with the following formula:

Return on Assets = Net Income : Total Assets

In this research, the author uses four control variables that influence audit report lag, namely company size, company age, audit quality, and the COVID-19 pandemic

RESULTS

A. Descriptive Statistical Analysis

Descriptive statistics is data processing that is used to provide a general description of the number of observations (Obs), highest value (maximum), lowest value (minimum), average value (mean) and standard deviation (standard deviation) of each variable that is used. chosen. Below is a table of Descriptive Statistics for this research, which has been processed by the author using the STATA application:

TABLE 1.
DESCRIPTIVE STATISTICS

Variables	*Obs*	*Mean*	*Standard Deviation*	*Minimum*	*Maximum*
ARL (Aktual)	276	105,945	57,098	33,000	784,000
LARL (Ln)	276	4,594	0,334	3,496	6,664
FINDISS	276	0,322	0,468	0,000	1,000
ROA	276	-0,120	0,782	-7,883	0,240
SIZE	276	14,243	1,610	9,122	17,866
AGE	276	16,217	11,808	1,000	42,000
QUALITY	276	0,206	0,405	0,000	1,000
COVID	276	0,666	0,472	0,000	1,000

Source: Stata Data Processing Output Results that have been processed by the Author (2023)

Correlation Analysis

TABLE 2.
VARIABLE CORRELATIONS

VARIABLES	ARL	FINDISS	ROA	SIZE	AGE	QUALITY	COVID
ARL	1,000						
FINDISS	0,143**	1,000					
	0,017						
ROA	-0,088	-0,245***	1,000				
	0,146	0,000					
SIZE	0,013	-0,162***	0,335***	1,000			
	0,833	0,007	0,000				
AGE	-0,088	0,045	0,093	0,155***	1,000		
	0,145	0,462	0,122	0,010			
QUALITY	-0,095	-0,065	0,093	0,444***	0,232***	1,000	
	0,114	0,284	0,124	0,000	0,000		
COVID	0,335***	-0,022	-0,003	-0,016	-0,060	0,000	1,000
	0,000	0,717	0,962	0,788	0,321	1,000	

*** Signifikan pada tingkat 1% atau 0,01
** Signifikan pada tingkat 5% atau 0,05
* Signifikan pada tingkat 10% atau 0,10

Based on the table above, Financial Distress (FINDISS) has a positive correlation with Audit Report Lag with a correlation coefficient (r) of 0.143 and has a significance level of 0.017 (1.7%) which means it is significant at a significance level of 0.05 (5%). The relationship between FINDISS and Audit Report Lag has a positive correlation, meaning that for companies that have poor financial conditions or are bankrupt, they have a high probability of being late in submitting audited financial reports (audit report).

The ROA (Profitability) variable has a negative correlation with Audit Report Lag with a correlation coefficient (r) of -0.088 with a significance level of 0.146, which means it is not significant because it is more than 10%. The ROA variable also has a negative correlation with Financial Distress with a correlation coefficient (r) of -0.245 with a significance level of 0.000, which means it is significant at the 0.01 (1%) level. The relationship between ROA and ARL and FINDISS has a negative correlation, meaning that the higher the level of ROA a company has, the less likely the company will experience problems in Audit Report Lag or Financial Distress.

B. Hypothesis Testing

The test results in Stata by default software are two-tailed tests. Based on table 3 which presents the results of the individual parameter significance test (t test) in this study, hypothesis testing can be interpreted as follows:

TABLE 3
HYPOTHESIS TEST (T TEST)

Linear Regression				Number of obs	=	276
				F(6, 269)	=	8,69
				Prob > F	=	0,000
				R-Squared	=	0,160
				Root MSE	=	0,310

ARL	Coefficient	Robust Std. err.	t	P> l t l	[95% conf. interval]	
FINDISS	0,106	0,045	2,33	0,021	0,016	0,195
ROA	-0,033	0,042	-0,79	0,432	-0,117	0,050
SIZE	0,028	0,016	1,72	0,087	-0,004	0,059
AGE	-0,002	0,001	-1,18	0,240	-0,004	0,001
QUALITY	-0,102	0,047	-2,19	0,030	-0,194	-0,010
COVID	0,238	0,034	7,00	0,000	0,171	0,305
CONSTANT	4,053	0,238	17,05	0,000	3,585	4,521

Source: Stata Data Processing Output Results that have been processed by the Author (2023)

a. Financial Distress has a positive influence on Audit Report Lag

The t-test results for the Financial Distress variable (FINDISS) have a t-test value of 2.33 with a significance of 0.021 or 2.10%, meaning it is significant at the 5% level. From the significance value of the FINDISS variable, it can be concluded that the FINDISS variable has a significant effect on Audit Report Lag because the significance value is 0.021 < 0.050, which means it is significant at the 5% level (0.050). The first hypothesis (H1) in this research states that Financial Distress has a positive influence on Audit Report Lag. The results of the t test in this study show that the coefficient value for the Financial Distress variable is positive at 0.106 with a significance of 0.021 < 0.05. From the results of testing this hypothesis, it can be concluded that the First Hypothesis (H1) is accepted, which means that Financial Distress has a positive and significant influence on Audit Report Lag.

Based on the results of hypothesis testing which are presented in table 3 in this research, it can be concluded that Financial Distress partially has a positive influence and has a significant effect on Audit Report Lag. This proves that companies experiencing financial distress have the potential

to have a longer audit report lag. Companies whose financial condition is bad or not good often take quite a long time (slow) in communicating various information about the situation within the company.

Companies that have financial reports with good cash flow conditions over a long period of time can show that the company is able to pay its debts or various obligations. Financial reports with good cash flow also show that this is a good sign for users of financial reports. However, on the other hand, if a company's financial report shows negative profits (loss) and has low (bad) cash flow over a long or consecutive period, then this is a warning to the company that the company is in a bad financial condition. or it could be said that they are experiencing a financial crisis. If a company experiences a financial crisis and has difficulty paying its debts or obligations, then this can also hinder or slow down the auditor from completing the audit process.

The conclusions from the results of this research are in accordance with the results of research conducted by Angelia & Mawardi (2021) which also states that Financial Distress has a positive effect on Audit Report Lag because the higher the Financial Distress ratio value, the company is considered to be experiencing financial difficulties, this condition can increase audit risk. especially control risk and detection risk. Determining high audit risk will cause the auditor to collect more and more accurate audit evidence, which of course has an impact on the length of the Audit Report Lag.

b. Profitability has a negative influence on Audit Report Lag

The t-test results for the Profitability (ROA) variable have a t-test value of -0.79 with a significance of 0.432 or 43.20%. This hypothesis has a direction but is negative and not significant, because the significance value is 0.432>0.10. From the significance value of the ROA variable, it can be concluded that the ROA variable does not have a significant effect on Audit Report Lag.
The second hypothesis (H2) in this research states that Profitability has a negative influence on Audit Report Lag. The results of the t test in this study show that the coefficient value for the Profitability variable (ROA) is negative at -0.033 with a significance of 0.432 > 0.10. From the results of testing this hypothesis, it can be concluded that the Second Hypothesis (H2) is not accepted, because this variable does not have a significant influence on Audit Report Lag.

Based on the results of hypothesis testing which are presented in table 3 in this research, it can be concluded that Profitability (ROA) does not have a negative influence and does not significantly influence Audit Report Lag. Whether a company reports profit or loss in a certain period, it is still hoped that it can minimize Audit Report Lag by the regulator. Therefore, it can be concluded that there is no relationship between Audit Report Lag and companies reporting profits or losses.

Whether a company has good news or bad news, there is no difference between the auditors when undergoing the audit process. The duration of the audit process remains the same and has no differences. The level of profitability of a company will not affect the time span in carrying out the audit process, so profitability has no effect on Audit Report Lag.

The conclusion from the results of this research is in accordance with the results of research conducted by Gustiana & Rini (2022) which also states that Financial Distress has no influence on Audit Report Lag, this is because the audit process carried out in companies that have a low level of profitability has no difference. with an audit process carried out on companies with a high level of profitability. The high or low level of profitability owned by an entity will not affect the time span in carrying out the audit process.

CONCLUSION

Based on the results of hypothesis testing and also the discussion presented by the author in

CHAPTER IV, this research will answer the problem formulation at the beginning with the following conclusions:

1. Financial Distress partially has a positive effect on Audit Report Lag.
2. Profitability has no influence on Audit Report Lag.

Based on the benefits of the research, the results of this research have the following implications: (1) For the Public Accounting profession, it can help formulate significant factors for Audit Report Lag, so that the audit process can run optimally. (2) For companies, it can provide awareness for companies to complete their audit reports in a timely, accountable and transparent manner in order to attract investor interest. (3) For Regulators, Can assist the Financial Services Authority (OJK) in determining policies and regulations related to the timeliness of submitting financial reports.

In conducting this research, the author was not free from several limitations. The author hopes that, for future studies, researchers will be able to minimize or even overcome the limitations that exist in this research. The following are some limitations and suggestions in this research: (1) In this research, the author did not carry out special testing for Financial Distress which is in the Gray Area category, so that companies that are included in the Gray Area category are considered to be companies that have not experienced bankruptcy. The author's suggestion for further research is that researchers might add the Gray Area category to be discussed in a study. (2) The data that has been processed with Stata in this research has been proven not to be normally distributed, so it experiences a skew, where skewness should be ≈ 0. The author has carried out Box-Cox treatment on the Dependent variable, namely Audit Report Lag, but the data still cannot be recovered, so the author continues to use initial data before treatment. If you face the same problem, the author's suggestion for future researchers is that if possible, researchers can replace the analysis by using non-parametric statistical tests which do not require a normality test. If the number of observation samples is more than 30 and it turns out that the data is still not normally distributed, then you can use the opinion of the central limit theorem which states that for research that has more than 30 samples, the data is still considered normally distributed because it has all the characteristics of a normal distribution

REFERENCES

Amalia, R., & Sugianto Yusuf, P. (2023). The Effect of profitability, solvency, audit committee, and audit quality on audit delay. *Jurnal Ilmiah Akuntansi Dan Keuangan*, *5*(6), 2622–2205. www.idx.co.id

Angelia, S., & Mawardi, R. (2021). *The Impact of Financial Distress, Corporate Governance, and Auditor Switching On Audit Delay*. *J. Fin. Bank. Review*, 108 – 117. https://doi.org/10.35609/jfbr.2021.6.2(4)

Bagaskara, D., Petrol, & Hera. (2023). Pengaruh Ukuran Perusahaan, Ukuran KAP, Dan Kualitas Audit Terhadap Audit Report Lag Pada Perusahaan Sektor Kesehatan. *Transekonomika: Akuntansi, Bisnis Dan Keuangan*, *3*(3), 626–644.

Deliana, D., Rahman, A., Monica, L., & Susanti, A. (2022). The Effect Of Financial Distress And Audit Delay On Auditor Switching. *Kajian Akuntansi*, *23*(1), 26–42. https://ejournal.unisba.ac.id

Gustiana, E. C., & Rini, D. D. O. (2022). Pengaruh Profitabilitas, Solvabilitas, Ukuran Perusahaan dan Financial Distress Terhadap Audit Delay. *Owner*, *6*(4), 3688–3700. https://doi.org/10.33395/owner.v6i4.1119

Idawati, W., Prabowo, H. S., & Rachmadi, D. I. (2023). The Effect of Profitability, Solvency, and Liquidity on Audit Report Lag in the Period before and During the Covid 19 Pandemic.

International Journal of Social Science and Education Research Studies, *03*(05), 878–887. https://doi.org/10.55677/ijssers/v03i5y2023-17

Khamisah, N., Listya, A., & Saputri, N. D. M. (2021). Does Financial Distress Has an Effects on Audit Report Lag? (Study on Manufacturing Companies Listed in Indonesia Stock Exchange). *Akuntabilitas*, *15*(1), 19–34. https://doi.org/10.29259/ja.v15i1.13058

Mardjono, E. S., & Astutie, Y. P. (2022). *Fenomena Audit Delay: Financial Distress Pasca COVID-19*. *9*(2), 356–363.

Parahyta, C. H., & Herawaty, V. (2020). Pengaruh Financial Distress, Profitabilitas, dan Audit Tenure terhadap Audit Report Lag dengan Ukuran Perusahaan sebagai Variabel Moderasi. *KOCENIN Serial Konferensi*, *1*(1), 1–9.

Pingass, R. L., & Dewi, N. L. (2022). Pengaruh Financial Distress dan Opini Audit terhadap Audit delay. *Jurnal Akuntansi Universitas Jember*, *20*(1), 63. https://doi.org/10.19184/jauj.v20i1.29564

Sihombing, T., & Aldanny, S. N. Z. (2023). The Effect of Financial Distress, Auditor Switching, Audit Committee and Covid-19 Pandemic on Audit Delay. *Proceeding of International Conference ...*, *2018*(May 2020), 72–87. https://ojs.uph.edu/index.php/IConEnt/article/view/7823

IConEnt
The 4th International Conference on Entrepreneurship

ANALYZING THE INFLUENCE OF LEVERAGE, LIQUIDITY, AND PROFITABILITY ON FIRM VALUE WITH DIVIDEND POLICY AS AN INTERVENING VARIABLE

Veronika Maria Cynthia [1], Stefanus Dimas Ryan Saputro[2]

Universitas Pelita Harapan, Jl M.H. Thamrin Boulevard, Tangerang and 15811, Indonesia

ABSTRACT

This research aims to examine the effect of leverage, liquidity and profitability on company value which is mediated by dividend policy. The research was conducted using secondary data from 43 companies in Indonesia which are included in the Industrials industry category on S&P Capital IQ during the 2018-2022 period. The sample collection technique in this research used a purposive sampling method. Leverage in this study is measured by the debt to equity ratio, liquidity is measured using the current ratio proxy, profitability is measured using the return on assets proxy, company value uses the price to book value proxy, and dividend policy is measured by the dividend payout ratio proxy. This research found that liquidity has no influence on dividend policy, while profitability.

Keywords: **leverage, liquidity, profitability, company value, dividend policy**

INTRODUCTION

A firm certainly has an objective it seeks to accomplish in order to generate profit. The company's long-term objective is to optimize its stock price value. The company's worth is indicative of its stock price. When the company's valuation is elevated, investors or shareholders will receive substantial returns. The value of a corporation is crucial for its operational sustainability. When investors evaluate a firm for potential capital investment, the company's value serves as a foundation for predicting its future success. The valuation of a company is frequently linked to its stock values. An increase in firm value might enhance investor confidence in making investments (Tamrin et al., 2017). Investors will pursue profit from the company's net earnings to enable dividends to influence stock prices. As the year concludes, an increasing number of corporations are beginning to declare the dates for dividend distributions. Highly profitable companies will distribute dividends liberally (Natalia, 2023). The dividend policy dictates the distribution of the company's profits to shareholders at the conclusion of the fiscal year.

The company's profits may be distributed as dividends or preserved as extra capital for future investment. A favorable and rising dividend payment ratio might entice investors, leading to an appreciation in the stock price and overall business value. The company's qualities are often represented by financial ratios and are intrinsic to the organization. Leverage, profitability, and liquidity constitute the characteristics of the firm. Prior research examining the influence of firm size, liquidity, profitability, and leverage on company value, mediated via dividend policy, have shown varying results. Research by Nawal Iskandar, I Gede Mandra, and Gusti Ayu Sri Oktariyani (2020) indicated that liquidity negatively impacts dividend policy, whereas a study by Dewi

Rahmasari, Embun Suryani, and Sri Oktaryani (2019) demonstrated that liquidity positively and significantly influences dividend policy. This study examines the attributes of the firm, including leverage, profitability, and liquidity. Additional factors or variables will incorporate business valuation, dividend policy, company age, company size, asset growth, and sales growth. Utilizing these factors is anticipated to enable researchers to see the impact of each variable on the dependent variable under investigation. This paper presents numerous problem formulations, including the question of whether liquidity influences dividend policy. Does profitability influence dividend policy? Does leverage influence dividend policy? Does dividend policy influence corporate value? Does liquidity influence business value through the mediation of dividend policy? Does profitability influence business value via the mediation of dividend policy? Does leverage influence company value via the mediation of dividend policy? This study aims to achieve several objectives, including providing empirical evidence on the effects of liquidity, profitability, and leverage on dividend policy, as well as the impact of dividend policy on firm value. Additionally, it seeks to establish whether liquidity, profitability, and leverage influence firm value through the mediation of dividend policy.

LITERATURE REVIEW

1. Agency theory

Agency theory constitutes a contractual connection between an agent and a principal (Supriyono, 2018). Jensen and Meckling (1976) created a theory that provides a framework for comprehending agency interactions in finance. The principal is the owner of the firm and employs a manager, referred to as an agent. The agent is accountable for overseeing daily operations and making decisions for the organization. Nevertheless, knowledge asymmetry between the two parties may engender possible conflicts of interest between the principal and the agent. Agency theory elucidates the attributes of a corporation and several factors that may influence the quality of financial reporting. By using agency theory, can help identify things that affect company value, as well as provide insight into how companies can improve transparency and accountability in reporting their financial information.

2. Profitability

Sartono (2018:122) defines profitability as a company's effectiveness in generating profit, which is associated with sales, total assets, and the company's capital. Ginting (2018:197) asserts that a better profitability created by the firm would result in an increase in dividends distributed to shareholders. Conversely, if the created profitability is diminished, the dividend disbursement would be reduced, or the corporation may forgo payments altogether. The company's management must endeavor to maximize earnings to enhance the capacity for distributing dividends.

3. Leverage

Sartono (2018:120) elucidates that leverage signifies the extent to which a corporation utilizes debt to finance its investments. Furthermore, if a corporation lacks leverage, it utilizes its own cash to fund its operations or investments. Fahmi (2020:127) asserted that leverage serves as an indication to evaluate the extent to which a firm is financed by debt. High levels of debt pose a

significant threat to the company's commercial continuation, since it may struggle to extricate itself from financial obligations.

4. Liquidity

Liquidity encompasses the management and oversight of current assets and current liabilities to prevent the failure to fulfill short-term obligations. This, on one side, prevents over-investment in assets (Ross et al., 2016).

5. Firm values

The firm's valuation reflects the present worth of all anticipated future earnings owned by the company. Jensen & Meckling (1976) assert that a company's objective of enhancing its worth is to elevate the stock price. To enhance the company's worth, management must assure optimal performance, emphasizing innovation and operational efficiency.

6. Dividend Policy

Dividend policy refers to the strategy by which a corporation decides the portion of its profits to be allocated to shareholders as dividends. The firm owner must ascertain the method by which dividends are calculated and distributed to shareholders (Damodaran, 2014). Furthermore, it is essential to ascertain the proportion of earnings to be extracted and reinvested to facilitate the company's growth.

7. Framework

This study employs leverage, profitability, and liquidity as independent factors, dividend policy as a mediating variable, and company value as a dependent variable. The data for this study were derived from the financial statements of firms registered on the Indonesia Stock Exchange. The sample for this study comprised industrial sector businesses listed on the IDX from 2018 to 2022. The subsequent delineates the correlation among the independent factors, mediating variables, and dependent variables in the research.

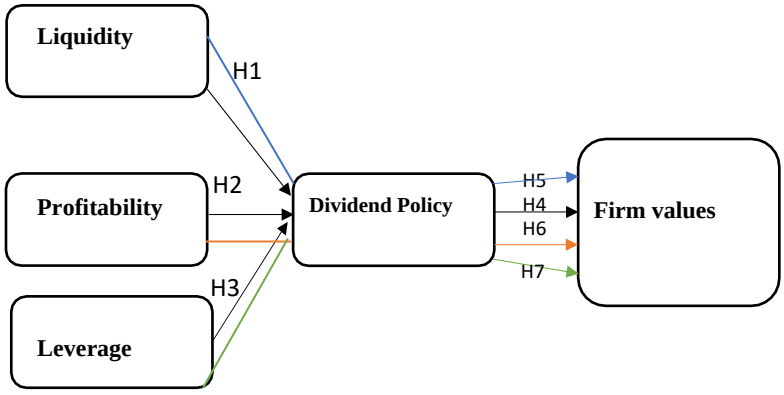


Figure 1. Conceptual Framework

8. Hypothesis Development

8.1 The Effect of Liquidity Ratio on Dividend Policy

Research by Astuti & Yadnya (2019) indicates that the liquidity ratio possesses a substantial liquidity value, with a current ratio (CR) proxy of 0.022 and a β of -0.428. The liquidity ratio exerts a substantial negative influence on dividend policy. Furthermore, research by Rahmasari et al. (2019) indicates that liquidity exerts a strong favorable influence on dividend policy.

H1: Liquidity ratio negatively affects dividend policy.

8.2 The Effect of Profitability Ratios on Dividend Policy

Research done by Astuti & Yadnya (2019) indicates that the profitability ratio has a significance value of 0.009. This indicates that the profitability ratio exerts a substantial beneficial influence on dividend policy. Moreover, the company's substantial earnings may lead to a rise in dividend payments. Consequently, when the corporation experiences diminished earnings, the dividend disbursement to shareholders would likewise decline. The findings of this study align with the research by Sulhan & Herliana (2019), indicating that the profitability ratio influences dividend policy.

H2: profitability has a positive effect on dividend policy.

8.3 The Effect of Leverage Ratio on Dividend Policy

Research published by Azizah et al. (2020) indicates that the leverage ratio has a t value of -2.600 and a significance level of 0.012, which is less than 0.05. Leverage adversely impacts dividend policy. Companies with substantial debt will prioritize debt repayment. When a company's leverage is elevated, its dividend policy will be diminished. The findings of this study align with the research done by Sari et al. (2022).

H3: Leverage negatively affects dividend policy

8.4 Effect of Dividend Policy on Company Value

Research by Astuti & Yadnya (2019) indicates that dividend policy has a significance value of 0.034 (below 0.05) and a β value of 0.387. Research by Ovami and Nasution (2020) indicates that dividend policy positively and significantly influences business value. This indicates that dividend policy exerts a substantial beneficial influence on business value. This aligns with signaling theory, wherein dividend payments are perceived as a favorable indication for shareholders. As stock prices rise, the company's worth will also grow.

H4: Dividend policy has a positive effect on company value

8.5 The Influence of Liquidity Ratio on Company Value Mediated by Dividend Policy

Research by Astuti & Yadnya (2019) indicates that the liquidity ratio, assessed by the Sobel test, yields a Z value of 1.575, which is below 1.96. This indicates that dividend policy cannot influence the relationship between the liquidity ratio and business value. The augmentation of business value via dividend distribution is not inherently attributable to

elevated liquidity. The findings of this study align with the research done by Rahmasari et al. (2019), which determined that liquidity does not influence business value via dividend policy.

H5: Dividend policy is unable to mediate the effect of liquidity ratio on firm value

8.6 The Influence of Profitability Ratio on Company Value Mediated by Dividend Policy

The results of a study conducted by Astuti & Yadnya (2019) showed that the profitability ratio using the Sobel test with a Z value had a result of 2.00 (greater than 1.96). This shows that dividend policy is able to mediate the effect of the profitability ratio on company value. High company profits can increase the dividend payout ratio. This is in line with signaling theory, where dividend payments are seen as a positive signal for shareholders and attract investors to invest their capital. This study is in line with research conducted by (Setyabudi, 2022) that dividend policy is able to moderate and improve the effect of the profitability ratio on company value.

H6: Dividend policy is able to mediate the influence of profitability ratio on company value.

8.7 The Effect of Leverage Ratio on Company Value Mediated by Dividend Policy

The study by Sari et al. (2022) reveals that the leverage ratio, derived from the indirect effect of Debt to Equity Ratio (DER) on Price to Book Value (PBV) via Dividend Payout Ratio (DPR), is 0.2%, whereas the indirect effect of Current Ratio (CR) on PBV through DPR is -4.9%. The most significant indirect influence is observed on the CR variable. Consequently, it may be inferred that dividend policy does not serve as a mediator for the impact of the leverage ratio on firm value. This result aligns with the study findings of Rahmasari et al. (2019), which indicate that dividend policy does not mediate the effect of the leverage ratio on company value.

H7: Dividend policy is unable to mediate the effect of leverage ratio on firm value.

METHODOLOGY

1. Population and Sample

This study identifies the population of corporate data based on firms registered on the Indonesia Stock Exchange. The selected timeframe encompasses the years 2018 to 2022 for firms within the industrials industry. Data collection is derived from the company's financial filings for the year 2018 to 2022.

The sample was obtained using purposive sampling, a non-probability approach whereby selection was based on specific qualities held by the subjects. The study's criteria encompassed manufacturing businesses within the industrial sector that are listed on the Indonesia Stock Exchange, those who published financial reports from 2018 to 2022, and those that provided comprehensive financial reports. Out of the 128 manufacturing firms in the industrial sector listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022, just 43 companies satisfied the requirements of this study. The study comprised 215 observations (n) from 43 firms over a duration of 5 years.

2. Data collection technique

This research is quantitative, utilizing data sourced from the official S&P Capital IQ and IDX websites. The chosen data comprises the company's financial reports from 2018 to 2022, as posted on the Indonesia Stock Exchange (IDX).

RESULTS

1. Data analysis

TABLE 1
TEST OF DETERMINATION COEFFICIENT (R-SQUARED)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.332[a]	0,110	0,080	0,265

The R-squared score in the aforementioned test is 0.110, equivalent to 11%. This finding suggests that dividend policy may be elucidated by independent factors, specifically CR, ROA, and DER, to the extent of 11%, while the remaining 89% remains unexplained.

TABLE 2
TEST OF DETERMINATION COEFFICIENT OF STRUCTURE II

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.413[a]	0,171	0,139	1,985

The R-squared score in the aforementioned test is 0.171, equivalent to 17.1%. This finding demonstrates that the dependent variable, the company's value, may be elucidated by the independent variables, CR, ROA, and DERi, mediated by the dividend policy, PBV, to the extent of 17.1%, while the remaining 82.9% remains unexplained.

TABLE 3
F Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1,791	7	0,256	3,654	.001[b]
	Residual	14,498	207	0,070		
	Total	16,289	214			

The previously mentioned data indicate a significance value of 0.001, which is below the alpha threshold of 5%. The independent factors are presumed to concurrently influence the mediating variables. The research model is deemed genuine due to a significance value of <alpha 5%, allowing for continuation with the T test.

TABLE 4
F STRUCTURE II TEST

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	167,388	8	20,924	5,308	.000b
	Residual	811,960	206	3,942		
	Total	979,348	214			

The previously mentioned data indicate a significance value of 0.000, which is below the alpha threshold of 5%. The independent factors are presumed to concurrently influence the company's value through the mediation of dividend policy (DPR). The research model is deemed genuine due to a significance value of <alpha 5%, allowing for continuation with the T test.

2. Path Analysis Test

Liquidity does not significantly influence dividend policy, since its significance value exceeds 0.05. Conversely, profitability and leverage, with significance levels of 0.006 and 0.005 respectively, significantly influence dividend policy as their significance values are below 0.05. Conversely, the significance value of dividend policy is 0.227, suggesting that it does not significantly influence firm valuation. In model structure I, the value of e1 is $\sqrt{(1-0.110)} = 0.9433$, while in model structure II, the value of e2 is $\sqrt{(1-0.171)} = 0.9104$.

3. T-test

The T-test findings indicate that ROA has a significant value of 0.0065, which is less than 0.05. Consequently, profitability exerts a substantial positive influence on dividend policy, leading to the acceptance of hypothesis 2. The T-test findings indicate that DER has a significant value of 0.005, which is less than 0.05. Consequently, indebtedness exerts a substantial adverse impact on dividend policy, leading to the acceptance of hypothesis 3. The T-test structure II indicates that DPR has a significant value of 0.227, which exceeds 0.05. Consequently, dividend policy does not substantially influence firm value, leading to the rejection of hypothesis 4. The T-test findings for structures I and II indicate that the direct influence of CR on Y is 0.132. The indirect effect of CR on Y via M is calculated by multiplying the beta coefficient of CR on M by the beta coefficient of M on Y, resulting in 0.067 x -0.751 = -0.050. The cumulative impact calculated is -0.050 + 0.132 = 0.082. The direct influence value of 0.132 exceeds the indirect influence of -0.050, indicating that liquidity does not impact the company's value via dividend policy. Consequently, hypothesis 5 is affirmed. The T-test findings for structures I and II indicate that the direct effect of ROA on Y is 0.325. The indirect effect of ROA on Y via M is calculated by multiplying the beta coefficient of ROA on M by the beta coefficient of M on Y, resulting in 0.191 x -0.751 = -0.143. The cumulative influence is -0.143 + 0.325 = 0.182. The direct influence of 0.325 exceeds the indirect influence of -0.143, indicating that profitability does not significantly impact the company's value via dividend policy. Consequently, hypothesis 6 is dismissed. The T-test findings for structures I and II indicate that the direct effect of DER on Y is 0.156. The indirect effect of DER on Y via M is calculated by multiplying the beta coefficient of DER on M by the beta coefficient of M on Y,

resulting in -0.193 x -0.751 = 0.145. The cumulative impact is 0.156 plus 0.145, equaling 0.301. The direct effect value of 0.156 exceeds the indirect effect of 0.145, indicating that leverage does not significantly influence firm value via dividend policy. Consequently, hypothesis 7 is affirmed.

DISCUSSION

The test findings reveal that the liquidity variable (Current Ratio) does not influence dividend policy. Consequently, the initial hypothesis (H1) in this investigation is dismissed. The test findings indicate that the liquidity variable possesses a significant value of 0.1875, which exceeds 0.05. This suggests that liquidity levels do not influence dividend policy. The company's liquidity does not serve as a criterion for dividend distribution. This is due to the fact that existing liabilities will be utilized for the company's operating operations.

The test findings reveal that the profitability variable (Return on Assets) significantly positively influences dividend policy. Consequently, the second hypothesis (H2) in this investigation is affirmed. The test findings indicate that the profitability variable possesses a significant value of 0.0065, which is less than 0.05. This indicates that profitability significantly positively influences dividend policy, as evidenced by a significance value below 0.05. An increase in the company's earnings may lead to a corresponding rise in dividend payments.

The test findings reveal that the leverage variable (Debt to Equity Ratio) significantly negatively impacts dividend policy. Consequently, the third hypothesis (H3) in this investigation is affirmed. The test findings indicate that the profitability variable has a significant value of 0.005, which is less than 0.05. This indicates that the degree of leverage exerts a substantial negative impact on dividend policy, as evidenced by a significance value below 0.05. The degree of leverage influences the dividend distribution policy to investors.

The test findings reveal that the dividend policy variable (Debt Payout Ratio) does not significantly impact the company's value. Consequently, the fourth hypothesis (H4) in this investigation is dismissed. The test findings indicate that the profitability variable has a significant value of 0.227, which exceeds 0.05. This indicates that the dividend policy does not significantly impact the company's value, since the significance value is below 0.05. The amount of dividends allocated to investors is unrelated to the company's valuation.

The test findings demonstrate that dividend policy does not mediate the impact of the liquidity ratio (Current Ratio) on company value. Consequently, the fifth hypothesis (H5) in this investigation is affirmed. The test findings indicate that the liquidity variable has a direct effect value of 0.132, surpassing the indirect influence of -0.050. This suggests that dividend policy cannot mediate the liquidity ratio's effect on company value, as its direct influence is more significant than its indirect influence.

The test findings demonstrate that dividend policy does not mediate the impact of the profitability ratio (Return on Asset) on business value. Consequently, the sixth hypothesis (H6) in this research is dismissed. The test findings indicate that the direct effect of the profitability variable is 0.325, surpassing the indirect influence of -0.143. This suggests that dividend policy cannot mediate the relationship between profitability ratio and business value, as its direct effect is more significant than its indirect influence.

The test findings demonstrate that dividend policy does not mediate the impact of the leverage ratio (Debt to Equity Ratio) on company value. Consequently, the seventh hypothesis (H7) in this investigation is affirmed. The test results indicate that the leverage variable has a direct effect value of 0.156, surpassing the indirect influence of 0.145. This suggests that dividend policy

cannot mediate the leverage ratio's effect on company value, as its direct influence is more significant than its indirect influence.

CONCLUSION

This study concludes that liquidity does not influence dividend policy, profitability positively impacts dividend policy, leverage negatively affects dividend policy, dividend policy does not influence firm value, liquidity does not affect firm value through dividend policy, profitability does not influence firm value through dividend policy, and leverage does not affect firm value through dividend policy. This study yields various consequences, as the researcher anticipates that readers will comprehend the relationship between firm features, dividend policy, and company value. This study aims to serve as a reference for future research and enhance scientific understanding of the impact of leverage, liquidity, and profitability on business value, mediated by dividend policy. This study aims to serve as a reference for firms in their decision-making processes to enhance corporate value through leverage, profitability, liquidity, and dividend policy. Furthermore, the researcher anticipates that investors would be able to make informed judgments regarding their capital investments in the Indonesia Stock Exchange by evaluating leverage, liquidity, profitability, and dividend policy in relation to corporate value.

REFERENCES

Azizah, A. N., Dewi, R. R., & Siddi, P. (2020). The Effect of Company Size, Profitability, Leverage, Liquidity and Sales Growth on Dividend Policy (Empirical Study on LQ45 Companies Listed on the Indonesia Stock Exchange in 2016-2018). Scientific Journal of Batanghari Jambi University, 20(3), 814. https://doi.org/10.33087/jiubj.v20i3.1017

Brigham, E., & Houston, J. (2018). Fundamentals of Financial Management (15th ed.). Cengage Learning.

Damodaran, A. (2014). Applied Corporate Finance (4th ed.). Wiley.

Ghozali, I. (2020). Multivariate Analysis Application with IBM SPSS 25 Program. Diponegoro University Publishing Agency.

Hidayat, W. W. (2018). THE EFFECT OF PROFITABILITY, LEVERAGE AND SALES GROWTH ON TAX AVOIDANCE. Journal of Management and Business Research (JRMB) Faculty of Economics UNIAT, 3(1), 19–26. https://doi.org/10.36226/jrmb.v3i1.82

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of Financial Economics, 3(4), 305–360. https://doi.org/10.1016/0304-405X(76)90026-X

Muzakir, M. F. A. (2022). Ownership Structure, Dividend Policy, Debt Policy and Company Value in the Banking Sector. EKOMBIS REVIEW: Scientific Journal of Economics and Business, 10(1).

Natalia, T. (2023, September 27). Dividend Season is Coming, Get Ready to Get Surprise Money. CNBC Indonesia. https://www.cnbcindonesia.com/research/20230926164755-128-475714/musim-dividen-sebentar-lagi-siap-siap-dapat-uang-kaget

Ovami, D. C., & Nasution, A. A. (2020). The Effect of Dividend Policy on the Value of Companies Listed in the LQ 45 Index. Owner (Research and Accounting Journal), 4(2), 331. https://doi.org/10.33395/owner.v4i2.247

Pambudi, A. S., Ahmad, G. N., & Mardiyati, U. (2022). The Effect of Profitability, Liquidity and Dividend Policy on Company Value: A Study of the Food and Beverage Industry Listed on the Indonesia Stock Exchange for the 2015-2019 Period. Journal of Business, Management, and Finance, 3(1).

IConEnt

The 4th International Conference on Entrepreneurship

DOES MANAGERIAL ABILITY HAVE INFORMATION CONTENT FOR CAPITAL MARKET PLAYERS? AN EMPIRICAL STUDY IN INDONESIA

Allysa Totong[a], Antonius Herusetya[b*]
[a,b] Universitas Pelita Harapan, Lippo Village, Tangerang, 15811

ABSTRACT

This study empirically tests the effect of managerial ability on market reaction. Managerial ability is measured using the Demerjian et al. (2012) model, while market reaction is measured using the earnings response coefficient (ERC). The study observations include samples from all public companies on the IDX listed from 2017 to 2021 with a final number of observations of 1,380 in firm-years, except for the financial sector. By using the non-probability sampling method and purposive sampling technique, and the linear multiple regression estimation model, this study found no evidence that managerial ability can be detected by the market. Our additional testing using a measure of highest level of managerial ability also found no evidence that the market can capture the information content measured by the ERC from the highest level of managerial ability. Further test also found no evidence that during the crisis period due to the COVID-19 pandemic there is no incremental information from the existence of managerial ability captured by the capital market players. The results of this study are robust considering the results of sensitivity and additional tests.

Keywords - **earnings response coefficient, information content, Indonesia, managerial ability, market reaction**

INTRODUCTION

In this era of globalization, competition in the business environment is becoming increasingly competitive. The right strategy is needed for companies to face risks that will affect the sustainability of the company. Therefore, companies need management as company managers who have high capabilities. Demerjian et al. (2013) explained that managerial ability includes the ability of managers to make and implement decisions that can bring the company to a high level of efficiency. Efficiency refers to the minimum use of resources to achieve optimal results. Efficiency means the existence of management decisions to achieve company goals using optimal methods. A company can be said to be efficient if it can produce outcomes, such as maximum profit with minimum utilization of operations and resources.

Managerial ability is important because Hambrick and Mason (1984) suggest that organizations, such as strategic decision making and performance levels are related to managerial characteristics. Based on this idea, a growing stream of research in economics, finance, and accounting has found that managerial fixed effects explain variations in corporate investment, finance, and accounting policies.

How important is the quality of the chief executive officer (CEO) to the company's shareholders? The importance of managerial ability for companies has been a common topic in business in recent years, but has not been studied extensively. How important is the ability of managers in managing the company also important to the market? Non-financial information other than profit and financial information conveyed by managers to the market is believed to have information content in it and can influence the market in making investment decisions. Previous studies, for example, found that the profit conveyed to the market, where the profit contains earnings management, gives a market reaction (Kustono et al., 2021; Purwaningsih & Kusuma, 2020).

Hayes & Schaefer (1999) found that the loss of highly capable managers can be associated with negative abnormal returns. Market reaction can be proxied by the earnings response coefficient (ERC) which uses abnormal returns in its calculation. It can be concluded that

*Corresponding author. E-mail address: antonius.herusetya@uph.edu

managerial ability affects abnormal returns which then affects market reaction. Empirical evidence finds that managerial ability is related to earnings quality, audit risk, credit rating, insider trading, litigation risk, investment opportunities, and tax avoidance (Bonsall et al., 2017; Cornaggia et al., 2017; Demerjian et al., 2013, 2017; Hakim et al., 2022; Krishnan et al., 2021; Lee et al., 2018; Luo & Zhou, 2017; Wang, 2013).

A recent study found that managerial ability provides market reaction in Korea (Kim et al., 2022). Based on this study, managerial ability is an important determinant of market response and that the information environment explains their relationship. However, their study has not controlled for the COVID-19 pandemic, which can affect the market response to the information content of earnings while their observation period is within the range of the COVID-19 pandemic which can affect market reaction.

The motivation of this study is to test the market reaction as measured by the earnings response coefficient to non-financial information in the form of high ability managers. Can the market capture the information content contained in managerial ability? Several reasons why this study is important. First, because the non-financial information contained in managerial ability should be able to distinguish which companies are superior compared to other companies in their respective industries. Companies with high ability managers have the ability to manage company resources so that entities have a comparative advantage compared to their competitors. Second, this study is important because the observation period of the study, namely 2018-2021, covers the financial crisis period caused by the COVID-19 pandemic, where the role of the CEO and CFO as high ability managers to overcome financial difficulties in the midst of the pandemic crisis is very much needed by the entity, but can the market capture this information content.

The next discussion in this study includes a literature review and hypothesis development, research methods, results and discussions, as well as conclusions and suggestions.

LITERATURE STUDY AND HYPOTHESIS DEVELOPMENT

A. Signaling Theory

Jensen & Meckling (1976) stated that one effort to reduce agency conflict is to monitor manager behavior (agent behavior). There are two things that can be used to align the interests of shareholders and agents; first, adopting audit functions and mechanisms in corporate governance. Second, providing incentives for management that can act in accordance with the interests of the owners (Falendro et al., 2018).

In terms of managerial ability, if it turns out that there is no market reaction to managerial ability, then it is likely that the market cannot measure managerial ability or because the market does not consider managerial ability to be important. And this can be an agency problem. If the market cannot measure managerial ability, it is likely due to information asymmetry, or the market does not prioritize the quality of managers because of differences in interests between shareholders and managers.

B. Positive Accounting Theory

Ball & Brown (1968) and Beaver (1968) adopted the assumption that accounting numbers contain information for investment decisions in the securities market and used this information perspective to investigate the relationship between accounting numbers and stock prices. Positive accounting theory by Watts & Zimmerman (1990) states that the purpose of accounting theory is to explain observable accounting practices and predict unobservable phenomena, and to connect concepts in the form of hypotheses to be tested. The basic concept of earnings response coefficient (ERC) is rooted in positive accounting theory. ERC is used primarily in research in accounting and finance. In particular, ERC has been used in positive accounting research in the financial accounting research branch, because it theoretically describes how markets react to different information events.

C. Signal Theory

According to Taj (2016), the key elements of signaling theory consist of signalers, signals, and receivers. Signalers are insiders, such as management or executives, who obtain information about individuals, organizations, or products, which are not recognized by outsiders. Signals are information signals sent by one party to another to influence the desired outcome. After obtaining private information (positive or negative), insiders decide whether or not to communicate it to outsiders. Usually, the main goal of "insiders" is to send positive signals to outsiders and avoid sending negative information intentionally to reduce information asymmetry, which helps companies achieve their ultimate goal of positively influencing desired outcomes, for example, young company leaders in initial public offerings (IPOs) appoint a diverse group of prestigious directors to send a message to potential investors about the legitimacy of the company.

D. Managerial Ability

Demerjian et al. (2012) define managerial ability as the efficiency of management relative to the company's industry, in converting company resources into income. According to the study, more and more managers have more abilities, for example in understanding technology and industry, predicting product demand more reliably, investing in higher-value projects, and managing employees more efficiently.

Wati et al. (2020) define managerial ability as management characteristics such as talent, quality, ability, and reputation of management, where these actions affect corporate decision making. Previous research by Bertrand and Schoar (2003) showed that specific features of managers (ability, talent, reputation, or style) affect economic outcomes.

As agents, managers must have the skills to be able to manage the company well. Some explanations about capable managers include: (i) A capable manager is a manager who has extensive knowledge of the company's business, so that he is able to make better judgments and estimates (Demerjian et al., 2013); (ii) A capable manager generates high returns through profitable investment opportunities (Wati et al., 2020); (ii) A capable manager is able to create value from the use of resources controlled by the company (Holcomb et al., 2009).

E. Hypothesis Development

A company with managerial ability is expected to be able to increase the company's efficiency, which then increases the company's profit. Luo & Zhou's (2017) study found that managerial ability has a positive effect on earnings management and earnings announcements. Positive earnings announcements then give a positive reaction to market reactions. This is because investors give more weight to positive earnings announcements expressed by more reliable management teams.

Hakim et al. (2022) found that earnings management practices revealed in companies are mainly determined by the role of management with the aim of providing the best performance report for shareholders. Their study states that increasing managerial ability will increase earnings management practices. Meanwhile, Purwaningsih and Kusuma (2020) found that real earnings management (REM) has a positive effect on ERC. Thus, it can be concluded that managerial ability affects earnings management, where earnings management will then affect ERC.

Demerjian et al. (2017) found a relationship between managerial ability and intentional smoothing - which is part of earnings management. They found that highly capable managers do intentional smoothing more often. Intentional smoothing improves the company's earnings performance, especially if it is more profitable for shareholders, not just for personal gain. Kustono et al. (2021) found that income smoothing has a positive effect on earnings quality. The implications of this study indicate that investors assess the quality of a company's earnings for their investment decisions. Thus, it can be concluded deductively that managerial ability gives a positive reaction to the market through ERC because managerial ability has a positive effect on

income smoothing, and income smoothing will improve the quality of earnings that can be proxied by ERC.

It can be concluded that managerial ability does what is good for the manager himself and also the shareholders, so managers with high ability should give a positive reaction from the market. However, if not, there is a possibility of an agency problem that causes information asymmetry. Thus, the research hypothesis to be tested is stated as follows:

H1: Ceteris paribus, the market reacts positively to managerial ability

RESEARCH METHOD

1. Research Population and Sample

The population of this study is all companies listed on the Indonesia Stock Exchange (IDX) other than companies in the financial industry with an observation period of 2018-2021. This study uses a non-probability sampling method with a purposive sampling technique. The criteria are as follows: (i) the company has been listed on the IDX since 2017; (ii) the company is active at least until 2021; (iii) the company's financial statements are available for 2017-2021; (iv) the company has not received any IDX sanctions from April 1, 2018 to March 31, 2022; and (v) the financial statements use Rupiah currency. Based on the above criteria, the final sample and observations were obtained as many as 332 companies and 1,308 observations in firm-years, respectively. Table 1 presents a description of the sample selection.

TABLE 1
SAMPLE SELECTION

Description	Total
All listed firms on the IDX at 2021	769
Less:	
Firms in the financial industries	(97)
Companies with incomplete financial data	(56)
Companies with the presentation of their financial statements using other foreign currencies other than IDR	(79)
Number of new listing companies from 2018-2021	(205)
Firm suspended in the capital market during 2018-2021	(2)
Total sample in firms	332
Total observations in firm-years	1,328
Numbeer of data cannot be used in the variable computation	(20)
Total final observations in firm-years	1,308

Source: IDX website and S&P Capital IQ

2. Empirical Model

To test the first hypothesis (H1), this study uses the following empirical model:

$$CAR_{it} = \alpha_0 + \alpha_1 UE_{it} + \alpha_2 UE*MA_{it} + \alpha_3 UE*SIZE_{it} + \alpha_4 UE*LEV_{it} + \alpha_5 UE*BIG4_{it} + \alpha_6 UE*SGR_i + \alpha_7 UE*LOSS_{it} + \alpha_8 UE*COV_{it} + \beta_9 UE*FIDI_{it} + \beta_{10} UE*OCF_{it} + \beta_{11} UE*MB_{it} + \alpha_{12} MA_{it} + \alpha_{13} SIZE_{it} + \alpha_{14} LEV_{it} + \alpha_{15} BIG4_{it} + \alpha_{16} SGR_{it} + \alpha_{17} LOSS_{it} + \alpha_{18} COV_{it} + \alpha_{19} FIDI_{it} + \alpha_{20} OCF_{it} + \alpha_{21} MB_{it} + \varepsilon_{it} \quad (1)$$

Based on Model 1, the coefficient α2 is the earnings response coefficient (ERC) of the main variable UE*MA. The coefficient α2 is predicted to be significant and positive, indicating that the market reacts positively to information from managerial ability. This provides the desired expectation that managerial ability is an important aspect in making investment decisions. Please refer to Appendix 1 for all variable definitions in Model 1.

In Model 1, there are several control variables that influence the earnings response coefficient (ERC) according to previous studies. In this study, the control variables include SIZE (company

size), LEV (leverage), BIG4 (Big Four), SGR (sales growth), LOSS, COV (COVID-19), FIDI (Financial Distress), OCF (Operating Cash Flows), and MB (Market to Book). The SIZE coefficient is predicted to be negative because the larger the size of a company, the more information is available compared to smaller companies, so the market reaction becomes smaller (Balsam et al., 2003; Dewi & Herusetya, 2015; Hackenbrack & Hogan, 2002).

The LEV coefficient is predicted to be negative because the higher the level of debt, the higher the risk for investors, so it has a lower ERC (Dewi & Herusetya, 2015; Scott & O'Brien, 2020). The BIG4 coefficient is predicted to be positive because the audit quality of the Big Four is considered to have higher audit quality, so the market reacts positively compared to clients audited by non-Big Four (Balsam et al., 2003; Dewi & Herusetya, 2015).

SGR is predicted to be positive because companies with high growth rates have higher ERCs than companies with lower growth rates (Scott & O'Brien, 2020).

LOSS is predicted to be negative because companies that experience losses have lower ERCs (Balsam et al., 2003; Dechow et al., 2010; Dewi & Herusetya, 2015; Hackenbrack & Hogan, 2002). The COV coefficient is predicted to be negative because the company's ERC is lower than before the pandemic (Xiong et al., 2020). The FIDI coefficient is predicted to be negative because companies experiencing financial distress are more likely to lose their market share (Immanuel & Prabowo, 2021; Wu et al., 2020).

OCF is predicted to be negative (Balsam et al., 2003; Becker et al., 1998). The MB coefficient is predicted to be positive because the higher the ratio of market to book value of equity, the higher the earnings growth expected by the market (Balsam et al., 2003; Collins & Kothari, 1989; Hackenbrack & Hogan, 2002). Based on the arguments above, the interaction coefficients of UE*SIZE, UE*LEV, UE*LOSS, UE*COV, UE*FIDI, and UE*OCF are predicted to be negative, while the interaction coefficients of UE*BIG4, UE*SGR, and UE*MB are predicted to be positive.

3. Earnings Response Coefficient (ERC)

ERC is a market reaction reflected in the δ (delta) coefficient of the unexpected earnings (UE) variable (Dewi & Herusetya, 2015; Suwarno et al., 2017; Widiatmoko & Indarti, 2018), which is stated in the basic ERC model as follows:

$CAR_{it} = \alpha + \delta UE_{it} + \varepsilon_{it}$ (2)

Where:

CAR : Cumulative abnormal return
UE : Unexpected earnings
α : Coefficient
δ : Earnings Response Coefficient
ε : errors

ERC shows the extent to which the market reacts to the information content of earnings delivered by the company. If statistically not equal to zero, it means that earnings contain useful information for investors in decision making. CAR is a dependent variable, and is calculated using the accumulation of the company's abnormal returns that have been adjusted for the market's abnormal returns. Therefore, CAR is the total of abnormal returns for 12 months used to capture the information content of stock prices, starting on April 1 of the year t and ending three months after the end of the fiscal year (t+1) (Dewi & Herusetya, 2015). Monthly abnormal returns are calculated from the difference between the company's stock returns (Rit) and market returns (Rmt) with the following formula:

$\mathrm{ARit} = \mathrm{Rit} - \mathrm{Rmt}$; where:

$$\mathrm{Rit} = \frac{\mathrm{IHSI_{it}} - \mathrm{IHSI_{it-1}}}{\mathrm{IHSI_{it-1}}}$$

$$\mathrm{Rmt} = \frac{\mathrm{IHSG_{it}} - \mathrm{IHSG_{it-1}}}{\mathrm{IHSG_{it-1}}}$$

Where: IHSI : Individual stock price index
IHSG : Combined stock price index

Unexpected earnings (UE) are calculated using the earnings per share (EPS), measured with a random walk model and closing stock price (P). The EU formula is:

$$UE_{it} = \frac{EPS_{it} - EPS_{it-1}}{P_{it-1}}$$

4. Managerial Ability (MA)

Managerial ability measurement was first developed by Demerjian et al. (2012), and used by Baik et al. (2020), Krishnan et al. (2021) and other researchers to estimate the efficiency of companies in an industry. This process involves two steps. First, using data envelopment analysis (DEA), a non-linear optimization procedure used to evaluate the relative efficiency of decision-making units can be calculated. In the first stage, company efficiency is predicted using the following optimization model (Krishnan et al., 2021):

$$\max\theta = \frac{Sales}{v1COGS + v2SG\&A + v3PPE + v4OpsLease + v5R\&D + v6Goodwill + v7OtherIntan} \quad (3)$$

Where: Sales : Sales, as output, scaled by total assets
COGS : Cost of goods sold, scaled by total assets
SG&A : Selling, general, and administrative expenses, scaled by total assets
PPE : Property, plant, equipment, scaled by total assets
OpsLease : Operating lease - net, scaled by total assets
R&D : Research and development - net, scaled by total assets
Goodwill : Goodwill yang dibeli, scaled by total assets
OtherIntan : Other intangible assets, scaled by total assets

In equation (3), Sales is the output, while the other seven variables are inputs. The above model is used to predict the efficiency value of a company in a particular industry to identify companies that generate the highest level of revenue from a given set of inputs. The efficiency measure produced by DEA, θ, produces a value between 0.00 and 1.00, which reflects the optimization program. Observations with a value of 1.00 are the most efficient companies among their industry peers. Thus, the score value of the first stage of processing shows the extent to which the company is relatively more efficient compared to other companies in the related industry. The results of data processing using Stata software in equation 3 will obtain the theta value which will then be used as the dependent variable (FirmEfficiency) in the second stage (equation 4).

Furthermore, in the second stage, the calculation of the company's efficiency level is carried out which is associated with the manager's efficiency level. This is because the overall company efficiency can be influenced by company and manager factors. The second stage is calculated using the Tobit model per industry for each year by separating the efficiency factors of the company and the manager (Krishnan et al., 2021):

$$FirmEfficiency = \gamma_0 + \gamma_1 Ln(TotalAssets)_{it} + \gamma_2 MarketShare_{it} + \gamma_3 FreeCashFlowIndicator_{it} + \gamma_4 Ln(Age)_{it} + \gamma_5 BusinessSegmentConcentration_{it} + \gamma_6 ForeignCurrencyIndicator_{it} + Year_{it} + \varepsilon_{it} \quad (4)$$

Where:

TotalAssets : Total assets at year t
MarketShare : The percentage of sales that companies in their industry earn in a given year.

FreeCashFlowIndicator	A dummy variable that is given a value of 1 if the company has non-negative free cash flow (income before depreciation and amortization minus changes in working capital, and minus capital expenditures).
Age	Number of years as listed firm
BusinessSegementConcentration	The ratio of individual business segment sales to total sales of all segments in the company
ForeignCurrencyIndicator	A dummy variable that is assigned a value of 1 if the firm reports a non-zero value for foreign currency adjustments.

The residual value based on the second stage model of the estimation equation (4) is the MA-Score. The next stage is to rank based on the decile of the residual value based on each year and industry to create a more comparable MA-Score value across observation periods and each industry (Krishnan et al., 2021). The ranking results based on decile become the main variable of managerial ability (MA) used in Model 1.

RESEARCH RESULTS AND DISCUSSION

1. Descriptive Statistics

Table 2 reports descriptive information of the variables used in the study. All continuous variables were winsorized at 1% and 99%, except for CAR data which was wonorized at 5% and 95% as the lower and upper limits to overcome outliers, especially data related to CAR (Herusetya, 2024). CAR has an average of 0.570, a standard deviation of 1.212, a minimum of -0.450, and a maximum of 3.627. UE has an average of 0.640, a standard deviation of 1.591, a minimum of -16.754, and a maximum of 51.590. MA has a mean of 0.494, a standard deviation of 0.295, a minimum of 0, and a maximum of 1. This is because the results of the MA-score have been ranked based on decile, so the value of MA is only between 0.00 and 1.00, where 1.00 is the highest level of managerial ability. The mean, minimum, and maximum values of other control variables can be seen in Table 2.

TABLE 2
DESCRIPTIVE STATISTICS

Variable	Mean	Standard Deviation	Minimum	Maximum
CAR	0.570	1.212	-0.450	3.627
UE	0.064	1.591	-16.754	51.590
MA	0.494	0.295	0	1
SIZE	14.765	1.744	8.561	19.722
LEV	0.693	3.768	0.003	90.990
BIG4	0.291	0.455	0	1
LOSS	0.319	0.466	0	1
SGR	0.034	0.295	-0.537	0.714
COV	0.500	0.500	0	1
FIDI	0.268	0.443	0	1
OCF	0.057	0.102	-0.523	0.771
MB	1.683	1.538	0	5

All continuous variables are winsorized at 1% and 99% for data outliers, except for CAR are winsorized at 5% and 95%. Refer to Appendix 1 for all variable definitions. Source: Stata ver. 18.0 output results.

2. Correlation Analysis

The results of the correlation analysis between all study variables can be seen in Table 3. In Table 3, the correlation between MA and UE is not significant at the 10% level, and MA also has no significant correlation with CAR

TABLE 3
CORRELATION ANALYSIS

Variable	CAR	UE	MA	SIZE	LEV	BIG4	LOSS	SGR	COV	FIDI	OCF	MB
CAR	1.000											
UE	0.010	1.000										
MA	-0.012	0.028	1.000									
SIZE	-0.058**	-0.003	-0.167***	1.000								
LEV	-0.001	0.009	0.035	-0.162***	1.000							
BIG4	0.003	-0.015	-0.057**	0.427***	-0.039	1.000						
LOSS	-0.072***	0.016	0.049*	-0.252***	0.101***	-0.156***	1.000					
SGR	0.136***	0.026	0.001	0.082***	-0.056**	0.073***	-0.296***	1.000				
COV	-0.337***	0.050*	-0.002	0.009	0.008	-0.005	0.139***	-0.136***	1.000			
FIDI	-0.049*	0.049*	0.001	-0.001	0.122***	-0.167***	0.461***	-0.148***	0.051*	1.000		
OCF	-0.024	0.006	-0.082***	0.191***	-0.012	0.263***	-0.288***	0.052*	0.054**	-0.225***	1.000	
MB	0.098***	-0.031	0.010	-0.027	-0.066**	0.128***	-0.093***	0.107***	0.005	-0.277***	0.285***	1.000

***, **, and * indicate the coefficient of pairwise correlation is significant at the 1%, 5%, and 10% levels respectively. Refer to Appendix 1 for all variable definitions.

The correlation between CAR and other control variables is positive and significant (SGR and MB), and negative and significant (SIZE, LOSS, COV, and FIDI). While UE is positively and significantly correlated with COV and FIDI. Other variables can be seen in Table 3.

3. Hypothesis Test Results and Discussion

Before conducting the H1 hypothesis test and other additional tests, the author conducted classical assumption tests because the estimation model used was the OLS estimation model. The test results did not pass the heteroscedasticity test using the Breusch-Pagan/Cook-Weisberg test for heteros cedasticity or White's test. "With the presence of heteroscedasticity, consistent estimates of the regression coefficients can still be produced; nevertheless, these estimates are inefficient and the standard errors of the estimates will be biased" (Baltagi, 2005; Kohler & Kreuter, 2012). However, it can be overcome by conducting regression with robust standard errors, such as Huber/White/Sandwich which are used in the context of robustness to heteroscedasticity (Source: Stata ver. 18.0). In addition, the classical assumption test for multicollinearity also did not pass for our empirical models that use interaction variables, i.e., UE and other vaiables. We cannot remedy using the centering method (Aiken & West, 1991) because the data is too small and have possibility for missing data

Table 4 reports the results of the H1 hypothesis test. Model 1 has an F value and significance of 10.66 and <1%, indicating that the model specification meets the requirements. Model 1 also has an R-square and adjusted R-square of 14.83% and 13.44%, respectively, indicating a high ability to explain the dependent variable.

TABLE 4
HYPOTHESIS TESTING RESULTS

Independent Variable	Predicted Sign	Model 1					
		Dependent Variable (CAR)					
		Panel A			Panel B		
		Coeff.	t-test	Prob.	Coeff.	t-test	Prob.
Constant	?	1.568***	4.76	0.000	1.480***	4.68	0.000
UE	+	0.143	0.23	0.820	0.088	0.14	0.891
UE*MA	+	-0.188	-1.22	0.224			
UE*MA_HIGH	+				-0.122	-1.03	0.301
UE*SIZE	-	0.012	0.27	0.787	0.007	0.16	0.870
UE*LEV	-	0.166**	2.07	0.039	0.177**	2.08	0.038
UE*BIG4	+	0.540*	1.84	0.066	0.566*	1.94	0.052
UE*LOSS	-	-0.188	-1.31	0.190	-0.200	-1.35	0.176
UE*SGR	+	0.009	0.07	0.948	0.032	0.23	0.820
UE*COV	-	-0.062	-0.86	0.392	0.007	0.06	0.948
UE*FIDI	-	-0.216	-1.32	0.186	-0.224	-1.37	0.172
UE*OCF	-	0.694	1.30	0.195	0.689	1.28	0.202
UE*MB	+	-0.068	-0.98	0.328	-0.070	-1.00	0.318
MA	+	-0.107	-1.00	0.318			
MA_HIGH	+				-0.071	-0.70	0.486
SIZE	-	-0.045**	-2.13	0.033	-0.042**	-2.01	0.045
LEV	-	0.007	0.83	0.405	0.008	0.92	0.358
BIG4	+	0.044	0.56	0.574	0.039	0.50	0.620
LOSS	-	-0.055	-0.65	0.513	-0.049	-0.58	0.559
SGR	+	0.347***	3.06	0.002	0.349***	3.07	0.002
COV	-	-0.791***	-12.31	0.000	-0.796***	-12.38	0.000
FIDI	-	0.006	0.08	0.935	0.010	0.12	0.908
OCF	-	-0.625*	-1.78	0.075	-0.607	-1.73	0.084
MB	+	0.079***	3.61	0.000	0.079***	3.57	0.000
F-value			10.66			10.61	
Prob. > F			0.000			0.000	
R-Squared			0.1483			0.1476	
Adjusted R-Squared			0.1344			0.1337	
N			1,308			1,308	

***, **, and * indicate significant at the 1%, 5%, and 10% levels respectively, using a two-tailed test. Refer to Appendix 1 for all variable definitions. Source: Stata ver. 18.0 output results.

In Model 1, Panel A, the coefficient of UE*MA is -0.188 (t-stat = -1.22), but is not statistically significant at the 10% level (prob. = 0.224) with a two-tailed test. This indicates that the UE*MA variable has no effect on market reactions as measured by the earnings response coefficient (ERC). The results of this test do not find evidence that managerial ability has information content that can be captured by capital market players

.The interaction variables between UE and the control variables in Model 1 have positive and significant information content, namely UE*LEV and UE*BIG4. This indicates that companies with larger debt loans are considered to be able to improve company operations and

survive in difficult conditions and can provide positive information content to cumulative abnormal returns. Also, companies audited by the Big Four auditors can provide positive information content to cumulative abnormal returns.

4. Additional Tests

This study conducts robustness testing using managerial ability at the highest level. Following Baik et al. (2020), high ability managers are measured by an MA score at level 0.9 or more (the highest 10% in the decile), and are given a number 1, and 0 otherwise.

The following is a model for a sensitivity test based on Model 1:

$$CAR_{it} = \alpha_0 + \alpha_1 UE_{it} + \alpha_2 UE*MA\_HIGH_{it} + \alpha_3 UE*SIZE_{it} + \alpha_4 UE*LEV_{it} + \alpha_5 UE*BIG4_{it} + \alpha_6 UE*SGR_{it} + \alpha_7 UE*LOSS_{it} + \alpha_8 UE*COV_{it} + \beta_9 UE*FIDI_{it} + \beta_{10} UE*OCF_{it} + \beta_{11} UE*MB_{it} + \alpha_{12} MA\_HIGH_{it} + \alpha_{13} SIZE_{it} + \alpha_{14} LEV_{it} + \alpha_{15} BIG4_{it} + \alpha_{16} SGR_{it} + \alpha_{17} LOSS_{it} + \alpha_{18} COV_{it} + \alpha_{19} FIDI_{it} + \alpha_{20} OCF_{it} + \alpha_{21} MB_{it} + \varepsilon_{it} \quad (5)$$

The coefficient α2 (UE*MA_HIGH) is predicted to be significant and positive. This means that the market can capture the information content of high-ability managers and considers high-ability managers as an important factor in considering investment decisions. The results of the robustness test for high-ability managers (MA_HIGH) are shown in Table 4, Panel B. The coefficient of UE*MA_HIGH (-0.122) is not at the 10% level with a two-tailed test (t-test = -1.03, prob. = 0.301), in line with the main test in hypothesis H1. Thus, it is concluded that even though high-ability managers are used as a measure of managerial ability, the market still cannot capture the information content contained therein. This additional test supports the main test of hypothesis H1. This study also conducts additional tests to distinguish whether during the COVID-19 pandemic period managerial ability has a different role between the period before the pandemic crisis in the observation year 2018-2019 and during the pandemic period in 2020-2021. This can be seen in the interaction variable UE*MA*COV which will be used in the empirical model as follows:

$$CAR_{it} = \beta_0 + \beta_1 UE_{it} + \beta_2 UE*MA_{it} + \beta_3 UE*SIZE_{it} + \beta_4 UE*LEV_{it} + \beta_5 UE*BIG4_{it} + \beta_6 UE*SGR_{it} + \beta_7 UE*LOSS_{it} + \beta_8 UE*COVID_{it} + \beta_9 UE*FIDI_{it} + \beta_{10} UE*OCF_{it} + \beta_{11} UE*MB_{it} + \beta_{12} MA*COV_i + \beta_{13} UE*MA*COV_{it} + \beta_{14} UE* SIZE*COV_{it} + \beta_{15} UE*LEV*COV_{it} + \beta_{16} UE*BIG4*COV_{it} + \beta_{17} UE*SGR*COV_{it} + \beta_{18} UE*LOSS*COV_{it} + \beta_{19} UE*FID*COVI_{it} + \beta_{20} UE*OCF*COV_{it} + \beta_{21} UE*MB*COV_{it} + \beta_{22} MA_{it} + \beta_{23} SIZE_{it} + \beta_{24} LEV_{it} + \beta_{25} BIG4_{it} + \beta_{26} SGR_{it} + \beta_{27} LOSS_{it} + \beta_{28} COV_i + \beta_{29} FIDI_{it} + \beta_{30} OCF_{it} + \beta_{31} MB_{it} + \varepsilon_{it} \quad (6)$$

The expectation of the coefficient β13 (UE*MA*COV) is positive, indicating that the market captures additional information content from managerial ability which is very necessary in the COVID-19 period. Furthermore, this study also conducts a sensitivity test using the high ability manager variable (MA_HIGH) in equation (6) using the interaction variable UE*MA_HIGH*COV. The results of these additional tests are presented in Table 5, Panels A and B. The results of the additional tests in Table 5, Panels A and B do not find significant evidence of additional information content, both MA and MA_HIGH in the COVID-19 period, indicating that the market also cannot capture the importance of managerial ability during the crisis period due to the COVID-19 pandemic.

Based on the results of the main test and these additional tests, it can be concluded that information about managerial ability, even managerial ability at the highest level of managers, cannot be captured by the market. Alternative explanations for the results of this test may be caused by several things as follows. First, it is possible that there is information asymmetry between management and shareholders so that the market has not been able to measure managerial ability to be used in decision-making considerations. Not all non-financial information such as high ability managers is available to capital market players that can be used as analysis, both financial analysts and sophisticated investors to assess entity performance, so there is no information available for entities that have high ability managers.

Second, in making investment decisions, Indonesian capital market players are likely to focus more on day-trade, gut feeling, and market trends, as a result investors focus more on investing in stocks that can provide short-term profits than conducting in-depth analysis of the company to be invested in, including other important non-financial information.

TABLE 5
ADDITIONAL TEST RESULTS

Independent Variable	Predicted Sign	Model 2					
		Dependent Variable (CAR)					
		Panel A			Panel B		
		Coeff.	t-test	Prob.	Coeff.	t-test	Prob.
Constant	?	1.391	4.00	0.000	1.444	4.49	0.000
UE	+	0.539	0.41	0.679	1.145	0.83	0.410
UE*MA	+	-0.461*	-1.74	0.083			
UE*MA_HIGH	+				-0.477	-0.96	0.337
UE*SIZE	-	-0.004	-0.05	0.961	-0.055	-0.61	0.545
UE*LEV	-	0.551***	2.82	0.005	0.439**	2.39	0.017
UE*BIG4	+	0.866	1.49	0.135	0.976*	1.69	0.091
UE*LOSS	-	0.133	0.39	0.693	-0.057	-0.15	0.881
UE*SGR	+	-0.320	-0.97	0.333	-0.302	-0.91	0.362
UE*COV	-	-0.011	-0.01	0.994	-0.741	-0.46	0.642
UE*FIDI	-	-1.088**	-2.29	0.022	-0.871*	-1.81	0.071
UE*OCF	-	-2.268	-0.99	0.321	-1.274	-0.58	0.560
UE*MB	+	-0.042	-0.30	0.765	-0.059	-0.41	0.681
MA*COV	-	-0.337	-1.55	0.120	-0.159	-0.78	0.438
UE*MA*COV	-	0.207	0.61	0.541			
UE*MA_HIGH*COV	-				0.345	0.67	0.505
UE*SIZE*COV	-	-0.010	-0.10	0.921	0.042	0.39	0.694
UE*LEV*COV	-	-0.428**	-2.03	0.042	-0.303	-1.48	0.138
UE*BIG4*COV	-	-0.422	-0.62	0.538	-0.508	-0.74	0.460
UE*LOSS*COV	-	-0.376	-0.99	0.324	-0.166	-0.39	0.694
UE*SGR*COV	-	0.510	1.37	0.170	0.463	1.24	0.215
UE*FIDI*COV	-	0.991**	1.96	0.050	0.740	1.44	0.150
UE*OCF*COV	-	3.162	1.31	0.191	2.179	0.93	0.351
UE*MB*COV	-	-0.022	-0.13	0.894	-0.015	-0.09	0.929
MA	+	0.062	0.40	0.687			
MA_HIGH	+				0.010	0.07	0.942
SIZE	-	-0.039*	-1.79	0.073	-0.040*	-1.88	0.061
LEV	-	0.015*	1.65	0.100	0.014	1.45	0.148
BIG4	+	0.050	0.63	0.528	0.045	0.57	0.570
LOSS	-	-0.059	-0.70	0.487	-0.050	-0.59	0.555
SGR	+	0.356***	3.13	0.002	0.364***	3.18	0.001
COV	-	-0.635***	-5.12	0.000	-0.786***	-11.52	0.000
FIDI	-	0.000	0.00	0.998	0.001	0.01	0.988
OCF	-	-0.771**	-2.16	0.031	-0.705**	-1.98	0.048
MB	+	0.082***	3.73	0.000	0.079***	3.59	0.000
F-value			7.73			7.53	
Prob. > F			0.000			0.000	
R-Squared			0.1582			0.1547	
Adjusted R-Squared			0.1377			0.1342	
N			1,308			1,308	

***, **, and * indicate significant at the 1%, 5%, and 10% levels respectively, using a two-tailed test. Refer to Appendix 1 for all variable definitions. Source: Stata ver. 18.0 output results.

CONCLUSION, LIMITATIONS, AND SUGGESTIONS

A. Conclusion and Implications

This study empirically tests the effect of managerial ability on market reaction. Managerial ability is measured using the Demerjian et al. (2012) model, while market reaction is measured using the earnings response coefficient (ERC). The study observations include samples from all public companies on the IDX listed from 2017 to 2021 with a final number of observations of 1,380 in firm-years, except for the financial sector. By using the non-probability sampling method and purposive sampling technique, and the linear multiple regression estimation model, this study has not found evidence that managerial ability can be detected by the market. In other words, the market does not react to the information content of managerial ability.

By using additional testing of high managerial ability, this study also has not found evidence that the market can capture the information content measured by the ERC from the highest level of managerial ability. This study then conducted additional testing during the crisis period due to the COVID-19 pandemic, namely 2020 and 2021 and compared it with the period before COVID-19 in the 2017-2019 observation period, and how the market reacted to managerial ability during the COVID-19 period compared to the non-COVID-19 period. This additional test has not found evidence that the market will react more positively or negatively to managerial ability. This shows that during the crisis period due to the COVID-19 pandemic there is no incremental information from the existence of managerial ability. The results of this study are robust considering the results of sensitivity and additional tests.

The results of this study provide several implications as follows. First, it is suspected that there is information asymmetry between management and shareholders so that the market has not been able to measure managerial ability to be used in decision-making considerations. Second, in making investment decisions, the Indonesian market focuses more on day-trade, gut feeling, and market trends so that capital market players focus more on investing in stocks that can provide short-term profits rather than conducting in-depth analysis of the companies to be invested in.

B. Limitations and Suggestions

This study has limitations because the measurement of market reactions is carried out only using the earnings response coefficient tool and the observation period is relatively short. The large number of outlier data on CAR mostly comes from data from 2018 where the global financial crisis occurred so that there is a possibility of a market error in 2018. Future studies can consider the limitations of this study.

REFERENCES

Baik, B., Choi, S., & Farber, D. B. (2020). Managerial ability and income smoothing. *Accounting Review*, *95*(4), 1–22. https://doi.org/10.2308/ACCR-52600

Ball, R., & Brown, P. (1968). An empirical of accounting income numbers. *Journal of Accounting Research*, *6*(2), 159–178. https://www.jstor.org/stable/2490232

Balsam, S., Krishnan, J., & Yang, J. S. (2003). Auditor industry specialization and earnings quality. *AUDITING: A Journal of Practice & Theory*, *22*(2), 71–97. https://doi.org/10.2308/aud.2003.22.2.71

Baltagi, B. H. (2005). *Econometric Analysis of Panel Data* (Third). John Wiley & Sons

Beaver, W. H. (1968). The information content of annual earnings announcements. *Journal of Accounting Research*, *6*, 67–92. https://doi.org/10.2307/2490071

Becker, C. L., Defond, M. L., Jiambalvo, J., & Subramanyam, K. R. (1998). The effect of audit quality on earnings management. *Contemporary Accounting Research*, *15*(1), 1–24. https://doi.org/10.1111/j.1911-3846.1998.tb00547.x

Bertrand, M., & Schoar, A. (2003). Managing with style: The effect of managers on firm policies. *The*

Quarterly Journal of Economics, *118*(4), 1169–1208.
Bonsall, S. B., Holzman, E. R., & Miller, B. P. (2017). Managerial ability and credit risk assessment. *Management Science*, *63*(5), 1425–1449. https://doi.org/10.1287/mnsc.2015.2403
Collins, D. W., & Kothari, S. P. (1989). An analysis of intertemporal and cross-sectional determinants of earnings response coefficients. *Journal of Accounting and Economics*, *11*(2–3), 143–181. https://doi.org/10.1016/0165-4101(89)90004-9
Cornaggia, K. J., Krishnan, G. V., & Wang, C. (2017). Managerial ability and credit ratings. *Contemporary Accounting Research*, *34*(4), 2094–2122. https://doi.org/10.1111/1911-3846.12334
Dechow, P., Ge, W., & Schrand, C. (2010). Understanding earnings quality: A review of the proxies, their determinants and their consequences. *Journal of Accounting and Economics*, *50*(2–3), 344–401. https://doi.org/10.1016/j.jacceco.2010.09.001
Demerjian, P., Lev, B., Lewis, M. F., & McVay, S. E. (2013). Managerial ability and earnings quality. *Accounting Review*, *88*(2), 463–498. https://doi.org/10.2308/accr-50318
Demerjian, P., Lev, B., & McVay, S. (2012). Quantifying managerial ability: A new measure and validity tests. *Management Science*, *58*(7), 1229–1248. https://doi.org/10.1287/mnsc.1110.1487
Demerjian, P., Lewis-Western, M., & McVay, S. (2017). How does intentional earnings smoothing vary with managerial ability? *Journal of Accounting, Auditing and Finance*, *35*(1), 1–32. https://doi.org/10.1177/0148558X17748405
Dewi, W. P., & Herusetya, A. (2015). Market response toward accrual earnings management, real transactions, and strategic revenue recognition - earnings management. *Jurnal Akuntansi Dan Keuangan*, *17*(2). https://doi.org/10.9744/jak.17.2.71-81
Falendro, A., Faisal, & Ghozali, I. (2018). Karakteristik dewan komisaris. *Jurnal Reviu Dan Akuntansi Keuangan*, *8*(2), 17–31.
Hackenbrack, K. E., & Hogan, C. E. (2002). Market response to earnings surprises conditional on reasons for an auditor change. *Contemporary Accounting Research*, *19*(2), 195–223. https://doi.org/10.1092/5xw7-9cy6-lljy-ba2f
Hakim, L., Rahayu, D., & Endri, E. (2022). Managerial ability, corporate governance, and ifrs adoption as determinants of earnings management: Evidence from Indonesia. *Problems and Perspectives in Management*, *20*(1), 367–378. https://doi.org/10.21511/ppm.20(1).2022.30
Hambrick, D. C., & Mason, P. a. (1984). Upper echelons of reflection the its organization as reflection of its top managers. *Management*, *9*(2), 193–206. http://www.jstor.org/stable/258434
Hayes, R. M., & Schaefer, S. (1999). How much are differences in managerial ability worth? *Journal of Accounting and Economics*, *27*(2), 125–148. https://doi.org/10.1016/S0165-4101(99)00007-5
Herusetya, A. (2024). *Metode penelitian akuntansi berbasis kuantitatif- Penerapan praktis stata dalam bidang akuntansi keuangan dan auditing.* Penerbit NEM, Pekalongan, Indonesia.
Holcomb, T. R., Holmes Jr, R. M., & Connelly, B. L. (2009). Making the most of what you have: Managerial ability as a source of resource value creation. *Strategic Management Journal*, *30*(5), 457–485. https://doi.org/10.1002/smj.747
Immanuel, A. M., & Prabowo, S. (2021). Effect of CSR, Financial distress, and corporate's growth on earning response coefficient. *Jurnal ASET (Akuntansi Riset)*, *13*(2), 362–374. https://doi.org/10.17509/jaset.v13i2.39621
Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, *3*(4), 305–360. https://doi.org/10.1016/0304-405X(76)90026-X
Kim, Y., Choi, S., & Kim, B.-J. (2022). How does a firm's earnings response coefficient vary with managerial ability? Evidence from Korea. *Emerging Markets Finance and Trade*, 1–11. https://doi.org/10.1080/1540496X.2022.2128750
Kohler, U., & Kreuter, F. (2012). Data analysis using stata. In *Stata Press* (Third).
Krishnan, G. V., Wang, C., & Yu, W. (2021). Do high ability managers mitigate litigation related to financial reporting? *Journal of Management Accounting Research*, *33*(1), 171–196. https://doi.org/10.2308/jmar-18-034
Kustono, A. S., Roziq, A., & Nanggala, A. Y. A. (2021). Earnings quality and income smoothing motives: evidence from Indonesia. *Journal of Asian Finance, Economics and Business*, *8*(2), 821–832.

https://doi.org/10.13106/jafeb.2021.vol8.no2.0821
Lee, C. C., Wang, C. W., Chiu, W. C., & Tien, T. S. (2018). Managerial ability and corporate investment opportunity. *International Review of Financial Analysis*, *57*(February), 65–76. https://doi.org/10.1016/j.irfa.2018.02.007
Luo, Y., & Zhou, L. (2017). Managerial Ability, tone of earnings announcements, and market reaction. *Asian Review of Accounting Asian Review of Accounting Asian Review of Accounting*, *25*(4), 454–471. https://doi.org/10.1108/ARA-07-2016-0078
Purwaningsih, A., & Kusuma, I. W. (2020). Association between earnings management and earnings quality: Comparative study between insider and outsider economics clusters. *International Symposia in Economic Theory and Econometrics*, *27*, 103–113. https://doi.org/10.1108/S1571-038620200000027008
Scott, W. R., & O'Brien, P. (2020). *Financial accounting theory* (8th ed.). Pearson Prentice Hall.
Suwarno, Tumirin, & Zamzami. (2017). Influence of Size, growth and profitability of company to earnings response coefficient. *International Journal of Advanced Research*, *5*(12), 1463–1472. https://doi.org/10.21474/ijar01/6107
Taj, S. A. (2016). Application of signaling theory in management research: Addressing major gaps in theory. *European Management Journal*, *34*(4), 338–348. https://doi.org/10.1016/j.emj.2016.02.001
Wang, G. (2013). Managerial ability and informed insider trading. Available from *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.2207756
Wati, E. R., Tjaraka, H., & Sudaryati, E. (2020). Do managerial ability impact indonesian firm risk-taking behavior? *AKRUAL: Jurnal Akuntansi*, *12*(1), 18–33. https://doi.org/10.26740/jaj.v12n1.p18-33
Watts, R. L., & Zimmerman, J. L. (1990). Positive accounting theory: A ten year perspective. *Review Literature And Arts Of The Americas*, *65*(1), 131–156. http://www.jstor.org/stable/247880
Widiatmoko, J., & Indarti, M. G. K. (2018). The determinans of earnings response coefficient: An empirical study for the real estate and property companies listed on the Indonesia Stock Exchange. *Accounting Analysis Journal*, *7*(2), 135–143. https://doi.org/10.15294/aaj.v7i2.27321
Wu, L., Shao, Z., Yang, C., Ding, T., & Zhang, W. (2020). The impact of CSR and financial distress on financial performance-evidence from chinese listed companies of the manufacturing industry. *Sustainability (Switzerland)*, *12*(17). https://doi.org/10.3390/SU12176799
Xiong, H., Wu, Z., Hou, F., & Zhang, J. (2020). Which firm-specific characteristics affect the market reaction of Chinese Listed Companies to the COVID-19 pandemic? *Emerging Markets Finance and Trade*, *56*(10), 2231–2242. https://doi.org/10.1080/1540496X.2020.1787151

Appendix 1

Variable		Definition
CAR	=	Cumulative abnormal return
UE	=	Unexpected earnings
MA	=	Managerial ability
SIZE	=	Natural logarithm of total assets
LEV	=	Leverage
BIG4	=	The size of audit firm, as a proxy for audit quality, is a dummy variable given a value of 1 if the company is audited by a Big 4; 0 otherwise.
SGR	=	Sales growth, i.e., (sales t - sales t-1)/Sales t-1
LOSS	=	Dummy variable, assigned to 1 if the firm experience net loss in year t; 0 if otherwise
COV	=	Dummy variable, assigned to 1 if the year is 2020 and 2021, where the pandemic COVID-19 occurs
FIDI	=	Financial distress. Following Altman Z-score. Assigend to 1 if the Z-score is below 1.2; 0 if otherwise.
OCF	=	Operating cash flows, scaled by total asset
MB	=	Market to book value ratio
i	=	Firm indicator for firm i
t	=	Year indicator for year t
εit	=	Residual errors

IConEnt

The 4th International Conference on Entrepreneurship

Influence of Profitability, Liquidity, and Company Size on Profit Growth In A Consumer Non-Cyclical Company

Regina Amanda Putri [a], Florencia Irena Lawita [b], Gerard Hoffen Hadiwidjaja[c]

[a,b,c]Accounting, Faculty of Business, Kalbis University

[a] Email: Regina.amandaputri12@gmail.com

[b] Email: florenciairenalawita@gmail.com

[c] Email: 2023105542@student.kalbis.ac.id

ABSTRACT

This research aims to examine the effect of profitability, liquidity and company size on profit growth in non-cyclical consumer sector companies listed on the IDX in 2019 - 2022. This research uses a quantitative approach. The method used in sampling in this research was purposive sampling. The population in this research is the annual financial reports of non-cyclical consumer sector companies listed on the IDX for 2019 - 2022, thus obtaining a sample of 28 companies. The research results show that profitability has a significant influence on profit growth. But liquidity and company size have no effect on profit growth.

Keywords - **Company Size, Current Ratio, Indonesian Stock Exchange, Profit Growth, and Return on Assets**

INTRODUCTION

In the era of globalization, the level of competition in the business world is becoming increasingly fierce. This is evidenced by Indonesia's economic growth, which continues to grow each year. According to Databoks (2023), Indonesia's economic growth in 2022 increased by 5.31%. This figure shows a larger increase compared to 2021, which grew by 3.69%. As a result, this will trigger intense competition among companies. Therefore, corporations are required to continuously optimize their performance in order to achieve their main goal of maintaining their existence in the industry.

Fundamentally, all companies aim to achieve maximum profit every year. According to Maryati et al. (2022), profit is a measure of a company's performance success. Profit growth from one period to the next is highly desirable for all corporations. Profit is an essential component of a company. By generating profit, a company can measure its ability to manage resources more efficiently and effectively. Profit also determines the company's sustainability. Therefore, profit becomes one of the vital elements for corporate continuity (Widyanti, 2019).

According to Yuliana & Djunaedi (2023), profit growth is the increase in earnings from year to year. Continuous profit growth indicates that the corporation's performance is improving. Therefore, companies must enhance their efficiency to achieve profit growth. Additionally, the profit increase achieved by a company can attract investors. As a result, investors become more interested in investing in the company, driven by the ongoing profit increases generated by the corporation each period.

There are several factors that can influence profit growth, including profitability, liquidity, and company size. Profitability is an analysis used to measure a company's ability to generate

profits during a specific period (Weygandt et al., 2019). This ratio is essential for investors. In this study, the ROA (Return on Assets) ratio will be used to calculate the comparison of profits. The ROA comparison is utilized to analyze the corporation's ability to generate returns in the form of profits from the assets used. A high ROA ratio indicates that the company has effectively managed its assets, allowing it to maximize its profits. This, in turn, drives profit growth each year (Khoirunnisa & Lawita, 2023).

According to Kasmir (2015), liquidity is an analysis used to measure a company's ability to fulfill its obligations. This liquidity ratio also indicates how liquid the company is. In the following analysis, the ratio used to assess a corporation's liquidity is the Current Ratio (CR). The Current Ratio is one of the liquidity measures used to analyze whether a company's current assets can be used to cover or pay off debts that are nearing maturity (Yuniarto et al., 2022). A high CR value indicates that the company has the ability to meet its obligations, ensuring that the production process for generating profits is not disrupted.

Company size is also one of the factors influencing profit growth in a company. Company size is a metric used to determine how large or small a company is. To measure this, a company can be assessed by the total assets it owns (Sari & Muhammad, 2022). A large amount of total assets reflects the stability and capability of a corporation to generate profits each year. Thus, large corporations are considered able to increase their profits annually (Sari, 2020).

Based on the phenomenon of profit growth fluctuations in manufacturing companies within the consumer non-cyclicals sector, as well as differing conclusions from previous research, the researcher have developed an interest in conducting further studies on the influence of variables such as profitability, liquidity, and company size on profit growth.

The following study uses a sample from companies in the consumer non-cyclicals sector that have been consistently listed on the Indonesia Stock Exchange from 2019 to 2022. This sector was chosen because it contributes significantly to the country's economy and has promising prospects for the future. Since the consumer non-cyclicals sector deals with primary (essential) goods for the public, it is expected to grow alongside population increases. Therefore, this sector is likely to remain resilient even during economic crises.

Based on the explanation above, the title of this study is: "Influence of Profitability, Liquidity, and Company Size on Profit Growth (In a Consumer Non-cyclical Sector Companies Listed on the Indonesia Stock Exchange from 2019 to 2022)."

Based on the background that has been outlined, the formulation of the research problems is as follows:

1. Is there an influence of profitability on profit growth in consumer non-cyclicals sector companies listed on the Indonesia Stock Exchange from 2019 to 2022?
2. Is there an influence of liquidity on profit growth in consumer non-cyclicals sector companies listed on the Indonesia Stock Exchange from 2019 to 2022?
3. Is there an influence of company size on profit growth in consumer non-cyclicals sector companies listed on the Indonesia Stock Exchange from 2019 to 2022?
    a. In accordance with the problem formulation, the objectives of this study are:
4. To determine the influence of profitability on profit growth in consumer non-cyclicals sector companies listed on the Indonesia Stock Exchange from 2019 to 2022.
5. To determine the influence of liquidity on profit growth in consumer non-cyclicals sector companies listed on the Indonesia Stock Exchange from 2019 to 2022.
6. To determine the influence of company size on profit growth in consumer non-cyclicals sector companies listed on the Indonesia Stock Exchange from 2019 to 2022.

LITERATURE REVIEW

A. Agency Theory

Jensen and Meckling (1976) argue that Agency Theory is a relationship that binds the company owner (principal) with the manager (agent), where the company owner or principal grants authority to the manager to run the company's operations.

The relationship between agency theory and company profit growth is as follows: The agent, chosen by the principal, is trusted to manage the company. As a result, the principal pressures the agent to continually improve company performance to increase profits each year. This occurs because the principal desires a higher return on investment than what is currently provided. Meanwhile, the agent seeks maximum compensation for the work performed. However, agency conflicts can be resolved when managers demonstrate strong performance, showing stakeholders that they can maximize the use of company resources to increase profits (Herninta & Ginting, 2020).

Thus, profit becomes a key element in the relationship between the owner and management. The higher the profit generated by the company, the greater the shareholders' (principal's) welfare, and the larger the compensation the company's management (agent) will receive (Amrulloh & Amalia, 2020).

B. Signal Theory

Brigham & Houston (2018) argue that Signal Theory describes corporate behavior aimed at providing information or guidance to investors regarding management's outlook on the company's future growth. This concept arises from the assumption that there is a disparity in the information held by companies and the various parties seeking data from financial reports. Management, having more information than external parties, creates information asymmetry. As a result, investors, with limited information, tend to be pessimistic and may undervalue the company's stock. However, companies can counter this by providing information to investors to reduce information asymmetry. This information, often in the form of financial disclosures, must be presented clearly and accurately. Such transparency helps shape investors' perceptions of the company and ultimately influences their investment decisions (Surandari & Mongan, 2020).

Signal theory explains the relationship between the theory and this research in that the profits reported by management to investors can serve as either a positive or negative signal. If the profits reported by management consistently increase from previous periods, this becomes a positive signal for investors, indicating strong corporate performance. Conversely, if profits decline from previous periods, it sends a negative signal to investors, suggesting that management is not optimizing its performance. Therefore, every company must continually increase its profits to send positive signals to investors, which will, in turn, influence their investment decisions.

C. Profit Growth

Yuliana et al. (2023) define profit growth as the process of increasing profit that occurs each year. An increase in profit signifies the company's performance. Therefore, companies must enhance their efficiency in achieving profit growth.

Yuniarto et al. (2022) state that the continuous increase in a company's profit each period reflects good performance. Growing profits increasingly fulfill the objectives of shareholders, as profit growth from year to year positively impacts shareholder returns. Not only shareholders but management also expects profit growth, as it serves as a measure of management's success, which in turn affects the incentives they receive.

Here is the formula for measuring profit growth:

$$Profit\ Growth = \frac{Yt - Yt - 1}{Y\ t - 1}$$

D. Profitability

One approach to measuring profitability is through the Return on Assets (ROA) ratio. Kasmir (2015) explains that ROA is a ratio that shows a company's ability to generate returns (profits) from the use of its assets. This ratio compares total assets with the company's net income for a given period. ROA demonstrates how much profit is generated from the assets used by the company. It also reflects how effectively management is utilizing the company's assets.

This ratio is one of the key components for a company, as it indicates how well the company is generating profit. The higher the ROA, the better the company is at producing profits. The ratio also shows management's effectiveness and efficiency, where a higher profitability ratio signals better management performance (Juliar & Wahyudi, 2023).

$$ROA = \frac{Laba\ Bersih}{Total\ Aset}\ x\ 100\%$$

E. Liquidity

The Current Ratio is one of the liquidity ratios used to analyze how well a company can meet its short-term obligations or debts that are about to mature, using its current assets. If the calculated Current Ratio is above 1, it indicates that the company has the ability to pay off its short-term debts, which in turn sends a positive signal to creditors that the company can settle its obligations in the near future. However, if the ratio falls below 1, it suggests that the company may struggle to pay its debts.

This implies that the company's current assets may not be sufficient to cover its liabilities. Although a high Current Ratio provides assurance that the company can meet its debt obligations, it may also indicate that the company holds a large amount of current assets (cash and cash equivalents) (Yuniarto et al., 2022).

$$CR = \frac{Current\ Assets}{Current\ Liabilities}$$

F. Firm Size

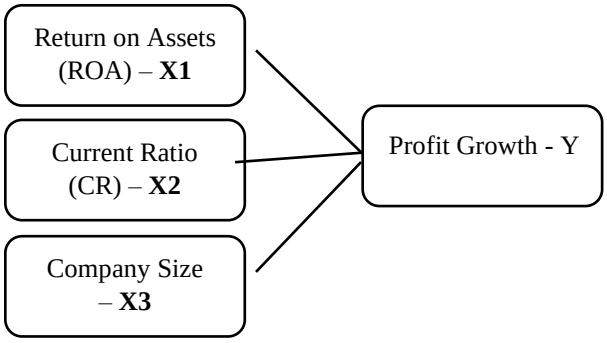
Petra et al. (2021) explain that the size of a company is a factor that attracts the attention of investors when making investment decisions. A company with large assets can more easily access the capital markets. Having substantial assets signifies that the company is stable and capable of generating profits. This stability enables the company to provide dividends or returns to its investors.

$$Firm\ Size\ =\ L\eta\ (Total\ Aset)$$

METHODOLOGY

A. Conceptual Framework

In this section, the author will explain the general thought process behind the relationship between the independent and dependent variables used in this study. This conceptual framework outlines the theoretical connections and how these variables interact within the scope of the research.



B. Research Hypothesis

A. The Influence of Profitability on Profit Growth

ROA (Return on Assets) is a profitability ratio used to measure a company's ability to utilize its assets to generate profit. An increase in ROA indicates the company's capability to generate profits, which ensures further growth in subsequent periods (Riany et al., 2022). According to research conducted by Safitri et al. (2021), ROA shows a significant influence on profit growth. The higher the ROA, the more profits the company is expected to generate. A high ROA demonstrates that the company's management is effectively and efficiently maximizing asset management, leading to profit growth in each period.

Research by Yusuf (2021) also shows that the ROA variable has a significant positive impact on profit growth. ROA is a key consideration for investors when making investment decisions. A high ROA signals strong performance, attracting investors and increasing the company's capital, which can be used to support business operations.

H1: Profitability has a positive and significant effect on profit growth.

B. The Influence of Liquidity on Profit Growth

The Current Ratio (CR) is a liquidity ratio used to measure a company's ability to fulfill its short-term obligations using its current assets. A high average CR indicates that the company can settle its liabilities by utilizing its current assets. High liquidity shows that the company has excess assets, which helps ensure smooth operations and enables the company to generate profits. Thus, an increasing CR will result in higher profits for the company (Rahayu & Sitohang, 2019).

According to research by Amalina & Efriadi (2021), the CR variable shows a significant and positive impact on profit growth. This means that every increase in CR also boosts profit growth. A good CR indicates that the company can avoid defaulting on its short-term liabilities, ensuring smooth business operations. Moreover, a strong current ratio attracts investors, providing additional funds for operational activities and generating profits.

H2: Liquidity has a positive and significant effect on profit growth.

C. The Influence of Company Size on Profit Growth

Company size is one of many tools used to measure the scale of a business based on its total assets. Research conducted by Petra et al. (2021) shows that company size has a significant and positive impact on profit growth. The larger the company, the more experience it tends to have, enabling the company to manage its economic conditions effectively and continuously improve its profits each year. A larger amount of company capital will increasingly influence profit growth. This is because companies with a large asset base are perceived as more stable and capable of consistently growing their profits.

As company size expands, it also generates positive signals for investors, fostering trust in the company's ability to generate returns. This trust makes it easier for such companies to attract investment, securing the capital necessary to support their operations and increase profits (Sari, 2020).

H3: Company size has a positive and significant effect on profit growth.

C. Population and Sample

Population Is A Generalized Area Or Scope Consisting Of Objects Or Subjects Whose Characteristics Have Been Identified By The Researcher With The Intention Of Being Studied And Researched To Draw Conclusions (Sugiyono, 2019). The Population In This Study Includes Companies Within The Consumer Non-Cyclicals Sector Listed On The Indonesia Stock Exchange (Bei) From 2019 To 2022.

Sample, On The Other Hand, Refers To A Portion Of The Population That Shares The Same Characteristics As The Population. When The Population Is Too Large, It Becomes Difficult For The Researcher To Study Everything Within That Population. Therefore, Samples Are Taken From The Population To Represent The Larger Group. In This Study, The Sampling Method Used Is Purposive Sampling. Purposive Sampling Is A Technique For Selecting Samples Based On Predetermined Criteria (Sugiyono, 2019). The Criteria For Selecting Companies In This Study Are As Follows: Consumer Non-Cyclicals Companies Listed On The Indonesia Stock Exchange (Bei) From 2019 To 2022.

TABLE 1
SAMPLE USED

Kriteria	Jumlah
Consumer non-cyclicals companies listed on the Indonesia Stock Exchange from 2018 to 2022.	78
Consumer non-cyclicals companies that present financial statements in currencies other than rupiah.	(2)
Companies that incurred losses during the years 2019-2022.	(41)
Companies that will be used as a sample.	35
Outlier Data (Companies)	(7)
Research data for a duration of 4 (four) years.	112

D. Analysis Method

This study is conducted by testing hypotheses to analyze the relationship between dependent and independent factors. Quantitative research aims to discover new findings through various statistical procedures. By employing quantitative research, the relationships between variables will be analyzed using statistical tests with an objective approach (Jaya, 2020). Since this research involves analyzing numerical and statistical data, the method used is quantitative research.

Multiple linear regression analysis is applied to determine how the independent variables increase or decrease. This analysis is used when there are two or more independent variables (Sugiyono, 2019). The general form of the regression equation is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Explanation:

Y: Profit growth

α: Constant
β_1-β_3: Regression coefficients
X_1: Profitability
X_2: Liquidity
X_3: Firm size
e: Error

RESULTS

A. Descriptive Analysis

TABLE 2
DESCRIPTIVE ANALYSIS RESULTS

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	112	.00	.42	.1025	.06652
CR	112	.65	13.31	2.9698	2.56939
SIZE	112	25.28	32.83	29.4892	1.67933
PL	112	-.99	1.33	.1845	.46304
Valid N (listwise)	112				

Based on Table 2, the total data used in this study amounts to 112 data points. It can be seen that the profitability variable (ROA) has a minimum value of 0.0001, a maximum value of 0.42, an average value of 0.1025, and a standard deviation of 0.06652. The liquidity variable (CR) has a minimum value of 0.65, a maximum value of 13.31, an average value of 2.9698, and a standard deviation of 2.56939. The firm size variable (Size) has a minimum value of 25.28, a maximum value of 32.83, an average value of 29.4892, and a standard deviation of 1.67933. Profit growth has a minimum value of -0.99, a maximum value of 1.33, an average value of 0.1845, and a standard deviation of 0.46304.

B. Classical Assumption Test

1. Normality Test

TABLE 3
NORMALITY TEST RESULTS

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		112
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.44356546
Most Extreme Differences	Absolute	.077
	Positive	.077
	Negative	-.057
Test Statistic		.077
Asymp. Sig. (2-tailed)[c]		.100

Table 3 presents the results of the normality test. Based on the data from the table, the significance value is 0.100, which exceeds the threshold of 0.05. Therefore, it can be concluded that the data is normally distributed.

2. Multicollinearity Test

TABLE 4
MULTICOLLINEARITY TEST RESULTS

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	ROA	.914	1.094
	CR	.869	1.151
	SIZE	.804	1.244

a. Dependent Variable: PL

Based on the multicollinearity test table, since the tolerance value is > 0.1 and the VIF value is < 10, it can be concluded that there is no multicollinearity issue in this research.

3. Heteroscedasticity Test

TABLE 5
HETEROSCEDASTICITY TEST RESULTS

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
1 (Constant)	.984	.536		1.836	.069
ROA	-.161	.410	-.039	-.393	.695
CR	.002	.011	.017	.165	.869
SIZE	-.021	.017	-.130	-1.224	.223

a. Dependent Variable: Abs Res

Table 5 presents the results of the heteroscedasticity test. As the significance values are above 0.05, it can be concluded that there is no heteroscedasticity problem in this research.

4. Autocorrelation Test

TABLE 6
AUTOCORRELATION TEST RESULTS

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.287[a]	.082	.057	.44968	1.841

Based on the Durbin-Watson test result, where 1.7472 < 1.841 < 2.2528, it can be concluded that there is no autocorrelation issue in the research model.

5. Multiple Regression Test

TABLE 7
MULTIPLE REGRESSION TEST RESULTS

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1 (Constant)	.916	.877		1.044	.299
ROA	1.681	.671	.241	2.504	.014
CR	-.021	.018	-.117	-1.188	.237
SIZE	-.029	.028	-.103	-1.006	.317

a. Dependent Variable: PL

$$Profit\ Growth = 0.916 + 1.681ROA - 0.021CR - 0.029SIZE + e$$

Table 7 presents the results of the multiple regression test. Based on the table, the conclusions are as follows:

Constant Value: The dependent variable, profit growth, has a constant value of 0.916. This means that if the values of profitability (X1), liquidity (X2), and firm size (X3) are all 0, the profit growth will be 0.916.

Profitability (ROA) Coefficient: The coefficient for the profitability variable (ROA) as X1 is positive at 1.681. This result indicates that for every 1 unit increase in ROA, profit growth increases by 1.681, assuming all other independent variables remain constant.

Liquidity (CR) Coefficient: The coefficient for the liquidity variable (CR) as X2 is negative at -0.021. This result shows that for every 1 unit increase in CR, profit growth decreases by 0.021, assuming all other independent variables remain constant.

Firm Size (Size) Coefficient: The coefficient for the firm size variable (Size) as X3 is negative at -0.029. This indicates that for every 1 unit increase in firm size, profit growth decreases by 0.029, assuming all other independent variables remain constant.

C. Hypothesis Testing

1. Coefficient of Determination (R^2 Test)

TABLE 8
R^2 TEST RESULTS

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.287[a]	.082	.057	.44968

a. Predictors: (Constant), SIZE, ROA, CR

Based on the results in Table 8, the Adjusted R^2 value is 0.057 or 5.7%. This means that profitability, liquidity, and firm size variables explain 5.7% of the variation in profit growth, while the remaining 94.3% is influenced by other factors not included in this study.

2. F-Test

TABLE 9
F-TEST RESULTS

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.959	3	.653	3.230	.025b
	Residual	21.839	108	.202		
	Total	23.799	111			

a. Dependent Variable: PL

According to Table 9, the significance level in the F-test is 0.025, which is lower than the probability threshold of 0.05. Therefore, it can be concluded that the variables profitability, liquidity, and firm size have a simultaneous impact on profit growth.

3. T-Test

TABLE 10
T-TEST RESULTS

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.916	.877		1.044	.299
	ROA	1.681	.671	.241	2.504	.014
	CR	-.021	.018	-.117	-1.188	.237
	SIZE	-.029	.028	-.103	-1.006	.317

a. Dependent Variable: PL

1) Profitability (ROA): The significance value is 0.014, which is less than 0.05. This indicates that the profitability (ROA) variable has a significant and positive impact on profit growth. Hence, H1 is accepted.
2) Liquidity (CR): The significance value is 0.237, which is greater than 0.05. This means that the liquidity (CR) variable does not have a significant and negative impact on profit growth. Hence, H2 is rejected.
3) Firm Size (Size): The significance value is 0.317, which is greater than 0.05. This shows that the firm size variable does not have a significant and negative impact on profit growth. Hence, H3 is rejected.DISCUSSION

Use either SI (MKS) or CGS as primary units. (SI units are strongly encouraged.) English units may be used as secondary units (in parentheses). This applies to papers in data storage. For example, write "15 Gb/cm^2 (100 Gb/in^2)." An exception is when English units are used as identifiers in trade, such as "3.5-inch disk drive."

Avoid combining SI and CGS units, such as current in amperes and magnetic field in oersteds. This often leads to confusion because equations do not balance dimensionally. If you must use mixed units, clearly state the units for each quantity that you use in an equation.

CONCLUSION

Finally, you are responsible for language as editors will not check it. Do a spell and grammar check. This is available in Word. If English is not your native language, get a professional proof-reader to help if possible.

This research is conducted with the aim of analyzing, testing, and providing supporting evidence regarding the influence of profitability, liquidity, and company size on profit growth.

1. The profitability ratio variable, calculated using ROA (Return on Assets), shows that the profitability ratio has a significant influence on profit growth.
2. The liquidity variable, measured by the Current Ratio (CR), indicates that liquidity does not have an influence on profit growth.
3. The company size variable, measured by total company assets, shows that company size does not have an influence on profit growth.

Based on the research results and the limitations previously explained, the suggestions the author can provide are:

1. This study only focuses on companies in the Consumer Non-Cyclicals sector, so future research is expected to explore other sectors.
2. This study only uses a time range from 2019-2022, and it is hoped that future research will use a longer time period.
3. For future research, it is recommended to use other variables that could influence profit growth, so that other factors affecting profit development can be identified.

REFERENCES

Amalina, N., & Efriadi, A. R. (2021). Pengaruh Debt To Equity Ratio, Current Ratio, Dan Net Profit Margin Terhadap Pertumbuhan Laba (Studi Pada Perusahaan Yang terdafta di Indeks LQ-45 Bursa Efek Indonesia). Jurnal Ilmiah Akuntansi, 19(2), 160-170.

Amrulloh, A., & Amalia, A. D. (2020). Pengaruh Profitabilitas, Struktur Modal, Likuiditas, Ukuran Perusahaan, dan Kebijakan Dividen terhadap Nilai Perusahaan. Jurnal Akuntansi dan Keuangan, 9(2), 167-184.

Brigham, E. F., & Houston, F. J. (2018). Fundamentals of Financial Management. Florida: Cengage Learning.

Databoks. (2023, februari 13). PDB. Retrieved from https://databoks.katadata.co.id/datapublish/2023/02/13/makanan-danminuman-topang-sepertiga-industripengolahan-nasional-pada-2022

Herninta, T., & Ginting, R. S. (2020). Faktor - Faktor yang Mempengaruhi Kualitas Laba. Esensi: Jurnal Manajemen Bisnis, 3(2), 157-170.

Jaya, S. (2020). Pengaruh Ukuran Perusahaan (firm size) dan Profitabilitas (ROA) terhadap Nilai Perusahaan (firm Value) pada perusahaan sub sektor Property dan real Estate di Bursa Efek Indonesia (BEI). Jurnal Manajemen Motivasi, 16, 38 - 44.

Jensen, M. C., & Meckling, W. H. (1976). Theory Of Firm: Managerial Behavior, agency costs and ownership structure. 3, 305- 360.

Kasmir. (2015). Analisis laporan keuangan. jakarta: PT. Raja Grafindo Persada.

Khoirunnisa, A. P., & Lawita, F. I. (2023). Pengaruh Ukuran Perusahaan, Profitabilitas, dan Leverage terhadap Manajemen Laba pada Perusahaan Pertambangan. Konferensi Ilmiah Akuntansi, 10, 1-22.

Maryati, E., & Siswanti, T. (2022). Pengaruh Debt To Equity Ratio Dan Ukuran Perusahaan Terhadap Pertumbuhan Laba. akuntansi, 22.

Petra, B. A., Apriyanti, N., Agusti, A., Nesvianti, & Yulia, Y. (2021). Pengaruh Ukuran Perusahaan, Current Ratio, dan Perputaran persediaan terhadap pertumbuhan laba. Jurnal Online Insan Akuntan, 5(2), 197-214.

Rahayu, P. D., & Sitohang, S. (2019). Pengaruh Profitabilitas, Leverage, Likuiditas, Dan Ukuran Perusahaan Terhadap Pertumbuhan Laba. Jurnal Ilmu dan riset Manajemen, 8(6), 1-18.

Riany, M., Handayani, W., & Hermawan, I. (2022). PENGARUH ROA, ROE, NPM Terhadap Pertumbuhan Laba Pada Perusahaan sektor konstruksi dan bangunan diBuersa Efek Indonesia (BEI). Jurnal aktiva: Riset Akuntansi dan Keuangan, 186-195.

Sari, P. A. (2020). Pengaruh Ukuran Perusahaan, Total Asset Turnover (TAT), Dan Debt to Equity Ratio (DER) terhadap pertumbuhan laba. Jurnal Penelitian, Pengembanga Ilmu Manajemen, dan akuntansi, 22(-2), 2503.

Sari, R. E., & Muhammad, M. M. (2022). Pengaruh Arus Kas Operasi, Leveragedan Ukuran Perusahaan Terhadap Manajemen Laba (Studi Empiris pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia 14 Tahun 2016 -2019). KALBISIANA: Jurnal Mahasiswa Institut Teknologi dan Bisnis Kalbis Volume 8, No. 3, September 2022, 8(3), 3338-3356.

Strunk, W., Jr., & White, E. B. (2000). The elements of style (4th ed.). Longman (Chapter 4).

Sugiyono. (2019). Metode Penelitian Kuantitatif. Bandung: alfabeta.

Surandari, N. A., & Mongan, F. A. (2020). Nilai Perusahaan Ditinjau Dari Tanggung Jawab Sosial, Tata Kelola, Dan Kesempatan Investasi Perusahaan. Accounting Profession Journal (ApaJi), 2(2), 94- 103.

Weygandt, J. J., Kimmel, P. D., & Kieso, D. D. (2019). Accounting Principles (IFRS Version). United states: Wiley.

Widyanti, M. (2019). Pengaruh Net Profit Margin, Return on Assets dan Debt to Equity terhadap pertumbuhan laba pada perusahaan LQ-45. Jurnal riset Akuntansi dan Keuangan, 7(3), 545- 554.

Yuliana, M. V., & Djunaedi, M. K. (2023). Pengaruh ukuran perusahaan, profitabilitas, dan likuiditas terhadap pertumbuhan laba. akuntansi, 23-34.

Yuniarto, A. E., Asmara, E. N., & Herbowo. (2022). Pertumbuhan LabapadaPerusahaan Pertambangan di Indonesia. Owner: Riset & Jurnal Akuntansi, 6(3), 2446-2456.

Yusuf, M. (2021). Analisis Pengaruh Likuiditas, Solvabilitas, Profitabiilitas, Aktivitas, Dan Kebijakan Dividen Terhadap Pertumbuhan Laba Perusahaan. Jurnal Ilmiah Mahasiswa FEB, 10(1).

IConEnt

The 4th International Conference on Entrepreneurship

THE INFLUENCE OF COMPANY SIZE, INSTITUTIONAL OWNERSHIP, AND PROFITABILITY ON DIVIDEND POLICY IN MANUFACTURING COMPANIES

Annisa Dwiyanti[a], Florencia Irena Lawita[b], Michael Adrian[c]

Accounting, Faculty of Business, Kalbis University

South Pulomas Rd. Kav. 22, Jakarta 13210

[1,] Email: annisadwiy67@gmail.com

[2,] Email: florenciairenalawita@gmail.com

[3,] Email: 2022105397@student.kalbis.ac.id

ABSTRACT

Dividend policy is important thing for companies because it can be reference for investors in making decisions to invest. This research aims to examine the effect of firm size, instiutional ownership, and profitability on dividend policy in manufacturing companies listed on the Indonesia Stock Exchange in 2019-2022. This research uses a quantitative approach with a sample size of 28 manufacturing companies. The data used consists of secondary data from companies annual financial statemens. The analysis used is multiple regression analysis with data processing using SPSS 27. The result show that firm size has no effect on the dividend policy, while institutional ownership and profitability have an effect on dividend policy.

Keywords - **dividend policy, firm size, institutional ownership, profitability**

INTRODUCTION

The rapid development of the global economy is driven by advancements in science and technology in the era of globalization. According to Yogantara et al. (2022), evidence of this progress can be seen in the development of the capital market, as the capital market provides access to the financial resources needed. As reported by idx.co.id (2023), the Composite Stock Price Index (IHSG) of Indonesia increased by 4.09% in 2022, reaching a position of 6,850.21 compared to the previous year. This encourages public interest in investing in the Indonesian capital market.

The purpose of an individual to invest is to gain profit. According to Wahyuliza & Fahyani (2019), investors expect a return on their investments in the capital market. Dividends are one form of income distribution that companies provide to shareholders or investors. According to Sudiartana & Yudantara (2020), dividend policy is one of the funding policies. Dividend policy is the decision of whether profits will be distributed to shareholders as dividends or retained as retained earnings. In making dividend payments to shareholders, companies may face various challenges. Shareholders want dividends to be paid out as much as possible, while company management prefers to allocate profits as retained earnings for reinvestment in the future.

The increase in investment in the capital market does not mean that companies can always distribute dividends. In the Indonesia Stock Exchange, there are companies that do not distribute dividends to their shareholders. One such company is PT Gudang Garam Tbk (GGRM). As reported by cnbcindonesia.com (2023), GGRM decided to skip dividend

payments to shareholders for the first time in several years in 2020. Additionally, PT Charoen Pokphand Indonesia Tbk. (CPIN) also decided not to distribute dividends in 2022. Based on CPIN's annual report published on idx.co.id (2022), the company's performance throughout 2021 recorded a net profit of Rp. 3.62 trillion, a decrease of 5.24% compared to the previous year's net profit of Rp. 3.81 trillion in 2020.

Several factors influence companies in their dividend distribution, including company size, institutional ownership, and profitability. Company size (firm size) is a measure that indicates the scale of a company, whether large or small. The amount of dividend to be paid can also be determined by the size of the company. Larger companies have a greater opportunity to distribute larger dividends as their cash flows tend to be more stable (Rahayu & Rusliati, 2019).

Institutional ownership refers to the total shares owned by institutions or institutional investors outside the company. According to Rahayu & Rusliati (2019), oversight of company management will be higher with institutional ownership. This is due to the increased caution in decision-making by institutional investors, which may not align with the interests of shareholders. According to Khoirunnisa & Lawita (2022), one important indicator for assessing a company is profitability. Profitability can measure how well a company can generate sufficient income to cover its operational costs and produce net profits. Profitability can be calculated using Return on Equity (ROE). A high ROE indicates that the company is generating more profit with its equity. Therefore, the higher the ROE, the greater the company's potential to distribute dividends to shareholders, as the company has sufficient funds to finance its operational activities (Gunawan & Harjanto, 2019).

This research is conducted on manufacturing companies listed on the Indonesia Stock Exchange. One of the companies that plays a role in meeting societal needs is the manufacturing company. As a result, manufacturing companies continue to experience significant growth and show promising prospects for the future.

Based on the background presented, the research problem in this study is whether company size has an effect on dividend policy; whether institutional ownership has an effect on dividend policy; and whether profitability has an effect on dividend policy. The objectives of the research, based on the background and the problems outlined above, are to test the effect of company size on dividend policy; to test the effect of institutional ownership on dividend policy; and to test the effect of profitability on dividend policy.

LITERATURE REVIEW & METHODOLOGY

A. Literature Review

1. Agency Theory

In their work, Jensen & Meckling (1976) define agency theory as a contractual relationship between shareholders (principals) and management (agents) that has been mutually agreed upon. Agency theory is related to dividend policy, where there are conflicting interests between company managers as agents and shareholders (investors) as principals, leading to agency conflicts. This is because shareholders (investors) are more interested in the increase of dividends on the shares they have invested in the company (Sari & Muhammad, 2022). Meanwhile, management, which is responsible for managing the company, is likely to prefer retaining profits for future reinvestment, which can have a direct impact on the company. Agency conflicts can be mitigated, among other ways, through dividend policy. Shareholders are more likely to increase their trust in company managers if dividends can be distributed consistently.

2. Signaling Theory

According to Brigham & Houston (2018), signaling theory is an indication or signal regarding the future prospects of a company provided to shareholders by the company's management. Through dividend policy, shareholders can receive signals conveyed by the company's management. According to Sartika & Irham (2023), dividend payments can serve as a positive signal indicating that a company has sufficiently profitable prospects.

3. Dividend Policy

According to Darmawan (2018), dividends are profits distributed to shareholders based on the number of shares owned. When a company earns profits from its operations, the decision regarding the amount of dividends to be distributed to shareholders, which is determined through the General Meeting of Shareholders (GMS), is referred to as dividend policy. The proxy for dividend policy in this study is the Dividend Payout Ratio. According to Darmawan (2018), the dividend payout ratio is the cash dividends distributed to shareholders based on the available earnings, or in other words, it is used to measure the amount of dividends that will be distributed by the company compared to the earnings obtained. The Dividend Payout Ratio can be systematically formulated as follows:

$$DPR = \frac{Dividend\ per\ Share}{Net\ Income\ per\ Share}$$

4. Firm Size

Company size, according to Gunawan & Harjanto (2019), is one of the indicators used to measure the scale of a company, whether it is large or small. Company size can serve as a signal that reflects the condition of the company. According to Rahayu & Rusliati (2019), larger companies have a greater opportunity to distribute dividends. This is because larger companies can enter the capital market, making it easier to obtain capital and maintain a stronger financial position. The formula for calculating company size is as follows:

$$Firm\ Size = Ln(Total\ Asset)$$

Ln = Natural Logarithm

5. Institutional Ownership

Institutional ownership, according to Sartika & Irham (2023), refers to the ownership of shares by an institution within a company, which can be a domestic or foreign institution, agency, or organization. According to Wulansari & Lawita (2023), the amount of investment made by institutional investors can influence the level of monitoring they exert over managerial behavior. A higher level of institutional ownership results in stricter oversight, which in turn restricts managers from prioritizing their personal interests (Rahayu & Rusliati, 2019). The institutional ownership variable can be calculated using the following formula:

$$Institutional\ Ownership = \frac{Number\ of\ shares\ owned\ by\ institutions}{Number\ of\ shares\ outstanding\ in\ the\ market}$$

6. Profitability

Profitability, according to Kasmir (2022), refers to the earnings or profits that a company is able to achieve over a specific period. In this study, profitability is measured using Return on Equity (ROE). This ratio is used to assess the company's ability to manage its equity or own capital, serving as a benchmark for the company’s capability to generate net profit for every rupiah of equity. A higher ROE indicates that the company is effectively utilizing its equity or invested capital to generate net earnings, thereby enhancing its potential to distribute

profits to shareholders in the form of dividends (Gunawan & Harjanto, 2019). The calculation of ROE is formulated as follows:

$$ROE = \frac{Earning\ After\ Tax}{Total\ Equity}$$

B. Conceptual Framework

Based on the introduction, problem formulation, and research objectives, this study will focus on the influence of company size, institutional ownership, and profitability on dividend policy, as illustrated in the diagram below:

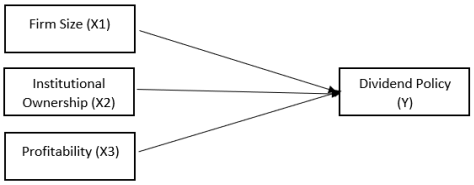


Figure 1 : Conceptual Frame Work

Based on Figure 1, the hypotheses in this study are formulated as follows: Company size has an effect on dividend policy (H1); Institutional ownership has an effect on dividend policy (H2); Profitability has an effect on dividend policy (H3).

C. Population and Sample

The population used in this study consists of all manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022. The sampling method employed in this research is purposive sampling with specific criteria, resulting in a total of 28 companies over the four-year period, leading to a total data set of 112 observations. The criteria for sampling are as follows: manufacturing companies listed on the Indonesia Stock Exchange from 2019 to 2022; manufacturing companies with complete financial statements during 2019-2022; manufacturing companies that present their financial statements in Indonesian Rupiah; manufacturing companies that recorded profits during 2019-2022; manufacturing companies that consistently distributed cash dividends during 2019-2022; and manufacturing companies that had institutional ownership from 2019 to 2022.

D. Analysis Method

The data used in this study is secondary data obtained from the annual financial statements of manufacturing companies listed on the Indonesia Stock Exchange from 2019 to 2022, processed using IBM SPSS version 27.0. The method employed in this research is quantitative, testing hypotheses to determine the influence between independent and dependent variables. This study uses multiple linear regression analysis due to the presence of more than one independent variable. Multiple linear regression analysis is conducted to examine how two or more independent variables affect one dependent variable (Wahyuliza & Fahyani, 2019). The multiple linear regression equation is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Where:
Y = Dividend Policy
α = Constant
β_1, β_2, β_3= Regression coefficients
X_1 = Company Size

X_2 = Institutional Ownership
X_3 = Profitability
e = Error

RESULTS

A. Descriptive Statistical Analysis

TABLE I

	N	Minimum	Maximum	Mean	Std. Deviation
DPR	112	.018	2.516	.53031	.401790
Size	112	27.149	33.655	29.51549	1.669717
KI	112	.140	.934	.68041	.200765
ROE	112	.018	.385	.13900	.077660
Valid N (listwise)	112				

Based on Table 1, the total data used in this study consists of 112 observations. It can be seen that the dividend policy (Y variable), proxied by the Dividend Payout Ratio (DPR), has a minimum value of 0.018, a maximum value of 2.516, an average value of 0.53031, and a standard deviation of 0.40179. Additionally, company size (X1) has a minimum value of 27.149, a maximum value of 33.655, an average value of 29.51549, and a standard deviation of 1.669717. Institutional ownership (X2) has a minimum value of 0.14, a maximum value of 0.934, an average value of 0.68041, and a standard deviation of 0.20076. Profitability (X3), proxied by ROE, has a minimum value of 0.018, a maximum value of 0.385, an average value of 0.13900, and a standard deviation of 0.077660.

B. Classical Assumption Test

1. Normality Test

TABLE II
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		112
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.38510583
Most Extreme Differences	Absolute	.152
	Positive	.152
	Negative	-.093
Test Statistic		.152
Asymp. Sig. (2-tailed)		.000[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Based on the table, it can be observed that the significance value of the Kolmogorov-Smirnov test is 0.000, which is less than 0.05. Therefore, it can be concluded that the regression model does not have a normal distribution. However, this is understandable as the research data in this study exhibits substantial variation due to the diverse range of company sizes. This aligns with the theories of Basuki & Prawoto (2022) and Santoso (2019), which

state that if a study involves more than 30 data points, or even hundreds or thousands, it can be assumed that the data is normally distributed due to the large sample size.

2. Multicollinearity Test

TABLE III

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	SIZE	.893	1.120
	KI	.878	1.138
	ROE	.983	1.017

Based on the results of the multicollinearity test shown in Table 4, it can be seen that the Tolerance values for company size (SIZE) are 0.893, institutional ownership (KI) is 0.878, and profitability (ROE) is 0.983, all of which are greater than 0.1. The VIF values for company size (SIZE) are 1.120, institutional ownership (KI) is 1.138, and profitability (ROE) is 1.017, all of which are less than 10. Therefore, it can be concluded that there is no multicollinearity issue in the research data.

3. Heteroscedasticity Test

TABLE IV

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.590	.504		1.172	.244
	SIZE	-.015	.016	-.096	-.966	.336
	KI	.227	.131	.173	1.728	.087
	ROE	-.136	.321	-.040	-.424	.673

a. Dependent Variable: ABS_RES

Based on the results of the heteroscedasticity test using the Glejser test shown in Table 4, the significance values for each variable are greater than 0.05, namely 0.336, 0.087, and 0.673. Therefore, it can be concluded that there is no heteroscedasticity issue in the regression model.

4. Autocorrelation Test

TABLE V

Model	Durbin-Watson
1	1.290

b. Dependent Variable: DPR

Based on the table above, the Durbin-Watson value obtained is 1.290. Since the DW value falls between -2 and +2, it can be concluded that there is no autocorrelation present in the research.

C. Multiple Linear Regression Analysis

TABLE VI

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1 (Constant)	-.703	.755		-.930	.354
Firm Size	.026	.023	.110	1.125	.263
KI	.429	.197	.214	2.176	.032
ROE	1.162	.481	.225	2.413	.017

a. Dependent Variable: DPR

Based on the table, the multiple linear regression equation obtained is as follows: DPR = -0,703 + 0,026SIZE + 0,429KI + 1,162ROE.

From the regression equation, the following explanations can be made :

1. The dependent variable, which is dividend policy (Y), has a negative constant value of **-0.703**. This means that if the company size, institutional ownership, and profitability are all equal to **0**, the Dividend Payout Ratio (DPR) would be **-0.703**.
2. The independent variable, which is company size, has a regression coefficient of 0.026. This means that if the company size increases by one unit, it will lead to an increase in the dividend policy (DPR) by 0.026 units, assuming all other variables remain constant.
3. The independent variable, which is institutional ownership, has a regression coefficient of 0.429. This indicates that if institutional ownership increases by one unit, it will result in an increase in the dividend policy (DPR) by 0.429 units, assuming all other variables remain constant.
4. The independent variable, which is profitability (measured by Return on Equity, ROE), has a regression coefficient of 1.162. This means that if profitability increases by one unit, it will result in an increase in the dividend policy (DPR) by 1.162 units, assuming all other variables remain constant.

D. Hypothesis Testing

1. Coefficient of Determination Test (R^2)

TABLE VII

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.285[a]	.081	.056	.39042

a. Predictors: (Constant), ROE, Firm Size, KI

b. Dependent Variable: DPR

Based on the table above, the coefficient of determination (R^2) is obtained at a value of 0.056. This means that the size of the company, institutional ownership, and profitability explain 5.6% of the variation in dividend policy. The remaining 94.4% is influenced by other variables not included in this study.

2. Simultaneous Regression Coefficient Test (F-Test)

TABLE VIII

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.457	3	.486	3.187	.027[b]
	Residual	16.462	108	.152		
	Total	17.919	111			

a. Dependent Variable: DPR

b. Predictors: (Constant), ROE, SIZE, KI

The criterion for the simultaneous regression coefficient test is that if the significance value of F < 0.05, there is a significant influence between all independent variables and the dependent variable used in the study. Based on Table 8, it can be seen that the significance value of F < 0.05, which is 0.027. Therefore, it can be concluded that the independent variables, consisting of company size, institutional ownership, and profitability, significantly influence the dependent variable, which is dividend policy, both individually and collectively.

3. Partial Significance Test (T-Test)

TABLE IX

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1 (Constant)	-.703	.755		-.930	.354
Firm Size	.026	.023	.110	1.125	.263
KI	.429	.197	.214	2.176	.032
ROE	1.162	.481	.225	2.413	.017

a. Dependent Variable: DPR

Based on Table 9, the following explanations can be provided:

1. The independent variable of company size shows a significance value of 0.263, indicating that the significance level of company size is > 0.05. Therefore, company size (Size) does not have an influence on the dependent variable of dividend policy (DPR), and the proposed hypothesis is rejected. This is due to the fact that companies prefer to retain their earnings to finance future activities rather than distributing those profits as dividends.
2. The independent variable of institutional ownership shows a significance value of 0.032, indicating that the significance level of institutional ownership is < 0.05. Therefore, institutional ownership (KI) has an effect on the dependent variable of dividend policy (DPR), and the proposed hypothesis is accepted. As the proportion of shares held by institutions increases, the oversight exercised by these institutions over company management becomes tighter. This results in more effective decision-making by managers, prioritizing the interests of shareholders, and consequently leading to a larger distribution of dividends.
3. The independent variable of profitability shows a significance value of 0.017, indicating that the significance level of profitability (ROE) is < 0.05. Therefore, profitability has an effect on the dependent variable of dividend policy (DPR), and the proposed hypothesis is accepted. As the level of profitability obtained by the company increases, the available funds to finance operational activities become more sufficient. Consequently, the amount of net income that can be distributed as dividends will also be higher.

ACKNOWLEDGMENT

I extend my deepest gratitude to God Almighty for granting me the strength to complete this research. I would like to thank my academic advisor for their invaluable guidance and support throughout the process. I am also grateful to my family for their unwavering encouragement and to my peers at the Faculty of Business, Kalbis University, for their assistance and motivation. Lastly, I appreciate all those who contributed directly or indirectly to the completion of this work.

REFERENCES

Basuki, A. T., & Prawoto, N. (2022). Analisis Regresi Dalam Penelitian Ekonomi dan Bisnis: Dilengkapi Aplikasi SPSS & Eviews (2nd ed.). PT RajaGrafindo Persada

Brigham, E. F., & Houston, J. F. (2018). Fundamentals of Financial Management. In Health Care Management Review (Vol. 2, Issue 4). Cengage Learning. https://doi.org/10.1097/00004010- 197702040-00014 cnbcindonesia.com. (2023). https://www.cnbcindonesia.com/market/2 0230608111336-17-444133/10-emitenini-absen-bagi-dividen-berikut-alasannya

Darmawan, D. (2018). MANAJEMEN KEUANGAN: Memahami Kebijakan Dividen Teori dan Praktiknya di Indonesia. In L. Renfiana (Ed.),

Fakultas Islam dan Bisnis Islam Universitas Islam Negeri Sunan Kalijaga (I, Issue July).

Gunawan, A., & Harjanto, K. (2019). Pengaruh Profitabilitas, Leverage, Ukuran Perusahaan, Pertumbuhan Perusahaan, dan Struktur Kepemilikan terhadap Kebijakan Dividen : Studi Empiris Pada Perusahaan Manufaktur Yang Terdaftar di Bursa Efek Indonesia Periode 2013-2016. ULTIMA Accounting, 11(1), 81–107.idx.co.id. (2022). idx.co.id idx.co.id. (2023). https://www.idx.co.id/id/berita/siaranpers/1948

Jensen, M. C., & Meckling, W. H. (1976). Theory of The Firm: Managerial Behavior, Agency Cost and Ownership Structure. Journal of Financial Economics 3, 305– 360.

Kasmir. (2022). Analisis Laporan Keuangan (13th ed.). PT RajaGrafindo Persada.

Khoirunnisa, A. P., & Lawita, F. I. (2022). Pengaruh Ukuran Perusahaan, Profitabilitas, dan Leverage terhadap Manajemen Laba Pada Perusahaan Pertambangan. KALBISIANA : Jurnal Mahasiswa Institut Teknologi Dan Bisnis Kalbis, 8(3), 105–115. https://doi.org/10.55822/asd.v14i2.228

Rahayu, D., & Rusliati, E. (2019). Kepemilikan Institusional, Kepemilikan Manajerial, Dan Ukuran Perusahaan Terhadap Kebijakan Dividen. Jurnal Riset Akuntansi Kontemporer, 11(1), 41–47. https://doi.org/10.23969/jrak.v11i1.1870

Santoso, S. (2019). Mahir Statistik Parametrik: Konsep dasar dan aplikasi dengan SPSS. PT Elex Media Komputindo.

Sari, R. E., & Muhammad, M. M. (2022). Pengaruh Arus Kas Operasi, Leverage dan Ukuran Perusahaan Terhadap Manajemen Laba (Studi Empiris pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Tahun 2016-2019). KALBISIANA : Jurnal Mahasiswa Institut Teknologi Dan Bisnis Kalbis, 8(3), 3338– 3356. http://ojs.kalbis.ac.id/index.php/kalbisiana /article/view/1541

Sartika, T., & Irham. (2023). Pengaruh Kepemilikan Manajerial, Kepemilikan Institusional dan Kebijakan Hutang terhadap Kebijakan Deviden pada Perusahaan Manufaktur di BEI. Jurnal Ilmiah Mahasiswa Ekonomi Manajemen, 8(1), 9–24.

Sudiartana, I. G. P., & Yudantara, I. G. A. P. (2020). Pengaruh Ukuran Perusahaan, Likuiditas, Profitabilitas, dan Leverage Terhadap Kebijakan Dividen. Jurnal Ilmiah Mahasiswa Akuntansi Universitas Pendidikan Ganesha, 11(2), 287–298.

Wahyuliza, S., & Fahyani, R. (2019). Pengaruh Pertumbuhan Perusahaan, Ukuran Perusahaan, Struktur Modal, dan Return on Equity Terhadap Kebijakan Dividen pada Perusahaan Manufaktur yang terdaftar di Bursa Efek Indonesia. Jurnal Benefita, 4(1), 78–86.

Wulansari, V., & Lawita, F. I. (2023). Analisis Pengaruh Komisaris Independen, Kepemilikan Manajerial, dan Kepemilikan Institusional Terhadap Pemberian Opini Audit Going Concern. Prosiding Konferensi Ilmiah Akuntansi, 10, 1–16.

Yogantara, K. K., Asana, G. H. S., & Wartana, M. H. (2022). Pengaruh Ukuran Perusahaan, Kinerja Keuangan dan Kepemilikan Institusional Terhadap Kebijakan Dividen. Journal of Applied Management and Accounting Science, 4(1), 65–74.

IConEnt

The 4th International Conference on Entrepreneurship

THE INFLUENCE OF PROFITABILITY, LEVERAGE, AND COMPANY SIZE ON EARNINGS MANAGEMENT IN RAW MATERIAL COMPANIES

Putri Kezia Angelina[1], Florencia Irena Lawita[2], Agatha Violin[3]

Accounting, Faculty of Business, Kalbis University
Jalan Pulomas Selatan Kav. 22, Jakarta 13210
1) E-mail: putrikezia46@gmail.com
2) E-mail: florenciairenalawita@gmail.com
3) E-mail: agathaviolin17@gmail.com

ABSTRACT

The purpose of this study is to look at how profitability, debt, and business size affect earnings management in basic materials sector companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2022. This research uses a quantitative method. The population for this study is obtained from secondary data from the financial statements of enterprises in the basic materials sector from 2020 to 2022. The purposive sampling strategy was employed to choose the sample, yielding 99 data points for this investigation. The findings of this study revealed that profitability has a positive influence on earnings management, whereas firm size has a negative impact, and leverage has no effect on earnings management.

Keywords - **Fonts, formatting, margins**

INTRODUCTION

The business world is developing at a rapid pace, motivating business players to create competitive advantages in their industries. Business competition must be accompanied by optimal use of resources in operational activities so that companies have a higher chance of leading the market (Harahap, 2021). As a result, companies will continue to strive to demonstrate good performance in conveying financial information to external parties. This information is conveyed through financial statements.

According to PSAK No.1 (IAI, 2014), financial reporting is a structural study of the financial situation and performance of an organization. Information about profits is one of the main parameters in measuring performance and management accountability that is included in an entity's financial report. Management is given the authority to develop policies, make estimates, and manage the company's assets accurately to create a report that reflects the company's financial condition well (Moh. Rifqi Hidayatullah & Arif, 2023). Recognizing this role and authority, management whose performance is assessed based on profit information will tend to focus more on profit figures. According to (Natalia & Natalylova, 2022), earnings management is a set of accounting activities or rules applied by management to influence or control reported profits using accounting procedures of choice or accelerating expenditures and revenue transactions to affect short-term profit levels.

Earnings management is an agency problem often caused by a misalignment of interests between owners or principals (shareholders) and company management or agents (management). The higher contribution of management to its role as a manager gives it faster access, clearer, and more comprehensive information compared to shareholders. This study

measures earnings management using the Discretionary Accrual (DA) proxy. According to KBBI, discretion can be defined as the freedom to make decisions independently in any situation faced, so Discretionary Accrual can be interpreted as a management decision or intervention in using certain accounting methods to influence the accrual value of the company in a given period.

One phenomenon related to earnings management practices occurred at PT Semen Indonesia Tbk (SMGR) where the company's management decided to acquire PT Holcim Indonesia Tbk in 2018. The result of this acquisition was an increase in the company's financial burden and a decline in the company's liquidity due to the increased financial burden borne by funding the acquisition of PT Holcim. The company's performance decline was reflected in a profit drop throughout 2019 by 22.31% from IDR 3.07 trillion
to IDR 2.39 trillion (cnbcindonesia.com, 2020).

Another incident occurred at PT Adaro Energy Tbk (ADRO). Before this case became public, the company's financial condition had already deteriorated due to a case of selling mislabeled rice by a subsidiary of PT Indo Beras Unggul. This case was revealed in 2019 when PT E&Y, the party investigating AISA's financial statements, discovered suspected overstatements in accounts receivable, fixed assets, and inventories amounting to IDR 4 trillion as well as IDR 662 billion in revenue and other inflated funds amounting to IDR 329 billion in EBITDA. There was also a transfer of funds amounting to IDR 1.78 trillion from affiliated parties using inadequate disclosure mechanisms. This behavior, undertaken by AISA management, is included in earnings management procedures (cnbcindonesia.com, 2020).

Managers manage profits for various reasons, including profitability, leverage, and company scale. According to (Nursophia et al., 2023), profitability is a ratio used to assess a company's capacity to generate profits and provide insights into the success of an entity's management. Profitability indicated by return on assets (ROA) reflects an entity's ability to manage its resources. High profitability can influence earnings management because companies with high profits will face increased obligations such as tax liabilities, prompting management to reduce profits to maintain company profit stability.

In addition to profitability, a company's debt level can also motivate earnings management. Leverage refers to the extent of using debt to finance assets intended to sustain operational activities. Agency theory states that the use of debt by companies can provide restrictions and monitor management performance. The higher the debt a company has, the higher the risk it may face in fulfilling its obligations to pay debts on time (Moh. Rifqi Hidayatullah & Arif, 2023).

Leverage influences management's decision to manage earnings. High leverage in a company allows the company to receive closer scrutiny from lenders (creditors), so management will be more cautious in practicing earnings management.

Another factor that can drive companies to engage in earnings management is company size. Company size is one scale used to identify whether a company is large or small. Larger companies tend to receive more attention and demands from external parties, such as capital owners, lenders, and governments. Therefore, the company will focus more on maintaining the stability of reported profits. Companies will avoid drastic changes, such as significant increases or decreases in profits, to prevent additional obligations such as taxes. Thus, company size influences earnings management because a company's profit level correlates with its size (Eka & Muhammad, 2022).

This research was conducted on raw material sector companies listed on the IDX. The researcher chose this sector because companies in this sector produce goods or services used as raw materials by other companies, so their credibility and consistency can impact other businesses. In addition, the raw material sector also represents a diverse range of companies from various industries. The demand for raw materials also shows that companies in this sector have promising prospects and sustainability in the future.

Based on stock trading data throughout 2023, the raw materials sector ranked second with growth of 7.51%. The raw materials sector provides products and services essential for other sectors as basic components for producing final products. This sector can be said to be essential and promising because its role in providing raw materials for other sectors will impact its long-term existence. Based on stock market data, the basic materials sector continued to strengthen at 7.10% from late 2023 to the end of May 2024, indicating high investor interest in the sector's performance (ipotnews.com). Referring to related phenomena, researchers believe that the control of reported profits by an entity is not uncommon in Indonesia. Intense competition in the business world encourages companies to stay competitive in showing positive performance to stakeholders, one of which is
through earnings management practices.

Based on the framework of the study presented, the research problems in this study are as follows: Does profitability affect earnings management? Does leverage affect earnings management? Does company size affect earnings management? The research objectives based on the background and the problem formulation are to analyze the effect of profitability on earnings management, analyze the effect of leverage on earnings management, and analyze whether company size influences earnings management.

LITERATURE REVIEW METHODOLOGY

A.THEORETICAL REVIEW

1. Agency Theory

Agency theory explains the relationship between management acting as agents and shareholders as principals, where one or more principals delegate authority and responsibility to the agents (Wardoyo et al., 2021). In this context, management, as agents, need to have a comprehensive understanding of effective company operations to maximize the owner's profit while maintaining cost efficiency. Meanwhile, the principal will provide appropriate incentives to the agents with various financial and non-financial facilities (Sutisna et al., 2024).

According to (Jensen & Meckling, 1976), agency theory is defined as a contract between one or more principals as owners of capital resources, involving another party (agent) to manage these resources. The principal entrusts full responsibility and authority to the agent to manage the resources owned to fulfill the principal's interests, which is to obtain maximum returns on capital. The principal will monitor the agent's performance through financial performance reports presented by management.

According to (Eisendhardt, 1989), agency theory arises from human nature, which tends to prioritize self-interest and avoid risks. In the relationship between the principal and the agent, conflicts may arise when there are opposing interests between the two parties (Wardoyo et al., 2021). In this study, agency theory is used as the assumption underlying the motivation of agents in practicing earnings management, which occurs when there is a conflict of interest between management (agent) and capital owners (principal), as each party strives to achieve or maintain their desired level of prosperity. Information can influence an individual's decision- making

process, including business decisions (Sutisna et al., 2024). Information asymmetry between agents and principals can prompt managers to engage in dysfunctional behavior. The gap in information owned by management provides opportunities for managers to behave opportunistically by presenting misleading information to the principal, especially when the information relates to performance measurement. This behavior is carried out to maximize their interests, which can be detrimental to the principal. According to (Suripto & Supriyanto, 2021), this agent behavior constitutes earnings management practices.

2. Earnings Management

According to (Tallane, 2020), managerial actions that influence the company's earnings reports are known as earnings management. Earnings management is a problem that often arises in companies and is difficult to avoid because it involves individual and company interests exclusively (Setiowati et al., 2023). Managers who run companies have more in-depth knowledge of the company's information than other parties. With this information, managers manipulate profits to fulfill their personal interests by controlling the amount of profit that will be reported to stakeholders.

In this study, discretionary accruals serve as the proxy for earnings management. This is achieved by calculating the difference between total accruals and non-discretionary accruals, which are quantified using the modified Jones model.

According to (Bassiouny, 2016), the calculation of discretionary accruals (DA) can be obtained through the following steps:

a. Calculating Total Accruals (TAC)

$$\mathbf{TACt = Nit - CFOt}$$

Explanation:
TACt = Total Accrual in year t Nit = Net income in year t
CFOt = Operating cash flow in year t

b. Estimating the total accruals to obtain specific parameters using the Ordinary Least Square (OLS) regression equation as follows:

$$TACt / Ait{-}1 = \beta1\ (1/ Ait{-}1\ ) + \beta2\ (\Delta REVit\ /Ait{-}\ 1) + \beta3\ (PPE/ Ait{-}1\ ) + \varepsilon$$

Explanation:
TACit = Total Accrual in period t
Ait-1 = Total assets of the company in the previous period
ΔREVit = Change in revenue in year t minus t− l
PPEt = Gross Property, Plant, and Equipment in period t
β1, β2, β3 = Company-specific parameters ε = Error

c. Calculating non-discretionary accruals
Using the regression coefficients above (β1, β2, β3), the value of discretionary accruals can be calculated with the formula:

$$NDAit = \beta1\ (1/ Ait{-}1\ ) + \beta2\ ((\Delta REVit - \Delta RECit) / Ait\text{-}1\ ) + \beta3\ (PPE/ Ait\text{-}1\ )$$

Explanation:
NDAit = Non-discretionary accruals in year t

ΔRECit = Change in receivables in year t minus t-1

d. Calculating discretionary accruals (DA) DAit = TACit/ Ait-1 – NDAit Explanation:

DAit = Discretionary accruals in year t

Empirically, discretionary accrual values can be zero, positive, or negative. A value of zero indicates income smoothing (income smoothing), while a positive value indicates income-increasing earnings management, and a negative value indicates income- decreasing earnings management (Anjarningsih et al., 2022).

3. Profitability

Profitability is the amount of profit generated by a company after deducting costs and other losses. According to Kasmir (2015), profitability is the profit that a business can obtain within a specific period. Profitability can be one of the parameters used by external entities to evaluate company performance and help them make investment decisions (Romadhani et al., 2020).

In relation to agency theory, managers will continuously strive to maintain the company's profitability level to meet the needs of capital owners. To provide a positive image, managers will improve the quality of financial reports to serve their interests, including to obtain bonuses (Lesmono & Siregar, 2021).

The proxy used to measure the company's profitability in this study is the Return on Assets (ROA) ratio. This ratio gives a general picture of how well a business uses its assets to carry out its operational activities (Aldona & Listari, 2020). Profitability is measured using the following formula:

$$\text{ROA} = Total\ Asset \div Net\ Income$$

4. Leverage

Leverage, according to (Joe & Ginting, 2022), is a ratio used to calculate how much debt is used to finance the organization's assets. This research aims to measure the amount of cash the company receives from its debtors.

Entities with a high leverage ratio are more likely to engage in earnings management because, according to (Joe & Ginting, 2022), the greater a company's use of debt, the more management manipulates profits to maintain good financial performance and preserve investor confidence while avoiding debt contract obligations.

Leverage relates to debt in the capital structure used to finance company assets. The ratio used to measure leverage is the Debt to Assets Ratio (DAR). A higher leverage ratio indicates a greater dependency on external parties (creditors) and the debt service burden (interest costs) borne by the company (Saniamisha & Jin, 2019). Leverage is calculated with the following formula:

$$\text{DAR} = Total\ Asset \div Total\ Debt$$

5. Company Size

Company size is one scale used to categorize a company. Companies can be categorized as small or large based on their size (Eka Sari & Malik Muhammad, 2022).

Entities with high asset levels will increase the value of the company, drawing more attention from external parties such as investors and creditors. Increased oversight can limit management's ability to practice earnings management (N. P. Sari & Khafid, 2020).

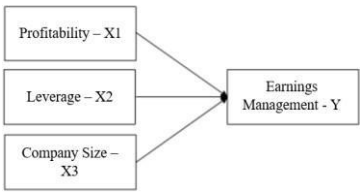
To minimize unnecessary data fluctuations, company size is calculated by converting total assets into the natural logarithm of total assets. The total assets in a company are generally presented in large values compared to other financial variables. By converting total assets into a natural logarithm, these values can be simplified from hundreds to trillions. The following formula is used to determine company size:

$$FSIZE = Ln\,(Total\ Assets)$$

Conceptual Framework

A conceptual framework that explains the impact of independent factors such as profitability, leverage, and company size on the dependent variable, earnings management, can be developed based on the literature review provided earlier, as shown in the following figure:

Figure 1: Conceptual Framework



Based on Figure 1, the researcher can formulate the hypotheses in this study as follows: Profitability affects earnings management (H1); Leverage does not affect earnings management (H2); Company size affects earnings management (H3).

METHODOLOGY

Population And Sample

The population used in this study consists of financial data obtained from the annual reports of basic materials sector companies listed on the IDX from 2020 to 2022. Based on data obtained from the IDX website, there are a total of 106 companies in the basic materials sector. Using purposive sampling techniques, where samples are taken when they meet specific predetermined criteria, a sample of 33 companies and 99 data samples for 3 years were obtained. The sample selection criteria are: companies in the basic materials sector consistently listed on the IDX in 2020-2022; companies in the basic materials sector that present their financial statements in Indonesian Rupiah; and companies in the basic materials sector that have made profits during the 2019-2022 period.

Data Analysis Method

According to (Sugiyono, 2022), after collecting the data, the next step is data analysis by grouping the data by variable, tabulating the data, presenting the data, and providing an analysis result to answer the problem formulation and hypothesis testing.

The data used in this study is secondary data from the annual financial statements of companies in the basic materials sector listed on the IDX from 2020 to 2022. Data processing uses SPSS version 27.0 statistical software. This research employs a quantitative approach, where the study is conducted using statistical data and results in numerical data

Given the number of independent variables in this study, multiple linear regression analysis was employed. According to (Basuki & Prawoto, 2022), the direction and strength of the impact of independent variables on the dependent variable are predicted using regression analysis. In multiple regression, because the nominal data value is quite large, a natural logarithm transformation is applied to the dependent variable to align the data with the independent

variables, which are in ratio format.
The multiple linear regression equation in this study can be expressed as follows:

$$Y = \alpha + \beta 1.\ X1 + \beta 2.\ X2 + \beta 3.\ X3 + e$$

Y = Earnings management α = Constant
β_1, β_2, β_3 = Regression coefficients X_1 = Profitability
X_2 = Leverage
X_3 = Company size e = ErrorRESULTS

RESULT

A. Descriptive Statistics Analysis

Table 1: Descriptive Statistics Results

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
DA	99	-.22	.21	.0015	.06954
ROA	99	.00	.24	.0616	.04827
DAR	99	.03	.82	.3666	.19247
SIZE	99	25.08	32.05	28.3596	1.46280
Valid N (listwise)	99				

Descriptive statistics analysis is a method used to provide a general description of the research variables as seen from the mean value, standard deviation, maximum, and minimum. Data analysis in this study was aided by SPSS version 27 and Microsoft Excel (Ghozali, 2021:19).

The data used in this study consists of 99 samples, based on Table 1. This data was obtained from 33 companies in the raw materials sector listed on the Indonesia Stock Exchange (IDX) during the 2020–2022 period. The dependent variable (Y), proxied by Discretionary Accruals (DA), has a minimum value of -0.22, a maximum value of 0.21, a mean of 0.0015, and a standard deviation of 0.06954. The profitability variable (X1), proxied by Return on Assets (ROA), has a minimum value of 0.00, a maximum of 0.24, a mean of 0.0616, and a standard deviation of 0.04827. The leverage variable (X2), proxied by Debt to Assets Ratio (DAR), has a minimum value of 0.03, a maximum of 0.82, a mean of 0.3666, and a standard deviation of 0.19247. The company size variable (X3) has a minimum value of 25.08, a maximum value of 32.05, a mean of 28.3596, and a standard deviation of 1.46280.

B. Classic Assumption Test

1.Normality Test

TABLE 2:
NORMALITY TEST

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		99
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.06485552
Most Extreme Differences	Absolute	.070
	Positive	.070
	Negative	-.058
Test Statistic		.070
Asymp. Sig. (2-tailed)[c]		.200[d]

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

According to (Ghozali, 2021;196), the normality test is used to test whether, in the regression model, the residual variable is normally distributed. Based on Table 2, the Kolmogorov-Smirnov normality test results show an Asymp. Sig (2-tailed) value of 0.200, which is greater than the 0.05 significance level. Therefore, it can be concluded that the data in this regression model has a normal distribution, and the normality assumption is met.

2.Multicollinearity Test

TABLE 3:
MULTICOLLINEARITY TEST

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	ROA	.938	1.066
	DAR	.865	1.156
	SIZE	.918	1.089

The multicollinearity test aims to check whether there is a high correlation between independent variables in a regression model. A regression model is considered good if there is no multicollinearity between the independent variables (Ghozali, 2021:157).

Based on the results shown in Table 3, the Tolerance values of the independent variables range from 0.865 to 0.938, which are higher than 0.01. The Variance Inflation Factors (VIF) for the independent variables range from 1.066 to 1.156, which are below the threshold of 10.00. Thus, it can be concluded that there is no multicollinearity in this study, and the multicollinearity assumption is fulfilled.

3.Heteroscedasticity Test

TABLE 4:
HETEROSCEDASTICITY TEST

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-11.406	5.587		-2.042	.044
	ROA	2.040	6.019	.036	.339	.735
	DAR	.132	1.572	.009	.084	.933
	SIZE	.137	.201	.073	.683	.497

The heteroscedasticity test is used to check whether there is an unequal variance in the residuals from one observation to another in the regression model. According to (Ghozali, 2021), a good regression model is homoscedastic, where the variance of the residuals is constant.

Based on the Park test results shown in Table 4, the significance values for Return on Assets (ROA), Debt to Assets Ratio (DAR), and company size are 0.735, 0.933, and 0.497, respectively. All these values are greater than the 0.05 significance level, indicating no heteroscedasticity in the regression model.

4.Autocorrelation Test

TABLE 5:
AUTOCORRELATION TEST

Model	Durbin-Watson
1	1.849

a. Predictors: (Constant), SIZE, ROA, DAR
b. Dependent Variable: DA

88	1.6302	1.6762	1.6071	1.6999	1.5836	1.7243
89	1.6324	1.6778	1.6095	1.7013	1.5863	1.7254
90	1.6345	1.6794	1.6119	1.7026	1.5889	1.7264
91	1.6366	1.6810	1.6143	1.7040	1.5915	1.7275
92	1.6387	1.6826	1.6166	1.7053	1.5941	1.7285
93	1.6407	1.6841	1.6188	1.7066	1.5966	1.7295
94	1.6427	1.6857	1.6211	1.7078	1.5991	1.7306
95	1.6447	1.6872	1.6233	1.7091	1.6015	1.7316
96	1.6466	1.6887	1.6254	1.7103	1.6039	1.7326
97	1.6485	1.6901	1.6275	1.7116	1.6063	1.7335
98	1.6504	1.6916	1.6296	1.7128	1.6086	1.7345
99	1.6522	1.6930	1.6317	1.7140	1.6108	1.7355
100	1.6540	1.6944	1.6337	1.7152	1.6131	1.7364

Figure 2: Durbin-Watson Table

The autocorrelation test aims to check whether there is a correlation between errors in one period (t) and errors in the previous period (t-1). The Durbin- Watson (DW) test is used to perform this test (Ghozali, 2021:162).

Based on the results shown in Table 5, the Durbin-Watson (DW) value in this study's regression model is 1.849. As shown in Figure 2, the Durbin-Upper (dU) value is 1.7355, and the Durbin- Lower (dL) value is 1.6108. The result 4-dL = 4- 1.6108 = 2.3892 and the result 4-dU = 4-1.7355 = 2.2645.

Figure 3: Durbin-Watson Statistics

Based on these results, the Durbin-Watson statistic is between dU and 4-dU, so it is concluded that there is no autocorrelation in this study.

C. Multiple Regression Analysis

TABLE 6:
MULTIPLE REGRESSION ANALYSIS

		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.267	.132		2.022	.046
	ROA	.423	.142	.294	2.974	.004
	DAR	.026	.037	.072	.702	.484
	SIZE	-.011	.005	-.223	-2.238	.028

a. Dependent Variable: DA

According to (Ghozali, 2021:145), regression analysis is a study of the dependence of the dependent variable (Y) on the independent variables (X), with the aim of estimating the average value of Y based on the known values of X.

Based on Table 6, the following multiple linear regression equation is obtained:

$$Y=0.267+0.423\cdot ROA+0.026\cdot DAR-0.011\cdot SIZE$$

From the regression equation above, the following conclusions can be drawn:

The dependent variable, earnings management (Discretionary Accruals, DA), has a positive constant value of 0.267, meaning that when profitability, leverage, and company size are zero, the DA value is 0.267 units.

The profitability variable (ROA) has a regression coefficient of 0.423, meaning that if profitability increases by one unit, it will cause an increase in earnings management by 0.423 units.

The leverage variable (DAR) has a regression coefficient of 0.026, meaning that if leverage

increases by one unit, it will cause an increase in earnings management by 0.026 units.

The company size variable has a regression coefficient of -0.011, meaning that if company size increases by one unit, it will cause a decrease in earnings management by 0.011 units.

D. Hypothesis Testing

1.Coefficient of Determination (R^2) Test

TABLE 8:
COEFFICIENT OF DETERMINATION TEST

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.361[a]	.130	.103	.06587

a. Predictors: (Constant), SIZE, ROA, DAR
b. Dependent Variable: DA

The coefficient of determination test is used to measure how much influence the independent variables have on the dependent variable.

Based on Table 8, the Adjusted R^2 value is 0.103, meaning that the independent variables (profitability, leverage, and company size) explain 10.3% of the variance in the dependent variable, earnings management, while the remaining 89.7% is explained by other factors not included in this study.

2.Simultaneous Regression Coefficient Test (F Test)

TABLE 9:
F-TEST RESULTS

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.062	3	.021	4.737	.004[b]
	Residual	.412	95	.004		
	Total	.474	98			

a.Dependent Variable: DA
b. Predictors: (Constant), SIZE, ROA, DAR

According to (Ghozali, 2021), the F-test is also known as the ANOVA significance test, which aims to indicate whether the dependent variable is linearly related to all independent variables. The F-test tests the extent of the relationship between the dependent variable and all independent variables simultaneously.

Based on Table 9, the F-test result shows a significance value of 0.004, which is less than the 0.05 significance level. Thus, it can be concluded that all independent variables and the dependent variable in this study have a significant simultaneous effect.

3.Partial Significance Test (T-Test)

TABLE 10:
T-TEST RESULTS

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.267	.132		2.022	.046
	ROA	.423	.142	.294	2.974	.004
	DAR	.026	.037	.072	.702	.484
	SIZE	-.011	.005	-.223	-2.238	.028

The T-test is used to measure the effect of each independent variable on the dependent variable.

Based on Table 10, the partial T-test results with 99 panel data show the following:

1. Testing the Effect of Profitability (X1) on Earnings Management. Return on Assets (ROA), as a proxy for profitability, shows a significance level of 0.004, which is less than 0.05. Based on this test result, it can be concluded that the independent variable profitability has a significant and positive effect on the dependent variable, earnings management, and the hypothesis is accepted. This indicates that the higher the profit a company generates, the greater the tendency of management to engage in earnings management.
2. Testing the Effect of Leverage (X2) on Earnings Management. In this study, leverage is measured using the Debt to Assets Ratio (DAR), and the T-test result shows a significance level of 0.484, which is greater than 0.05. Based on this test result, it can be concluded that the independent variable leverage does not have a significant effect on the dependent variable, earnings management, and the hypothesis is rejected. A company with a high debt level does not necessarily engage in earnings management practices. However, there is a risk of the company facing threats of insolvency due to the high debt level, where earnings management is not the solution employed by the company to avoid this risk (Febria, 2020).
3. Testing the Effect of Company Size (X3) on Earnings Management. The probability value of the independent variable company size is 0.028, which is less than 0.05. The hypothesis is accepted because the test result shows that the independent variable company size has a significant and negative effect on the dependent variable, earnings management. This result indicates that the larger the company size, the more likely it is that management will engage in earnings management. The larger the scale of a company, the stricter the supervision from the government, analysts, and investors. This strict supervision can hinder management from engaging in earnings management practices, as doing so could damage their reputation and credibility (N. A. Sari & Susilowati, 2021).

CONCLUSION

The purpose of this study is to evaluate how company size, profitability, and debt affect earnings management. Based on the test results, it can be concluded that although leverage does not have a clear impact on earnings management, profitability and company size do have

an impact.

Some limitations that hindered the researcher in conducting this study include the fact that several companies did not present complete financial statements, and the study period focused only on the years 2020-2022.

REFERENCES

Aldona, L., & Listari, S. (2020). Pengaruh Rasio Profitabilitas dan Rasio Leverage Terhadap Manajemen Laba. Jurnal Ilmiah Akuntansi Kesatuan, 8(1), 97–106. https://doi.org/10.37641/jiakes.v8i1.425

Anjarningsih, T., Suparlinah, I., Wulandari, R.A. S., & Hidayat, T. (2022). Pengaruh Konservatisme Akuntansi dan Tata Kelola Perusahaan yang Baik terhadap Manajemen Laba pada Perusahaan Badan Usaha Milik Negara. Jurnal Akuntansi, Keuangan, Dan Manajemen, 3(2), 99–115. https://doi.org/10.35912/jakman.v3i2.626

Basuki, T. A., & Prawoto, N. (2022). Analisis Regresi Dalam Penelitian Ekonomi & Bisnis Dilengkapi Aplikasi SPSS & Eviews. PT RajaGrafindo Persada.

Eisendhardt, K. (1989). Agency Theory: An Assessment and Review. Academy of Management Review, 14, 57–74.

Eka Sari, R., & Malik Muhammad, M. (2022). Pengaruh Arus Kas Operasi, Leverage dan Ukuran Perusahaan Terhadap Manajemen Laba (Studi Empiris pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Tahun 2016- 2019) (Vol. 8, Issue 3).

Ghozali, I. H. (2021). Aplikasi Analisis Multivariate (10th ed.). Badan Penerbit Universitas Diponegoro Semarang.

Herlina Harahap, S. (2021). Analysis of the Impact of Managerial Ownership, Institutional Ownership, Firm Size, Leverage, Profitability and Sales Growth Toward Earnings Management in Manufacturing Companies Listed on IDX in the 2015-2019 Period. International Journal of Research Publications, 69(1). https://doi.org/10.47119/IJRP100691120211678

Jensen, & Meckling. (1976). Theory of The Firm: Managerial Behavior, Agency Cost, and Ownership Structure. Journal of Financial Economics, 3(4), 305-360.

Joe, S., & Ginting, S. (2022). The Influence of Firm Size, Leverage, and Profitability on Earnings Management. Jurnal Ilmiah Akuntansi Kesatuan, 10(3), 567–574. https://doi.org/10.37641/jiakes.v10i3.1505

Lesmono, B., & Siregar, S. (2021). Studi Literatur Tentang Agency Theory. Ekonomi, Keuangan, Investasi Dan Syariah (EKUITAS), 3(2), 203–210. https://doi.org/10.47065/ekuitas.v3i2.1128

Moh. Rifqi Hidayatullah, & Arif, A. (2023). Pengaruh Profitabilitas, Leverage, dan Ukuran Perusahaan Terhadap Manajemen Laba Dengan Corporate Governance Sebagai Variabel Pemoderasi. Jurnal Riset Manajemen Dan Akuntansi, 3(3), 312–327. https://doi.org/10.55606/jurima.v3i3.2522

Natalia, A., & Natalylova, K. (2022). Pengaruh Tata Kelola Perusahaan dan Faktor-Faktor Lainnya terhadap Manajemen Laba. E-Jurnal Akuntansi TSM, 2(2).

Nursophia, A., Eprianto, I., & Marundha, A. (2023). Pengaruh Profitabilitas dan Leverage terhadap Tax Avoidance pada Perusahaan Pertambangan Sub Sektor Batu Bara yang Terdaftar di Bursa Efek Indonesia (BEI) Periode Tahun 2017– 2021. SENTRI: Jurnal Riset Ilmiah, 2(2), 476–488. https://doi.org/10.55681/sentri.v2i2.528

Romadhani, A., Saifi, M., & Nuzula, N. F. (2020). Pengaruh Profitabilitas, Ukuran Perusahaan dan Kebijakan Dividen terhadap Nilai Perusahaan. Profit: Jurnal Administrasi Bisnis, 14(2), 71–81.

Saniamisha, I. M., & Jin, T. F. (2019). Faktor- Faktor yang Mempengaruhi Manajemen Laba pada Perusahaan Non Keuangan di BEI. Jurnal Bisnis Dan Akuntansi, 21(1a-1), 59–72.

Sari, N. A., & Susilowati, Y. (2021). Pengaruh Leverage, Ukuran Perusahaan, Profitabilitas, Kualitas Audit, dan Komite Audit terhadap Manajemen Laba. Jurnal Ilmiah Aset, 23(1), 43–52. https://doi.org/10.37470/1.23.1.176

Sari, N. P., & Khafid, M. (2020). Peran Kepemilikan Manajerial dalam Memoderasi Pengaruh Profitabilitas, Leverage, Ukuran Perusahaan, Kebijakan Dividen Terhadap Manajemen Laba pada Perusahaan BUMN. Jurnal Akuntansi Dan Keuangan, 7(2), 222–231.

Setiowati, D. P., Salsabila, N. T., & Eprianto, I. (2023). Pengaruh Ukuran Perusahaan, Leverage, dan Profitabilitas terhadap Manajemen Laba. Jurnal Economina, 2(8), 2137–2146. https://doi.org/10.55681/economina.v2i8.724

Suripto, S., & Supriyanto, S. (2021). Implikasi Teori Akuntansi Positif dan Teori Keagenan dalam Praktik Manajemen Laba. Paradigma: Jurnal Masalah Sosial, Politik, Dan Kebijakan, 25(2), 548. https://doi.org/10.31315/paradigma.v25i2.5325

Sutisna, D., Nirwansyah, Moch., Ningrum, S. A., & Anwar, S. (2024). Studi Literatur Terkait Peranan Teori Agensi pada Konteks Berbagai Isu di Bidang Akuntansi. Karimah Tauhid, 3(4), 4802–4821. https://doi.org/10.30997/karimahtauhid.v3i4.12973

Tallane, Y. Y. (2020). Analisis Indikasi Praktik Manajemen Laba (Studi Kualitatif dengan Menggunakan Pendekatan In-Depth Interview pada Auditor). ABIS: Accounting and Business Information Systems Journal, 8(1). https://doi.org/10.22146/abis.v8i1.58817

Wardoyo, D. U., Rahmadani, R., & Hanggoro, P. T. (2021). Good Corporate Governance Dalam Perspektif Teori Keagenan. EKOMA: Jurnal Ekonomi, Manajemen, Akuntansi, 1(1), 39–43. https://doi.org/10.56799/ekoma.v1i1.25

IConEnt

The 4th International Conference on Entrepreneurship

THE INFLUENCE OF PROFITABILITY, LEVERAGE, AND SALES GROWTH ON TAX AVOIDANCE IN NON-CYLICAL CONSUMER SECTOR COMPANIES

Claudia Triana [1], Florencia Irena Lawita [2], Adeline Milagros [3]

Accounting, Faculty of Business, Kalbis University

South Pulomas Rd. Kav. 22, Jakarta 13210

[1,] Email: 2020105137@student.kalbis.ac.id

[2,] Email: florenciairenalawita@gmail.com

ABSTRACT

Tax avoidance is a form of tax avoidance that does not exceed applicable legal boundaries and tax regulations. Tax avoidance is implemented by looking at the gaps and weaknesses in tax regulations. The aim of this research is to test whether profitability, leverage and sales growth indicators are able to influence tax avoidance. The research was conducted on companies in the non-cyclical consumer sector listed on the Indonesia Stock Exchange for the period 2020 - 2022. The research method used was a quantitative method with purposive sampling. The author used SPSS version 27 software to process the data. The results of this research are that profitability and sales growth influence tax avoidance. Meanwhile, leverage has no effect on tax avoidance.

Keywords – **tax avoidance, profitability, leverage, sales growth**

INTRODUCTION

Taxes are a major source of state revenue in Indonesia, contributing 77% (IDR 2,034,552.5 billion) to the 2022 total state revenue of IDR 2,630,147 billion (bps.go.id, 2024). However, conflicts arise between tax authorities, who aim for maximum revenue, and corporate taxpayers, who seek to minimize tax payments to increase profits (Egiana & Nurdiniah, 2022). Companies often engage in tax avoidance, a legal practice of reducing tax liabilities by exploiting loopholes in tax regulations (Pohan, 2017). An example is PT Adaro Energy Tbk., which used its subsidiary in Singapore to avoid paying taxes from 2009 to 2017, saving around IDR 1.75 trillion.

Three factors potentially influence tax avoidance: profitability, leverage, and sales growth. Profitability, measured by Return on Assets (ROA), indicates how well a company generates profit from its assets. High profitability increases tax liabilities, prompting companies to engage in tax avoidance by reallocating profits towards operational expenses or liabilities (Puspitasari et al., 2021). Similarly, leverage—representing the extent to which a company is financed by debt—reduces taxable profits through interest expenses, which lowers the tax burden (Mahdiana & Amin, 2020). Sales growth, the increase in sales compared to the previous year, can also drive tax avoidance, as rising profits result in higher taxes (Sinambela & Nur'aini, 2021).

Existing studies show mixed results. Some, like Mahdiana & Amin (2020), found that profitability and leverage positively affect tax avoidance, while sales growth does not. Others, such as Pratiwi et al. (2021), argue that leverage and sales growth positively influence tax avoidance. However, Anggraeni & Kurniawan (2023) concluded that none of these variables significantly impact tax avoidance.

Motivated by these differing results, the author conducted a study titled "The Influence of Profitability, Leverage, and Sales Growth on Tax Avoidance in Non- Cyclical Consumer Sector Companies." The research aims to answer whether profitability, leverage, and sales growth individually and collectively—affect tax avoidance in companies within this sector.

LITERATURE REVIEW

A. Model Review

1. Agency Theory

Agency Theory provides a framework for understanding tax avoidance, positing that conflicts arise from differing interests between the principal (the tax authorities or government) and the agent (corporate taxpayers) (Jensen & Meckling, 1976). The tax authorities aim to maximize tax collection as a primary revenue source in Indonesia, while corporations seek to minimize tax costs to enhance profits by exploiting legal loopholes (Darsani & Sukartha, 2021; Prasetya & Muid, 2022).

This relationship can lead to asymmetrical information, where corporate entities possess more information about their operations than tax authorities (Sinambela & Nur'aini, 2021). Consequently, entities may withhold certain information from tax authorities to serve their interests, resulting in tax avoidance behavior (Haztania & Lestari, 2023). In Indonesia, taxpayers are responsible for calculating, paying, and reporting taxes independently, which may encourage tax avoidance through concealed information (Tebiono & Sukadana, 2019). While companies typically include tax calculations and their economic status in financial reports, this transparency does not ensure full disclosure, allowing for continued tax avoidance practices.

2. Compliance Theory

Tax compthe behavior of who fulfill their tax rights and obligations by reporting all assets and paying taxes according to applicable laws (Waluyo, 2020; Ivena & Handayani, 2022). Compliance Theory relates to tax avoidance, which involves exploiting tax loopholes to reduce tax liabilities (Egiana & Nurdiniah, 2022). In Indonesia, the self- assessment tax collection system allows taxpayers to independently calculate, deposit, and report their taxes as per regulations, but this system is sometimes misused to evade tax responsibilities. Such tax avoidance actions deviate from Compliance Theory, as taxpayers should ideally adhere to their obligations.

Tax avoidance is a legal strategy used by entities to minimize tax liabilities by exploiting weaknesses in tax regulations (Sinambela & Nur'aini, 2021). This strategy involves taking advantage of allowable exemptions, deductions, and unspecified aspects in tax laws (Suandy,2016). Companies aim to lower their taxes to maximize profits (Haztania & Lestari, 2023). This study measures tax avoidance using the Cash Effective Tax Rate (CETR), which indicates the aggressiveness of tax avoidance actions. A high CETR value suggests that a company is paying taxes close to the applicable corporate income tax rates, indicating low tax avoidance. Conversely, a low CETR value signifies higher tax avoidance behavior.

The formula for CETR is as follows:

$$CETR = \frac{Tax\ Payment}{Pre\text{-}Tax\ Profit}$$

3. Profitability

The ability of a company to generate profit within a certain period is referred to as profitability. A company is said to perform well if it can produce profits for itself (Ernawati et al., 2019). According to Sibarani & Hartanti (2022), profitability is a comparison used to measure how far a company can obtain profit from its business activities.

The benchmark for profitability in this study is the Return On Asset (ROA) ratio. ROA can serve as

an indicator for companies to depict their financial performance (Mahdiana & Amin, 2020). A company with a high ROA value is considered to manage its assets effectively and efficiently (Sinambela & Nur'aini, 2021). A high level of profitability indicates that the profits generated by the company are substantial, thus resulting in higher tax liabilities. Tax avoidance efforts tend to be applied by highly profitable companies (Puspitasari et al., 2021). The formula for ROA is as follows:

$$ROA = \frac{\textit{Net Profit After Tax}}{\textit{Total Assets}}$$

4. Leverage

Leverage is a ratio that measures how much of a company's assets are financed by debt (Kasmir, 2014). A high leverage value indicates a significant reliance on debt for asset financing (Bagaskara et al., 2021). Companies have multiple funding options, including debt, which can lead to increased interest expenses. Firms that finance their operations through debt typically report lower taxable income compared to those that raise capital by issuing shares, making this a form of tax avoidance (Amri, 2015). Leverage is measured using the Debt to Asset Ratio (DAR). The DAR is a comparison between the total debt of a company and its total assets. The formula used is as follows:

$$DAR = \frac{\textit{Total Debt}}{\textit{Total Assets}}$$

5. Sales Growth

Sales growth is the ratio of the difference between current year sales and previous year sales divided by the total sales of the previous year (Sinambela & Nur'aini, 2021). The performance of a company can be illustrated using this sales growth. Sales that experience growth typically generate high profits, leading to an increase in corporate taxes. Such circumstances can trigger tax avoidance actions (Renata & Ahalik, 2022).

The measurement of sales growth is carried out using the following formula:

$$\textit{Sales Growth} = \frac{\textit{Current Sales} - \textit{Previous Sales}}{\textit{Previous Sales}}$$

6. Conceptual Framework

Based on the literature review presented, a conceptual framework for the research has been developed, outlining the influence of the profitability variable (X1), the leverage variable (X2), and the sales growth variable (X3) on the tax avoidance variable (Y):

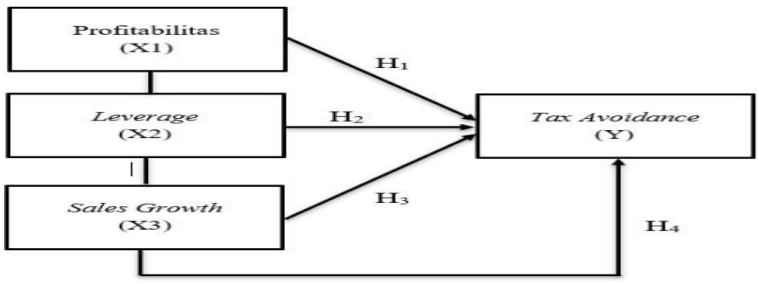


Fig. 1. Conceptual Framework

Profitability is a variable that reflects a company's performance by examining the profit generated. A benchmark that can illustrate the state of profitability is the Return on Assets (ROA), calculated as net income after tax divided by total assets (Maryam et al., 2023).

As indicated by the research conducted by Egiana & Nurdiniah (2022) and Tebiono & Sukadana (2019), tax avoidance can be influenced by the profitability variable. A higher ROA will have a positive effect on the company's profit, which will also increase correspondingly. The higher the company's profit, the greater the tax liability will be. Companies naturally aim to achieve maximum profit while minimising costs, so those with high profits are likely to reduce their tax expenses or engage in tax avoidance (Puspitasari et al., 2021). Based on the theoretical framework and the findings of previous research, the author formulates the following hypothesis:

H1: Profitability has an effect on tax avoidance.

Leverage is the ratio of a company's debt to its equity or assets, using the Debt to Asset Ratio (DAR) as a benchmark. The taxable income generated by companies that use debt as a funding source will be lower than that of companies whose funding comes from issuing shares (Amri, 2015).

The research conducted by Mahdiana & Amin (2020) indicates that tax avoidance is significantly influenced by leverage in a positive direction. An increase in leverage will affect an increase in the company's tax avoidance. Furthermore, research by Harahap (2021) presents findings that leverage has a negative and insignificant effect on tax avoidance. Based on the presentation of theory and previous studies, the hypothesis is:

H2: Leverage affects tax avoidance.

Sales growth indicates an increase or decrease in sales compared to the previous year. A significant increase in sales will also lead to a substantial profit for the company. Companies with high sales growth are likely to implement tax avoidance strategies to minimise their tax burden in order to maximise their profits (Prawati & Hutagalung, 2020).

Research conducted by Maryam et al. (2023) shows that tax avoidance can be significantly influenced by sales growth. Additionally, the study by Satria & Lunardi (2023) also states that, in a partial context, tax avoidance can be influenced by sales growth. Based on the presentation of theory and several previous studies, the hypothesis is:

H3: Sales growth affects tax avoidance.

In this study, profitability, leverage, and sales growth are the independent variables examined for their collective influence on tax avoidance, the dependent variable. Research by Ariska et al. (2020) found that leverage, company size, and profitability can simultaneously affect tax avoidance. Similarly, Maryam et al. (2023) identified corporate governance, profitability, and sales growth as factors that can influence tax avoidance together. Additionally, Ivena & Handayani (2022) argued that inventory intensity, leverage, and profitability also have a simultaneous impact on tax avoidance. Based on several previous research findings, the author concludes as follows:

H4: Profitability, leverage, and sales growth simultaneously affect tax avoidance.

METHODOLOGY

Population and Sample

The research focused on companies in the non-cyclical consumer sector listed on the Indonesia Stock Exchange (IDX) from 2020 to 2022. Non-cyclical consumer companies provide essential goods to the community. The author utilized purposive sampling, a non-probability sampling method, with specific criteria: companies must be listed on the IDX consecutively from 2020 to 2022, generate profits each

year during that period, report financial statements in Indonesian rupiah, and make tax payments. This approach identified 34 suitable companies, yielding a total of 102 samples across the three years.

Analytical Method

The preparation of this study processes secondary data obtained from the Indonesia Stock Exchange (IDX) in the form of financial reports for companies in the consumer non- cyclicals sector for the 2020-2022 period. The author processes the data using IBM SPSS 27 software.

The research results are tested using a quantitative method. The author conducts hypothesis testing to determine whether the independent variables have an effect on the dependent variable. Multiple regression analysis is employed to assess the strength of the relationship between several independent variables and a dependent variable (Ghozali, 2018).

The testing can then apply the multiple linear regression model as follows:

$Y = a + b1.\ X1 + b2.\ X2 + b3.\ X3 + e$

Description:

Y = Tax Avoidance (CETR) a = Constant

b1 – b3 = Regression coefficients of each independent variable

X1 = Profitability (ROA) X2 = Leverage (DAR)

X3 = Sales Growth (Sales Growth) e = Error term

RESULTS

A. Descriptive Statistical Analysis

This study employs two types of variables, namely dependent and independent variables. Tax avoidance, assessed using the CETR (Cash Effective Tax Rate), will serve as the dependent variable. Profitability, leverage, and sales growth, represented through ROA (Return On Asset), DAR (Debt to Asset Ratio), and the difference between the current year's sales and the previous year's sales, will be the independent variables. From the tests conducted, the author obtained the following descriptive analysis results.

TABLE 1
DESCRIPTIVE ANALYSIS RESULTS

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	102	.78	34.89	9.3710	6.55276
DAR	102	.10	.89	.4235	.18529
SALES GROWTH	102	-.21	.90	.1294	.16578
CETR	102	.01	.51	.2144	.08855
Valid N (listwise)	102				

From the data, the minimum value for the ROA variable is 0.78, the maximum value is 34.89, the mean value is 9.3710, and the standard deviation is 6.55276. The minimum value for the DAR variable is 0.10, the maximum value is 0.89, the mean value is 0.4235, and the standard deviation is 0.18529. The minimum value for the sales growth variable is -0.21, the maximum value is 0.90, the mean value is 0.1294, and the standard deviation is 0.16578. Furthermore, the tax avoidance variable, measured by CETR, has a minimum value of 0.01, a maximum value of 0.51, a mean value of 0.2144, and a standard deviation of 0.08855.

B. Classical Assumption Test

The classical assumption test is conducted to assess whether the regression model of a study is

appropriate. The classical assumption tests used in this research are normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test.

C. Normality Test

The normality test is conducted to check the distribution of the test data to determine whether it is normal or not. Good data is data with a normal distribution, with an asymptotic

significance (2-tailed) value > 0.05. The author employs the Kolmogorov-Smirnov test (K-S test) to perform the normality test. The following are the results of the normality test. Based on the normality test table, the resulting Asymp. Sig. (2-tailed) value is 0.200, which is > 0.05. Therefore, the conclusion is that the data in this study passes the normality test, as it is normally distributed.

TABLE 2
NORMALITY TEST

One-Sample Kolmogorov-Smirnov Test

			Unstandardized Residual
			102
Normal Parameters[a,b]	Mean		.0000000
	Std. Deviation		.08281355
Most Extreme Differences	Absolute		.044
	Positive		.044
	Negative		-.031
Test Statistic			.044
Asymp. Sig. (2-tailed)[c]			.200[d]
Monte Carlo Sig. (2-tailed)[e]	Sig.		.899
	99% Confidence Interval	Lower Bound	.892
		Upper Bound	.907

D. Multicollinearity test

The correlation between independent variables can be determined by conducting a multicollinearity test. Data that is free from multicollinearity is indicated by tolerance values close to 1 and VIF values < 10. The results of the multicollinearity test are as follows.

TABEL 3
MULTICOLLINEARITY TEST

Model	T	Sig.	Collinearity Statistics	
			Tolerance	VIF
1 (Constant)	11.036	.000		
ROA	-2.022	.046	.987	1.013
DAR	-1.508	.135	.986	1.014
SALES GROWTH	-2.875	.005	.998	1.002

Based on the data above, the tolerance value for ROA is 0.987, for DAR it is 0.986, and for SALES GROWTH it is 0.998. These values are close to 1. Additionally, the VIF value for ROA is 1.013, for DAR it is 1.014, and for SALES GROWTH it is 1.002. The VIF values for each variable are below 10. From the results of the multicollinearity test conducted, we can conclude that the processed data is free from

multicollinearity, as it has tolerance values close to 1 and VIF values less than 10.

E. Autocorrelation Test

The autocorrelation test is conducted to determine the correlation of a variable with changes over time. The autocorrelation test is implemented using the Durbin-Watson Test (DW Test). A DW value that falls within the range of dU and 4-dU indicates that the null hypothesis (H0) is accepted, meaning there is no issue of autocorrelation.

TABLE 4
AUTOCORRELATION TEST

Model	R	R Square	Adjusted R Square	Durbin-Watson
1	.354[a]	.125	.099	1.771

n	k=3	
	dL	dU
100	1.6131	1.7364
101	1.6153	1.7374
102	1.6174	1.7383

Fig. 2. Durbin-Watson Table Description:

k = 3
n = 102
dU = 1.7383
4 – dU = 4 – 1.7383 = 2.2617

Based on the autocorrelation test table, the value of Durbin-Watson is 1.771. Data is considered to pass the autocorrelation test if dU < DW < 4 - dU. If we insert the values from the data, the result is as follows: 1.7383 < 1.771
< 2.2617. The DW value lies between dU and 4 - dU. Therefore, the conclusion is that this study passes the autocorrelation test.

F. Heteroskedasticity Test

The heteroskedasticity test assesses the inconsistent variation in residuals across observations. The author employs two methods for this test: a scatterplot and the Park test. A scatterplot is considered valid if the points are randomly scattered without a discernible pattern and are distributed both above and below the y-axis value of 0. The Park test is deemed valid if the significance value exceeds 0.05. Below are the results of the scatterplot test and the Park test.

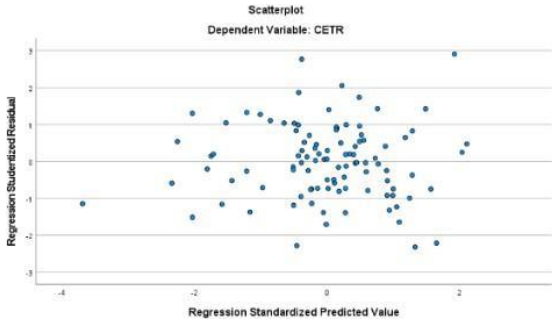


Fig. 3. Scatterplot Test

Based on the scatterplot test in Figure 3, it was found that the author's data is free from heteroscedasticity, as the distribution of points is irregular without forming a pattern and is located above and below the zero on the y-axis.

TABLE 5
HETEROSCEDASTICITY TEST

Model		T	Sig.
1	(Constant)	-9.511	.000
	ROA	-1.526	.130
	DAR	.691	.492
	SALES GROWTH	.473	.637

Based on Table 5, ROA has a significance value of 0.130, DAR 0.492, and SALES GROWTH 0.637. This indicates that each variable has a significance value > 0.05, thus the processed data is free from indications of heteroscedasticity.

2. Hypothesis Testing

According to Sugiyono (2019), a hypothesis is an estimate or conjecture about the answer to a research problem that will be tested for validity. In statistical terms, it refers to a statement about a population's condition, evaluated based on sample data. Hypotheses are generally presented in pairs: the null hypothesis (H0) and the alternative hypothesis (Ha). If H0 is rejected, Ha is accepted, and vice versa. The null hypothesis signifies a similarity between the parameter andsample statistics, while the alternative hypothesis indicates a difference between them. The following are the tests conducted by the researcher to obtain the hypothesis results.

1. Multiple Linear Regression Analysis

The use of multiple linear regression analysis is conducted to assess the strength of the relationship between independent variables and the dependent variable. The results of the multiple linear regression analysis obtained by the author are as follows.

TABLE 6
MULTIPLE LINEAR REGRESSION ANALYSIS

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	.287	.026		11.036	.000
	ROA	-.003	.001	-.192	-2.022	.046
	DAR	-.069	.045	-.143	-1.508	.135
	SALES GROWTH	-.145	.051	-.272	-2.875	.005

Based on the results from Table 6 of the multiple linear regression analysis, the following analytical calculations were obtained.

$$Tax\ Avoidance = 0{,}287 - 0{,}003ROA - 0{,}069DAR - 0{,}145SALESGROWTH + E$$

The dependent variable, or tax avoidance (Y), has a positive constant value of 0.287. If all independent variables, namely ROA (X1), DAR (X2), and SALES GROWTH (X3),
are valued at 0, the CETR (Y) will equal to 0.287.

The coefficient for the ROA (X1) variable is negative at
-0.003. This value indicates that for every increase in ROA (X1), there will be a decrease in the CETR (Y) value of 0.003, assuming the other independent variables remain constant.

The coefficient for the DAR (X2) variable is negative at
-0.069. This value signifies that each increase in DAR (X2) will result in a decrease in the CETR (Y) value of 0.069, with other independent variables held constan

The coefficient for the SALES GROWTH (X3) variable is negative at -0.145. This value indicates that each increase in SALES GROWTH (X3) will lead to a decrease in the CETR (Y) value of 0.145, with the other independent variables assumed to remain constant.

1. Coefficient of Determination Test

The coefficient of determination test is used to measure the extent of the influence of independent variables on the dependent variable. An R^2 or adjusted R square value that is closer to 1 indicates that the independent variables have a strong influence on the dependent variable. The results of the test are as follows.

Table 7: Coefficient of Determination Test

Model	R	R Square	Adjusted R Square
1	.354[a]	.125	.099

Based on Table 7, the adjusted R square value is 0.099 or 9.9%. The independent variables ROA, DAR, and SALES GROWTH influence the dependent variable tax avoidance by 9.9%, while the remaining 90.1% of tax avoidance is influenced by other factors. The small adjusted R square value indicates that ROA, DAR, and SALES GROWTH are not the dominant variables affecting the dependent variable (Tax Avoidance). Although the adjusted R square value is low, the regression model remains valid for use because the results of the classical assumption testing indicate that this study's regression model is consistent and unbiased.

2. F-statistic Test

The F-statistic test is conducted to determine whether the independent variables collectively influence the dependent variable. The F-statistic is indicated through the significance value of F. A significance value of ≤ 0.05 indicates that Ha is accepted, meaning all independent variables significantly affect the dependent variable simultaneously. Conversely, a significance value of ≥ 0.05 indicates that Ha is rejected, meaning that all independent variables do not significantly influence the dependent variable simultaneously. The results of the F-test are as follows.

TABLE 8:
F-STATISTIC TEST

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.099	3	.033	4.683	.004[b]
	Residual	.693	98	.007		
	Total	.792	101			

The degrees of freedom for the denominator (N2)	The degrees of freedom for the numerator (N1)		
	1	2	3
96	3.94	3.09	2.70
97	3.94	3.09	2.70
98	3.94	3.09	2.70

Fig. 4. F-Table Value Description:

df = degrees of freedom n = number of samples
k = number of independent variables df1 = k = 3
df2 = n – k – 1 = 102 – 3 – 1 = 98
F-table = 2.70

Based on Table 8, the significance value is 0.004, which means it is ≤ 0.05. Furthermore, the calculated F value is 4.683, which is greater than the F table value of 2.70. Based on the criteria for testing the F test, it can be concluded that Ha is accepted. All independent variables (ROA, DAR, SALES GROWTH) have a simultaneous effect on the dependent variable (tax avoidance).

3. T-Statistic Test

The T-statistic test is conducted to assess whether the dependent variable can be influenced by the independent variables on a partial basis. A significance value of < 0.05 indicates that H0 is rejected and Ha is accepted, meaning that the independent variables can influence the dependent variable partially. Conversely, a significance value of > 0.05 indicates that H0 is accepted and Ha is rejected, meaning the independent variables do not influence the dependent variable partially. The results of the T test are as follows.

TABLE 9
T-TEST

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	.287	.026		11.036	.000
	ROA	-.003	.001	-.192	-2.022	.046
	DAR	-.069	.045	-.143	-1.508	.135
	SALES GROWTH	-.145	.051	-.272	-2.875	.005

Pr / df	0.025 / 0.050
96	1.98498
97	1.98472
98	1.98447

Fig. 5. T-Table Values Description:

df = degrees of freedom n = sample size
k = number of independent variables df = n – k – 1 = 102 – 3 – 1 = 98
T table = 1.98447 (positive t calculated value) T table = -1.98447 (negative t calculated value)

Based on the results above, ROA has a significance value of 0.046, which means it is < 0.05. Additionally, the calculated t value is -2.022 < the t table value of -1.98447. According to the criteria for the t test, we conclude that H0 is rejected and Ha is accepted. ROA can be considered an indicator that significantly influences tax avoidance on a partial basis. The significance value for DAR is 0.135 or > 0.05. Moreover, the calculated t value is -1.508 > the t table value of -1.98447, meaning that H0 is accepted and Ha is rejected. DAR cannot be considered an indicator that significantly influences tax avoidance on a partial basis. SALES GROWTH has a significance value of 0.005 or < 0.05. Furthermore, the calculated t value is -2.875 < the t table value of -1.98447, which means H0 is rejected and Ha is accepted. SALES GROWTH can be considered an indicator that significantly influences tax avoidance on a partial basis.

CONCLUSION

The research was conducted to examine whether profitability, leverage, and sales growth indicators influence tax avoidance practices. Below are the results and analysis provided by the author:

a) Profitability affects tax avoidance
   This conclusion is drawn from the t-test significance value of 0.046, which is below the threshold of 0.05, indicating that profitability has an effect on tax avoidance. The result suggests that as a company's profitability increases, its tax burden also rises. With a heavier tax burden, the company is more likely to engage in tax avoidance practices.
b) Leverage does not affect tax avoidance
   This conclusion is based on the t-test significance value of 0.135. This value exceeds the 0.05 threshold, indicating that leverage does not influence tax avoidance. Whether a company's leverage is high or low does not determine its decision to engage in tax avoidance practices.
c) Sales growth affects tax avoidance
   This conclusion is based on the t-test significance value for sales growth, which is 0.005. This value is below the threshold of 0.05, indicating that sales growth influences tax avoidance. High sales growth increases a company’s tax burden, which encourages the company to engage in tax avoidance.
d) Profitability, leverage, and sales growth affect tax avoidance simultaneously
   This conclusion is based on the F-test significance value of 0.004, which is below the 0.05 threshold. This indicates that profitability, leverage, and sales growth collectively influence tax avoidance. Companies tend to engage in tax avoidance when they have high profits, as this increases their tax burden. Furthermore, companies that finance operations through debt are also inclined to avoid taxes

due to interest expenses. Additionally, companies experiencing sales growth may resort to tax avoidance as their tax burden increases along with sales growth.

ACKNOWLEDGMENT

I thank my advisor, Miss Florencia Irena Lawita S.E., M.Ak., M.M., for their invaluable guidance, encouragement, and insightful feedback throughout this research. I also appreciate the support provided by the Faculty of Accounting at Kalbis University, which enabled the completion of this study. Special thanks go to the Indonesia Stock Exchange (IDX) for supplying the data used in this research, as well as to Miss Florencia Irena Lawita S.E., M.Ak., M.M., for their helpful comments and suggestions. I am grateful to my friends and colleagues for their support and companionship during this journey. Finally, I express my heartfelt gratitude to my family for their unconditional love, patience, and encouragement, without which this achievement would not have been possible.

REFERENCES

Amri, S. (2015). Implementasi Pembelajaran Aktif Dalam Kurikulum 2013. Jakarta: Prestasi Pustakaraya.

Anggraeni, E. N., & Kurniawan, B. (2023). Pengaruh Profitabilitas, Leverage, Pertumbuhan Penjualan, dan Ukuran Perusahaan Terhadap Penghindaran Pajak pada Perusahaan Property dan Real Estate yang Terdaftar di BEI Tahun 2017-2020. Jurnal Mahasiswa Institut Teknologi dan Bisnis Kalbis, 9(2), 300-311.

Aprianto, M., & Dwimulyani, S. (2019). Pengaruh Sales Growth Dan Leverage Terhadap Tax Avoidance Dengan Kepemilikan Institusional Sebagai Variabel Moderasi. Prosiding Seminar Nasional Pakar, 2.14.1-2.14.10.

Arianandini, P. W., & Ramantha, I. W. (2018). Pengaruh Profitabilitas, Leverage, dan Kepemilikan Institusional pada Tax Avoidance. E-Jurnal Akuntansi Universitas Udayana, 22(3), 2088-2116.

Ariska, M., Fahru, M., & Kusuma, J. W. (2020). Leverage, Ukuran Perusahaan dan Profitabilitas dan Pengaruhnya Terhadap Tax Avoidance Pada Perusahaan Sektor Pertambangan di Bursa Efek Indonesia Tahun 2014-2019. Jurnal Revenue, 133-142.

Ashari, M. A., Simorangkir, P., & Nasripah. (2020). Pengaruh Pertumbuhan Penjualan, Kepemilikan Institusional Dan Kepemilikan Majaerial Terhadap Penghindaran Pajak (Tax Avoidance). Jurnal Syntax Transformation, 488-498.

Bagaskara, R. S., Titisari, K. H., & Dewi, R. R. (2021). Pengaruh Profitabilitas, Leverage, Ukuran Perusahaan dan Kepemilikan Manajerial Terhadap Nilai Perusahaan. Forum Ekonomi, 29-38. Darsani, P. A., & Sukartha, I. M. (2021). The Effect of Institutional Ownership, Profitability, Leverage and Capital Intensity Ratio on Tax Avoidance. American Journal of Humanities and Social Sciences Research (AJHSSR), 5, 13-22.

Egiana, F., & Nurdiniah, D. (2022). Pengaruh Profitabilitas dan Financial Distress Terhadap Tax Avoidance dengan Corporate Governance Sebagai Variabel Pemoderasi. Jurnal Mahasiswa Institut Teknologi dan Bisnis Kalbis, 8(4), 3879-3895.

Ernawati, S., Chandrarin, G., & Respati, H. (2019). Analysis of the Effect of Profitability, Company Size and Leverage on Tax Avoidance (Study on Go Public Companies in Indonesia). International Journal of Advances in Scientific Research and Engineering (IJASRE), 74-80.

Ghozali, I. (2018). Aplikasi Analisis Multivarse dengan Program IBM SPSS 25. Semarang: Badan Penerbit Universitas Diponegoro.

Harahap, R. (2021). Analysis of the Effect of Institutional Ownership Profitability, Sales Growth and Leverage on Tax Avoidance in Construction Subsector Companies. Budapest International Research and Critics Institute Journal, 5010-5018.

Haztania, S., & Lestari, T. U. (2023). Pengaruh Transfer Pricing, Karakter Eksekutif, Dan Koneksi

Politik Terhadap Tax Avoidance. Cakrawala–Repositori IMWI, 289-304.
Ivena, F., & Handayani, S. (2022). Pengaruh Inventory Intensity, Leverage, dan Profitabilitas Terhadap Tax Avoidance. Journal Advancement Center for Finance and Accounting, 01(01), 69-101.
Jensen, M. C., & Meckling, W. H. (1976). Theory of the Firm: Managerial Behavior, Agency Cost and Ownership Structure. Journal if Financial Economics 3, 305-360.
Kasmir. (2014). Analisis Laporan Keuangan, cetakan ke-7. Jakarta: PT Raja Grafindo Persada.
Mahdiana, M. Q., & Amin, M. N. (2020). Pengaruh Profitabilitas, Leverage, Ukuran Perusahaan, Dan Sales Growth Terhadap Tax Avoidance. Jurnal Akuntansi Trisakti, 7(1), 127-138.
Maryam, Zainuddin, Hamdiah, C., & Rusmina, C. (2023). Pengaruh Corporate Governance, Profitabilitas dan Sales Growth Terhadap Tax Avoidance pada Perusahaan Manufaktur (Sub Sektor Otomotif) yang Terdaftar di Bursa Efek Indonesia Periode 2010-2019. JEMSI (Jurnal Ekonomi, Manajemen, dan Akuntansi), 798-811.
Pohan, C. A. (2017). Manajemen Perpajakan: Strategi Perencanaan Pajak dan Bisnis. Jakarta: Gramedia Pustaka Utama.
Prasetya, G., & Muid, D. (2022). Pengaruh Profitabilitas Dan Leverage Terhadap Tax Avoidance. Diponegoro Journal Of Accounting, 1-6.
Pratiwi, N. P., Mahaputra, I. N., & Sudiartana, I. M. (2021). Pengaruh Financial Distress, Leverage, dan Sales Growth terhadap Tax Avoidance pada Perusahaan Manufaktur yang Terdaftar di BEI Tahun 2016-2018. Jurnal KARMA (Karya Riset Mahasiswa Akuntansi), 1(5).
Prawati, L. D., & Hutagalung, J. [. (2020). The Effect Of Capital Intensity, Executive Characteristics, And Sales Growth On Tax Avoidance. Journal of Applied Finance and Accounting, 1-8.
Puspitasari, D., Radita, F., & Firmansyah, A. (2021). Penghindaran Pajak Di Indonesia: Profitabilitas, Leverage; Capital Intensity. Jurnal Riset Akuntansi Tirtayasa, 138- 152.
Realisasi Pendapatan Negara (Milyar Rupiah), 2022-2024. (2024, Januari 24). Retrieved from bps: https://www.bps.go.id/id/statistics- table/2/MTA3MCMy/realisasi-pendapatan-negara-- milyar-rupiah-.html
Renata, M., & Ahalik. (2022). Pengaruh Sales Growht, Kepemilikan Institusional dan Kepemilikan Asing Terhadap Tax Avoidance. Jurnal Mahasiswa Institut Teknologi dan Bisnis Kalbis, 8(4), 3896-3906.
Satria, F., & Lunardi, A. (2023). The Effect Of Sales Growth, Profitability And Firm Age Toward Tax Avoidance On Consumer Goods Companies Listed On The Indonesia Stock Exchange. International Journal Of Sociology, Policy And Law (IJOSPL), 41-49.
Sibarani, O. J., & Hartanti, E. (2022). Pengaruh Leverage, Profitabilitas, dan Ukuran Perusahaan terhadap Tax Avoidance. Jurnal Mahasiswa Institut Teknologi dan Bisnis Kalbis, 3907-3918.
Sinambela, T., & Nur'aini, L. (2021). Pengaruh Umur Perusahaan, Profitabilitas dan Pertumbuhan Penjualan Terhadap Tax Avoidance. Jurnal Inovasi Bisnis dan Manajemen Indonesia, 05(01), 25-34.
Suandy, E. (2016). Perencaan Pajak Edisi 6. Jakarta: Salemba Empat.
Sugianto, D. (2019, Juli 5). Mengenal soal Penghindaran Pajak yang Dituduhkan ke Adaro. Retrieved from finance.detik: https://finance.detik.com/berita-ekonomi-bisnis/d- 4612708/mengenal-soal penghindaran-pajak-yang- dituduhkan-ke-adaro
Sugiyono. (2019). Metode Penelitian Kuantitatif dan Kualitatif dan R&D. Bandung: Alfabeta.
Tebiono, J. N., & Sukadana, I. B. (2019). Faktor-Faktor Yang Mempengaruhi Tax Avoidance Pada Perusahaan Manufaktur Yang Terdaftar Di BEI. Jurnal Bisnis dan Akuntansi, 121-130.
Waluyo, T. (2020). Pemeriksaan Terhadap Wajib Pajak Yang Tidak Menyampaikan Spt. Ketentuan Dan Pemilihannya Sesuai SE- 15/PJ/2018. Simposium Nasional Keuangan Negara 2020, 2(1), 677-698.

IConEnt
The 4th International Conference on Entrepreneurship

THE EFFECT OF TAX PLANNING, DEFERRED TAX BURDEN, AND PROFITABILITY ON EARNINGS MANAGEMENT IN INDUSTRIAL COMPANIES

Michaela Igari Talita[1)], Muhammad Malik Muhammad[2)], Brigitta Dominic Tander[3)]

Faculty of Business and Communication Accounting Kalbis University
South Pulomas Rd. Kav. 22, Jakarta 13210
1) Email: talitaigari4@gmail.com
2) Email: maulana.muhammad@kalbis.ac.id
3) Email: 2022105372@student.kalbis.ac.id

ABSTRACT

Earnings management is a company's practice of manipulating financial indicators or accounting data for specific purposes. The aim of this study is to determine the effect of tax planning, deferred tax burden, and profitability on earnings management. This study uses a purposive sampling method and Statistical Package for the Social Sciences Version 27 (SPSS) software for data processing. The sample used in this study were industrial companies listed on the Indonesia Stock Exchange for the period 2019–2022. The results of this study indicate that tax planning affects earnings management, while deferred tax charges and profitability do not.

Keywords - **Tax planning, deferred tax expenses, profitability, earnings management.**

INTRODUCTION

Accounting serves many functions, one of which is to measure company management's performance. Financial statements are a benchmark provided by the company's managers regarding the company's profits or income. These statements form the basis for decision-making for internal and external stakeholders. Financial statements are also a communication tool that helps external parties make decisions related to funding and investment activities, which are expected to bring profits to the company.

Profit is the foundation of financial statements, as high profits indicate good overall company performance. Profit is critical information for investors, creditors, and company owners and serves as a measure for investment and credit decisions. In this new era, companies must compete in global markets by constantly demonstrating their strengths (Setyawan, Wulandari, & Widyaningrum, 2021). The intensity of competition in international markets forces organizations to engage in earnings management, a practice of manipulating financial statements to improve operational results (Herdawati, 2015).

This behavior occurs due to differing interests between company owners (principals) and the managers (agents) hired to run operations, leading to what is known as agency conflict. Managers often have more knowledge about the company's internal operations and future prospects than shareholders, and this can result in self-interested decisions that increase operational costs or mismanage risk.

Earnings management can make financial statements less reliable. This issue isn't restricted to corporate directors but also involves owners, insiders, commissioners, managers (including government and professional bodies), and even volunteers. The problem is not confined to developing nations but also occurs in developed countries. Some companies have engaged in poor earnings management, such as Caterpillar Inc. and AeroGrow International, Inc.

Managers often manipulate profit figures to influence various decisions, including reducing

tax liabilities. Tax planning, a legal means of minimizing taxes, often leads to smaller tax payments but can also reduce company profits (Achyani & Lestari, 2019). Even though tax planning is legal, it's still seen as detrimental to government revenues. However, this practice is not fraudulent, so the company can report higher revenues.

Profitability is an indicator of business performance, measured by the company's profits. Low profitability often drives companies to engage in earnings management to attract investors (Lestari & Wulandari, 2019). In practice, investors tend to focus on profit information in financial statements, as it helps predict industry prospects and financial performance (Sari & Muhammad, 2022).

A prominent example of earnings management occurred in 2019 with PT Garuda Indonesia TBK. In 2017, PT Garuda Indonesia reported a loss of $216.58 million, but in its 2018 financial report, the company showed a drastic profit increase of $809,000. The commissioners of PT Garuda Indonesia refused to approve and sign the 2018 financial report due to concerns over a partnership deal with PT Mahata Aero Teknologi, where revenue was recognized despite no payment having been made. This resulted in artificially high profits and taxes, ultimately causing a 4.4% drop in the company's stock value.

Based on the issues mentioned above, the purpose of this research is to examine the positive or negative effects of tax planning, deferred tax burden, and profitability on earnings management. The study focuses on the manufacturing sector, where companies may manipulate financial statements to present better performance than actual. Practices such as revenue recognition or shifting operational costs to future periods can distort financial reports.

Research Questions:

1. Does tax planning affect earnings management in manufacturing companies listed in Indonesia?
2. Does profitability affect earnings management in these companies?
3. Does the deferred tax burden affect earnings management?

Research Objectives:

1. To understand the impact of tax planning on earnings management.
2. To assess the impact of profitability on earnings management.
3. To identify the effect of the deferred tax burden on earnings management

METHODOLOGY

A. Research Design and Approach

The study employs a quantitative approach to examine the influence of tax planning, deferred tax burden, and profitability on earnings management within industrial companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022. A purposive sampling method was used to select companies that met specific criteria, ensuring data relevance and quality.

B. Population and Sample

- Population: The population includes all industrial companies listed on the Indonesia Stock Exchange (IDX) during the period 2019-2022.

- Sample:

- The purposive sampling method was employed to narrow the population to companies that met the study's criteria.
- The final sample consists of 14 companies with a total of 56 data points (observations), each

representing a company's financial information across the specified period.

Sample Selection Criteria:

- Companies listed on the IDX under the industrial sector from 2019-2022.
- Companies with complete financial reports in Indonesian Rupiah.
- Exclusion of companies with foreign currency financial reporting and those with losses, as these could bias the analysis of earnings management.

o TABLE:

SAMPLE SELECTION

No.	Criteria	Number of Companies	Total Sample
1	Industrial companies listed (2019-2022)	66	264
2	Incomplete financial reports	-21	-84
3	Foreign currency reporting	-4	-16
4	Companies with losses	-27	-108
	Final Sample	14	56

C. Variable Measurement

1. Dependent Variable (Y): Earnings Management

Earnings management is measured using Discretionary Accruals (DA) as per the Modified Jones Model. Discretionary Accruals (DA) are used as a proxy for earnings manipulation efforts, calculated by adjusting total accruals for normal accruals, focusing on managerial discretion in financial reporting.

2. Independent Variables

- Tax Planning (X1):

❖ Tax planning is quantified by the Effective Tax Rate (ETR). A lower ETR indicates higher tax planning.

$$\text{ETR} = \frac{\text{Tax Expense}}{\text{Profit Before Tax}}$$

❖ A negative or extremely low ETR suggests aggressive tax planning efforts, while a higher ETR implies limited tax manipulation.

- Deferred Tax Burden (X2):

- Deferred tax burden is measured by the Deferred Tax Expense Ratio (BPT). It reflects the proportion of deferred tax relative to total assets, used as a proxy for long-term tax planning.
- Profitability (X3):

$$\text{BPT} = \frac{\text{Deferred Tax Expense}}{\text{Total Assets (t-1)}}$$

- Profitability is represented by the Return on Assets (ROA), a common indicator of financial performance and efficiency.

$$\text{ROA} = \frac{\text{Net Income After Tax}}{\text{Total Assets}} \times 100\%$$

D. Hypotheses

The study is structured around the following hypotheses, aligned with the conceptual

framework based on Agency Theory:

H1: Tax planning (ETR) positively impacts earnings management. H2: Profitability (ROA) positively impacts earnings management.
H3: Deferred tax burden (BPT) negatively impacts earnings management.

E. Data Analysis Techniques

1) Descriptive Statistics:
   - Descriptive statistics provide summaries of the sample data, including minimum, maximum, mean, and standard deviation values for each variable (ROA, ETR, and BPT).
2) Classical Assumption Tests:
   - These tests ensure the data meet regression analysis requirements:
     - Normality Test: The Kolmogorov-Smirnov test is used to verify if data distributions are normal (acceptable when Sig. > 0.05).
     - Heteroskedasticity Test: Both Park Test and Scatterplot methods are employed to check for unequal variances across residuals, indicating no heteroskedasticity if there's no discernible pattern and Sig. > 0.05.
     - Multicollinearity Test: Variance Inflation Factor (VIF) and Tolerance values assess multicollinearity among independent variables, with VIF < 10 and Tolerance close to 1 indicating no multicollinearity issues.
     - Autocorrelation Test: Durbin-Watson Test (DW) checks for autocorrelation, with DW values between 1.5 and 2.5 suggesting no autocorrelation in residuals.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

where Y is earnings management, X_1 is ETR, X_2 is ROA, X_3 is BPT, α is the constant, and ϵ represents the error term.

3) Multiple Linear Regression Analysis:
   - This technique assesses the relationship between independent variables (ETR, ROA, BPT) and the dependent variable (earnings management).
   - The model formula used is :

4) Hypothesis Testing:
   - Coefficient of Determination (R^2): Measures the proportion of variance in earnings management explained by the independent variables.
   - F-Test: Determines if all independent variables together significantly affect earnings management (Sig. < 0.05 indicates a significant relationship).
   - T-Test: Evaluates each independent variable's impact on earnings management individually (Sig. < 0.05 suggests a significant effect for that variable).

RESULTS

A. Descriptive Statistics

Variable	Minimum	Maximum	Mean	Std. Deviation
Profitability (ROA)	0.0269	0.22551	0.0705687	0.04877138
Tax Planning (ETR)	-2.16084	0.81082	0.2317664	0.34263153

Deferred Tax Expense (BPT)	0.003	0.226	0.07057	0.048771

B. Classical Assumption Tests

- Normality Test:

  Kolmogorov-Smirnov: Asymp. Sig. (2-tailed) = 0.008, indicating non-normal distribution (Ajija et al., 2011).
- Heteroskedasticity Test:

  Park and Scatterplot: No heteroskedasticity detected, as significance values are all above 0.05.
- Multicollinearity Test:

  Tolerance and VIF: Tolerance values > 0.1 and VIF < 10 indicate no multicollinearity issues.
- Autocorrelation Test:

  Durbin-Watson Test: DW value of 2.135 indicates no autocorrelation.

C. Regression Analysis

The multiple regression model yields the following results:

1) Constant: -0.018, the baseline for earnings management.
2) Profitability (ROA): Coefficient of -0.119, indicating no significant influence.
3) Tax Planning (ETR): Coefficient of 0.098, showing a significant positive influence on earnings management.
4) Deferred Tax Expense (BPT): Coefficient of 0.004, showing minimal impact.

D. Equations

- R-Squared (R^2):

  Adjusted $R^2 = 0.022$, indicating 2.2% of earnings management variation is explained by the model.
- F-Test:

  Significance = 0.250 (> 0.05), suggesting that the independent variables do not explain the model when tested together.
- T-Test:
  - Profitability (ROA): Sig. 0.725, indicating no significant effect.
  - Tax Planning (ETR): Sig. 0.046, indicating a significant positive impact on earnings management.
  - Deferred Tax Expense (BPT): Sig. 0.971, showing no significant effect.

CONCLUSION

The study analyzes the relationship between tax planning, deferred tax burden, and profitability on earnings management in manufacturing companies listed on the Indonesia Stock Exchange from 2019 to 2022. The results indicate that:

- Tax Planning positively impacts earnings management, suggesting that companies with effective tax planning engage in earnings manipulation.

- Profitability and Deferred Tax Expense do not significantly affect earnings management, indicating these are not primary tools for earnings manipulation

REFERENCES

Achyani, F., & Lestari, S. (2019). The Influence of Tax Planning on Earnings Management.

Ajija, S. R., Sari, D. W., Setianto, R. H., & Primanti, M. R. (2011). Smart Ways to Master Eviews.

Astuti, T. P., & Aryani, Y. A. (2016). Trends in Tax Avoidance of Manufacturing Companies Listed on the IDX from 2001-2004. Journal of Accounting, 20, 375-388.

Bramasta, R. Y., & Budiasih, Y. (2021). The Effect of Profitability, Book-Tax Differences, and Tax Planning on Earnings Management in the Automotive Sub-Sector Manufacturing Companies and Components Listed on the Indonesia Stock Exchange. International Journal of Economy, Education, and Entrepreneurship, 1, 28-29.

Gunawan, K., Darmawan, N. A., & Purnawati, G. A. (2015). The Influence of Company Size, Profitability, and Leverage on Earnings Management in Manufacturing Companies Listed on the Indonesia Stock Exchange. Journal of Accounting, 03.

Harnanto. (2013). Tax Planning. Yogyakarta: BPFE.

Herdawati. (2015). Analysis of the Influence of Tax Planning and Deferred Tax Burden on Earnings Management (Case Study on Companies Listed on the Indonesia Stock Exchange). Journal of Economics and Business.

Indonesian Accounting and Finance Research, 4, 77-88.

Jakarta: Salemba Empat.

Jesika, C. C. (2022). The Influence of Tax Planning and Profitability on Earnings Management.

Journal of Accounting and Auditing, 152.

Lestari, K. C., & Wulandari, O. (2019). The Influence of Profitability on Earnings Management (Case Study on Banks Listed on the IDX from 2016-2018). Journal of Accounting Academy, 2, 20-35.

Negara, A. G., & Saputra, I. D. (2017). The Influence of Tax Planning and Deferred Tax Burden on Earnings Management. Udayana University Journal of Accounting, 20, 2045-2072.

Pratiwi, H. R. (2019, April 30). Chronology of the Financial Report Controversy of Garuda Indonesia. Retrieved from CNN Indonesia: https://www.cnnindonesia.com/ekonomi/20190430174733-92-390927/kronologi-kisruh-laporan-keuangan-garuda-indonesia

Rahmi, A., Hasan, A., & Andreas. (2019). The Influence of Deferred Tax Burden, Current Tax Burden, and Tax Planning in Detecting Earnings Management. Journal of Economics, 27, 100.

Santi, & Kurniawan. (2019). The Influence of Earnings Information on Market Reaction with Real Earnings Management and Accrual Earnings Management as Moderating Variables (Empirical Study on Manufacturing Companies on the Indonesia Stock Exchange from 2012- 2015). Journal of Accounting, 13, 6-7

Sari, R. E., & Muhammad, M. M. (2022). The Influence of Operating Cash Flow, Leverage, and Company Size on Earnings Management (Empirical Study on Manufacturing Companies Listed on the Indonesia Stock Exchange from 2016 - 2019). Kalbis Institute of Technology and Business Journal, 8, 3339.

Setyawan, B., & Harnovinsah. (2016). The Influence of Deferred Tax Burden, Tax Planning on Earnings Management (Empirical Study on Manufacturing Companies). Journal of Management and Accounting, 1, 15-40.

Setyawan, W., Wulandari, S., & Widyaningrum. (2021). The Influence of Tax Planning, Deferred Tax Burden. Journal of Business Management Economics, 2, 171-173.

Sulisyanto, S. (2018). Earnings Management Theory and Empirical Models. Jakarta: PT. Gransindo.

Tambunan, B. E., Nuryati, T., & Khasanah, U. (2022). The Influence of Tax Planning, Deferred Tax Burden, and Current Tax Burden on Earnings Management (Empirical Study of Industrial Manufacturing Sub-Sector Companies Listed on the Indonesia Stock Exchange from 2019- 2021). Journal of Economics and Business, 02, 56-57.

Theodora, C., & Prasetyo, W. (2023). The Influence of Ownership Structure, Current Tax Expense, Deferred Tax Expense, and Tax Planning on Profit Management. Educational Journal of History and Humanities, 6, 1474-1482.

Wijaya, M., & Martini, D. (2011). Corporate Earnings Management Practices in Response to Tax Rate Reductions according to Law No. 36 of 2008. National Accounting Symposium Paper, 14.

Yunior, S., & Fajriana, I. (2023). The Influence of Tax Planning, Profitability, and Deferred Tax Burden on Earnings Management. Journal of Economics and Business, 233.

IConEnt
The 4th International Conference on Entrepreneurship

THE EFFECT OF DEBT TO EQUITY RATIO, CURRENT RATIO, TOTAL ASSETS TURNOVER, SALES GROWTH, AND FIRM SIZE TOWARD PROFITABILITY OF PROPERTY COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

Jhonson[1], Yanuar Dananjaya[2*]

[1,2]Universitas Pelita Harapan, Surabaya, Indonesia

ABSTRACT

The purpose of this study was to determine the effect of Debt to Equity Ratio, Current ratio, Total Assets Turnover, Sales Growth, and Firm Size toward profitability. The population in this research is all property and real estate companies listed on the Indonesia Stock Exchange in the period 2019 - 2023. This research uses quantitative methods. The sample selection technique used in this research is the purposive sampling method and by using the specified criteria, 58 companies were obtained as research samples. The analysis technique in this research uses multiple linear regression analysis. The results showed that partially, debt to equity ratio, total assets turnover, and sales growth have positive and significant effects on profitability. Meanwhile, current ratio and firm size don't have a significant effect toward profitability. The simultaneous result showed that all independent variables have a significant effect toward profitability of property companies listed on the Indonesia Stock Exchange.

Keywords – **Debt to Equity Ratio, Current Ratio, Total Assets Turnover, Sales Growth, Firm Size, Profitability**

INTRODUCTION

Recently, global economic development has faced risks and uncertainties. Global inflation has shown a trend of moderation, but in many advanced countries, it hasn't reached the inflation target, which causes global interest rates to remain at high level with estimation that will occur for a longer period of time (Badan Kebijakan Fiskal, 2024). Bank Indonesia's interest rate began to rise in the middle of 2022 until it reached the peak at 6.25% in the middle of 2024, where it declined to 6% in September 2024 (BPS, 2024). The high interest rate level has created a negative sentiment for the property sector in 2024, as it may weaken the prospects of the property sector by reducing public demand for purchasing new property (Nityakanti, 2024). Public interest in purchasing property may decline as mortgage costs are likely to rise. By observing the dynamic in global and national economic conditions, it shows that companies must adapt to the changing economic conditions and maximize every opportunity to achieve the profit targets expected by the owner or investor.

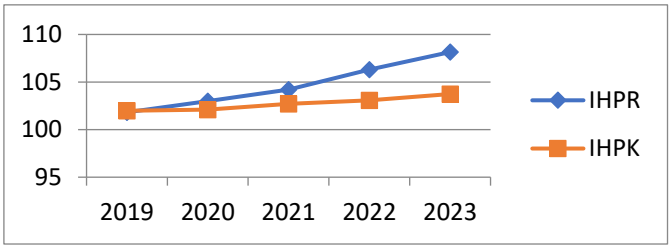


Figure 1 The Growth in National Residential and Commercial Property Price Index
Source: (Bank Indonesia, 2023, 2024)

Reflecting on the Bank Indonesia report on the Residential and Commercial Property Price Index, it shows the positive development of the property industry in Indonesia in the period 2019 to 2023.

Price of residential and commercial property consistently increased every year, despite various national and global economic disruptions during the period, such as COVID-19, high interest rates, etc. The increase in property prices is basically influenced by the economic law of supply and demand. However, in reality, there are many other factors that can affect the supply and demand of property in society, meaning that certain policies or sentiments can significantly impact property prices (Zamillaili & Qoyum, 2022).

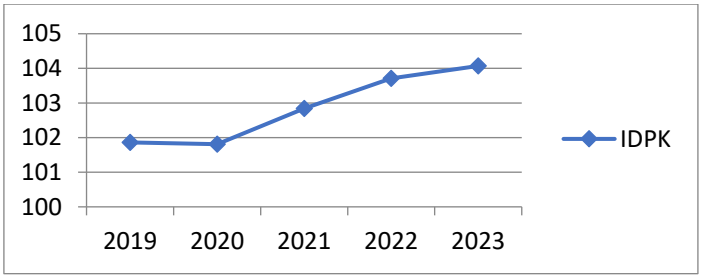


Figure 2 Commercial Property Demand Index
Source: (Bank Indonesia, 2023)

The Bank Indonesia report on the Commercial Property Demand Index shows that demand for commercial properties experienced a decline in 2020 but then increased annually until 2023. The slowdown in 2020 was caused by the drop in office and retail rental demand due to the implementation of working from home regulation and the limited operating hours of shopping centers as the result of large-scale social restrictions (PSBB) during that period. Additionally, demand on hotel rental for tourism and other uses were very limited at that period. Along with time, commercial property grew again, and by 2023, demand across various segments of commercial property had stabilized, including demand in the warehouse, industrial land, and office segments, among others.

Based on the Residential and Commercial Property Price Index and the Commercial Property Demand Index, there is a strong trend in the development of demand within the property industry over the past five years. This suggests that property companies between 2019 and 2023 had the potential to generate high profitability. However, when reviewing the financial statements of property companies during that period, many companies reported decreased in performance or loss. Therefore, despite the fairly consistent rise in property prices over the past five years, this has not significantly improved company profitability. As a result, there are still many other factors that need to be analyzed for companies to achieve optimal profitability.

Investor interest in investing in a company can be driven by fundamental analysis, which includes macroeconomic analysis, industry analysis, and company analysis (financial ratios) (Mulyani et al., 2019). Therefore, several variables are chosen to be analyzed regarding the effect on profitability of property companies. Debt to Equity Ratio as a ratio that describes the amount of debt compared to company equity, which (Ginting & Nasution, 2020) found out that Debt to Equity Ratio has significant effect toward profitability of property companies. Current Ratio as ratio that describe liquidity of company, (Sari & Dwirandra, 2019) found out that Current Ratio has significant effect toward profitability of property company with Intellectual Capital as the moderate variable. Total Assets Turnover is used to assess the company's effectiveness in managing their assets to generate sales, (Ramli & Yusnaini, 2022) found out that Total Assets Turnover has significant effect toward Return on Assets of property companies. Sales Growth as indicators to measure a company's ability to maintain or increase revenue while facing dynamic economic conditions and other challenges, (Anisa & Febyansyah, 2024) found out that Sales Growth has significant effect toward profitability of companies in the food and beverage subsector. Firm Size represents the scale of the company, where the size of the firm can be assessed through the company's total assets (Umam & Hartono, 2019),

(Setiawati & Hendrani, 2024) found out that Firm Size has significant effect toward profitability of companies in the food and beverage subsector.

Based on the above discussion, in order to gain a clear understanding of the issue, this study will be conducted under the title: The Effect of Debt to Equity Ratio, Current Ratio, Total Assets Turnover, Sales Growth, and Firm Size Toward Profitability of Property Companies Listed on the Indonesia Stock Exchange for the period of 2019 - 2023.

LITERATURE REVIEW AND HYPOTHESES

Trade-Off Theory

Based on research on taxes (Modigliani & Miller, 1963), bankruptcy costs and financial distress (Warner, 1977), and insights from agency literature (Jensen & Meckling, 1976) in (Sormin & Genesius, 2021), it is stated that companies have an optimal capital structure that balances the tax benefits of debt financing, financial distress costs, and agency costs associated with debt. Therefore, the trade-off theory serves to predict the optimal capital structure.

Resources Based View Theory

The Resource-Based View Theory (RBV) was first introduced by (Wernerfelt, 1984) and developed by (Barney, 1986). The RBV theory states if companies can rely on their internal resources then they will have a competitive advantage, which allows them to compete in the market and grow (Sari & Dwirandra, 2019). With the characteristics of company assets being valuable, rare, and inimitable, combined with the effective and optimal utilization from management, this will have a positive impact on company performance, such as profitability (Dasuki, 2021).

Profitability

Profitability is an indicator used to measure a company's performance in generating profits (Larasati & Purwanto, 2022). Profitability ratios consist of several ratios, this study is using Return on Assets (ROA). ROA is an indicator that assesses how effectively a company utilizes all its assets to generate profits. The higher the ratio, the higher the profit is generated (Ramli & Yusnaini, 2022).

Debt to Equity Ratio

Debt to Equity Ratio (DER) is an indicator to measure the amount of company debt compared to company equity and the company's ability to pay off its debt with the company's equity (Oktavira & Mudjijah, 2023). The higher the DER, the greater the interest expense that the company bears, and vice versa. For a company with good debt management, the company's debt will be productive and reduce the risk of default (financial distress). Furthermore, with productive debt management, the company will gain additional benefits, such as obtaining more working capital to expand its business and reducing tax payments.

H_1 : Debt to Equity Ratio has a significant effect toward profitability of property companies.

Current Ratio

Current Ratio (CR) is a ratio used to measure a company's liquidity (Larasati & Purwanto, 2022). Current Ratio is used to assess a company's ability to pay off its short-term liabilities using its current assets. The more current assets being used to maintain the company's liquidity, the more assets that are not being used optimally by the company to generate profit.

H_2 : Current Ratio has a significant effect toward profitability of property companies.

Total Assets Turnover

Total Assets Turnover is an indicator used to assess the turnover or utilization of a company assets to generate revenue (Irman et al., 2020). By having valuable assets combined with effective and optimal management, then it will have a positive impact on the company profitability (Alarussi, 2021).
H_3 : Total Assets Turnover has a significant effect toward profitability of property companies.

Sales Growth

Sales Growth is used to assess the growth of a company's sales over time (Sormin & Genesius, 2021). A good company is expected to experience regular sales increases to generate higher profits over time. Based on the Resource-Based View Theory, to achieve growth in sales, company management must enhance the value of company assets, therefore the assets can be sold with higher prices.
H_4 : Sales Growth has a significant effect toward profitability of property companies.

Firm Size

Firm Size refers to the size of a company, which is commonly used to assess whether a company is large or small. Firm size reflects the resources a company possesses, which can influence its performance (Nguyen & Nguyen, 2020). The size of a company can be measured by its balance sheet, sales volume, and share capital (Hakim & Aris, 2023). A large firm size used as an indicator of the company's stability and its strong potential for future growth (Hakim & Aris, 2023).
H_5 : Firm Size has a significant effect toward profitability of property companies.

Research Model

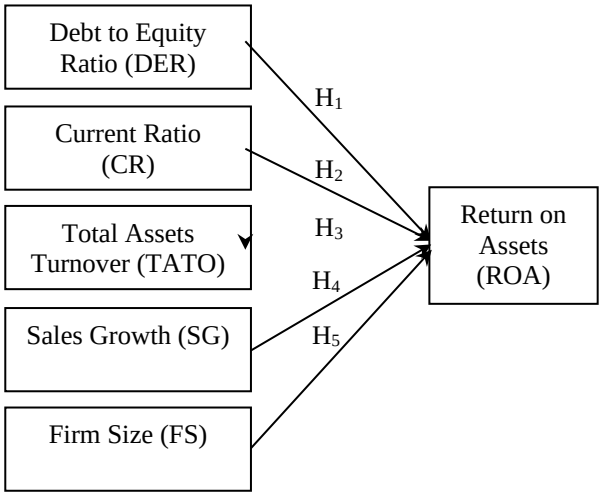


Figure 3 Research Model
Source: Prepared by Writer (2024)

METHODOLOGY

The population of this study consists of all property and real estate companies listed on the Indonesia Stock Exchange. In determining the sample, this study is using non-probability sampling technique and the method is purposive sampling. With a research period of 5 years, then the total sample in this study are 290 samples.

Dependent and Independent Variable

TABLE 1
DEFINITION AND MEASUREMENT OF VARIABLES

Variable	Definition	Formula	Scale
Debt to Equity Ratio (X_1)	It is ratio to assess level of a company's debt to its equity	Debt to Equity Ratio = $\frac{Total\ Liability}{Total\ Equity}$ (Sari & Dwirandra, 2019)	Ratio
Current Ratio (X_2)	It is ratio used to assess a company's ability to pay all of its short-term liabilities	Current Ratio = $\frac{Total\ Current\ Assets}{Total\ Current\ Liabilities}$ (Nguyen & Nguyen, 2020)	Ratio
Total Assets Turnover (X_3)	It is activity ratio used to assess a company's asset productivity in generating revenue	Total Assets Turnover = $\frac{Total\ Sales}{Total\ Assets}$ (Oktavira & Mudjijah, 2023)	Ratio
Sales Growth (X_4)	It is indicator used to assess a company's ability to generate sales	Sales Growth = $\frac{Sales\ (t) - Sales\ (t-1)}{Sales\ (t-1)}$ (Ramli & Yusnaini, 2022)	Ratio
Firm Size (X_5)	It is indicator used to assess the size of a company	Firm Size = log (Total Assets) (Tarihoran & Endri, 2021)	Nominal
Return on Assets (Y)	It is indicator used to assess the return on all of a company's assets	Return on Assets = $\frac{Net\ Income}{Total\ Assets}$ (Irman et al., 2020)	Ratio

Source: Prepared by Writer (2024)

Data Analysis Method

This research is using quantitative data and a descriptive approach to explain the effect of changes in all independent variables toward dependent variable. The source of data in this research is using secondary data that is gathered and collected from the website of the Indonesia Stock Exchange (IDX), S&P Capital IQ, and the website of the company. The relationship between the variables can be measured through a regression equation and panel pooled data. As this research is using panel pooled data, then it will use Classical assumption test, such as: Normality test, Multicollinearity test, Heteroscedasticity test, and Autocorrelation test to assure that the regression equation obtained is accurate in estimation, unbiased, and consistent. The regression model can be formulated as follows:

$$ROA = \alpha + \beta1\ DER + \beta2\ CR + \beta3\ TOTA + \beta4\ SG + \beta5\ FS + \varepsilon$$

Notes:
ROA = Return on Assets
α = Constant
β1 – β5 = Regression Coefficients
DER = Debt To Equity ratio
CR = Current ratio
TOTA = Total Assets Turnover
SG = Sales Growth
FS = Firm Size
ε = Error term

RESULT AND DISCUSSION

TABLE 2
DESCRIPTIVE STATISTICS

Descriptive Statistics					
	N	Min.	Max.	Mean	Std.Dev
DER	290	-55,70	6,90	,3545	3,83118

CR	290	,00	308,80	5,3328	21,80459
TATO	290	,00	,70	,1231	,09940
SG	290	-1,00	7,50	,1666	,92468
FS	290	4,70	7,80	6,5272	,67099
ROA	290	-,40	,40	,0059	,07156
Valid N (listwise)	290				

Source: Prepared by Writer (2024)

Table 2 shows the result of descriptive statistics, which this analysis serves as data in details of minimum, maximum, mean, and standard deviation of each variable used in this research.

Classical Assumption Test

TABEL 3
NORMALITY TEST RESULT – KOLMOGOROV-SMIRNOV TEST

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		290
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	,06796502
Most Extreme Differences	Absolute	,181
	Positive	,181
	Negative	-,171
Test Statistic		,181
Asymp. Sig. (2-tailed)		,000[c]
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

Source: Prepared by Writer (2024)

Table 3 above shows the result of normality test by using One-Sample Kolmogorov-Smirnov Test, which results in a significant level of 0,000 that means the data in this research is not normally distributed.

TABLE 4
MULTICOLLINEARITY TEST

Coefficients[a]			
		Collinearity Statistics	
Model		Tolerance	VIF
1	(Constant)		
	DER	,989	1,011
	CR	,952	1,050
	TATO	,925	1,081
	SG	,949	1,053
	FS	,931	1,074
a. Dependent Variable: ROA			

Source: Prepared by Writer (2024)

The result of Table 4 above shows the test of correlation between the dependent and independent variables. From the Collinearity Statistics table, it shows the Tolerance values of 0.989, 0.952, 0.925,

0.949, 0.931 > 0.1 and the VIF values of 1.011, 1.050, 1.081, 1.053, 1.074 < 10, where it can be concluded that there is no multicollinearity in the regression model.

TABLE 5
HETEROSCEDASTICITY TEST – GLEJSER METHOD

Coefficients[a]		
Model		Sig,
1	(Constant)	,520
	DER	,720
	CR	,824
	TATO	,000
	SG	,250
	FS	,936
a. Dependent Variable: ABS_RES		

Source: Prepared by Writer (2024)

Table 5 above shows that the significance level of each variable was 0.720, 0.824, 0.000, 0.250, and 0.936, although not all of the significance levels are greater than 0.05. So, it can be concluded that heteroscedasticity occurs in the regression model.

TABLE 6
AUTOCORRELATION TEST – DURBIN-WATSON TEST

Model Summary[b]	
Model	Durbin-Watson
1	1,563
a. Predictors: (Constant), FS, SG, DER, CR, TATO	
b. Dependent Variable: ROA	

Source: Prepared by Writer (2024)

From table 6 above, it can be seen that the Durbin-Watson value is 1.563. Based on the Durbin-Watson table with the N = 290 and K = 6, it shows that the value of dL = 1.77250 and dU = 1.84261. Therefore, the result is DW < DL, which indicates there is autocorrelation in the regression model.

Hypothesis Testing

TABLE 7
MULTIPLE REGRESSION ANALYSIS RESULt

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	-,088	,041		-2,166	,031
	DER	,002	,001	,116	2,039	,042
	CR	,000	,000	,070	1,210	,227
	TATO	,124	,042	,172	2,933	,004
	SG	,013	,004	,170	2,946	,003
	FS	,011	,006	,107	1,834	,068
a. Dependent Variable: ROA						

Source: Prepared by Writer (2024)

Based on the Table 7, the multiple linear regression can be formulated as follows:

ROA = -0.088 + 0.002 Debt to Equity ratio + 0.000 Current Ratio + 0.124 Total Assets Turnover + 0.013 Sales Growth + 0.011 Firm Size + ε

The research results shown in Table 7 above indicate that four hypotheses are accepted: Firm Size with a 10% significance level, and Debt to Equity Ratio, Total Assets Turnover, and Sales Growth at a 5% significance level. On the other hand, the hypotheses for the variables of Current Ratio are rejected.

The accepted hypotheses also show that the relationships are aligned with the supporting theory of each variable's effect on return on assets. First, the Debt to Equity ratio shows a positive and significant effect toward return on assets, which it is In line with the trade-off theory, where by increasing amount of company's debt, it will create a trade-off between the costs and benefits receive by the company, which company will be borne by interest expense while gaining the benefit of lower tax payment. So, by having an effective debt management, companies can avoid financial distress On the other hand, according to Resource Based View Theory, the research results on Debt to Equity Ratio means that as property companies improving their profitability ratio, they will also increase company debt as one of a way to get an additional working capital. It is also mentioned by Dwi Shara Soekarno as Director of The Indonesia Capital Market Institute (TICMI) in (Abrar, 2021), basically the property industry is a capital-intensive industry, which make it challenging for property companies to operate without relying on debt to support their business activities. Second, Total Assets Turnover shows a positive and significant effect toward return on assets, as mentioned on the Resources Based View Theory, by maximizing use of company assets which have a classification as a valuable, rare, and inimitable asset, then the company will achieve better performance (Dasuki, 2021). Third, Sales Growth has an in line explanation with the total asset turnover variable, where by having and maximizing the utilization of company assets that are valuable, rare, and inimitable, it will enable the company to achieve improved performance reflected in increased sales. Fourth, Firm Size shows a positive significant effect toward return on assets, as mentioned on the Resources Based View Theory, Firm size represents the number of total assets owned by a company; the larger the amount of the assets, the greater the chance for the company to utilize and develop their assets to generate profit. On the other hand, firm size also reflects the company's capacity for expansion, which enhances its potential to maximize profits for its owners or investors.

The rejected hypotheses of Current Ratio will be explained as follows: The Current Ratio in this study was not sacrificed by company management as the way to achieve maximum profits due to the numerous economic turmoil and crises experienced during the research period, such as Covid-19, war of Russia and Ukraine, high inflation, etc, which affected consumers purchasing power. As a result, property companies prioritized maintaining liquidity at a safe level to avoid financial distress. On the other hand, the Indonesian government has also frequently provided VAT incentives (PPN DTP) in recent years to stimulate the growth of the property industry (Badan Kebijakan Fiskal, 2023). The incentives have shown positive impacts on the sector, which according to Chief Marketing Officer of Pinhome, Fibriyani Elastria, the VAT incentive has boosted home purchases by 27% in 2023 (Brilian, 2024). Therefore, property companies can maintain their profitability levels without sacrificing their liquidity.

TABLE 8
F-TEST TABLE

ANOVA[A]			
Model		F	Sig.
1		6,173	,000[b]
a. Dependent Variable: ROA			

b. Predictors: (Constant), FS, SG, DER, CR, TATO

Source: Prepared by Writer (2024)

The result of Table 8 above shows the significant level of 0,000, which means that simultaneously Debt to Equity ratio, Current ratio, Total Assets Turnover, Sales growth, and Firm Size have significant effects toward profitability of property companies listed on the Indonesia Stock Exchange.

TABLE 9
COEFFICIENT OF DETERMINATION

Model Summary	
Model	Adjusted R Square
1	,082
a. Predictors: (Constant), FS, SG, DER, CR, TATO	

Source: Prepared by Writer (2024)

From the results of the calculations in table 9, the magnitude of the effect of the independent variable to the dependent variable in this equation model is obtained, which is equal to 0.082 or 8.2%, and the remaining 91.8% is affected by other factors which are not included in this regression model.

CONCLUSIONS

The research began with the classical assumption test; however, this study did not meet the requirements of Normality Test and Autocorrelation Test as the part of classical assumption test. Therefore, the research continued using the collected raw data, which found that, partially, the Debt to Equity Ratio, Total Assets Turnover, Sales Growth, and Firm Size have a positive and significant effect toward profitability of property companies listed on the Indonesia Stock Exchange for the period of 2019 - 2023. Meanwhile, the Current Ratio does not have a significant effect on the profitability of property companies listed on the Indonesia Stock Exchange for the period of 2019 - 2023. The respective property companies in Indonesia are also suggested to take a deep look and improve on other variable beside the variable in this research, such as: Debt to Equity Ratio, Current ratio, Total Assets Turnover, Sales Growth, and Firm Size as we found out other variables beside this research have 91.8% effect on the regression model.

For property companies that finance their operations using debt, whether in Rupiah or foreign currency, it is important to manage the debt effectively and efficiently. Although the research finds that Debt to Equity Ratio has a positive and significant effect on profitability of property companies, companies must still conduct a careful analysis when planning to take a debt. This is done to make sure that the debt can be managed productively and the goal of increasing the company's profitability can be achieved while avoiding conditions of default or financial distress, as it shows on the China property company Evergrande, which failed to meet its debt obligations.

This research has several limitations, including failing to fulfill classical assumption tests, the limited selection of variables, and the research period. Thus, future researchers are suggested to extend the research period and explore other variables that may have a stronger effect on the Return on Assets of property companies. Since this study was limited to five variables of fundamental analysis, the effect of the variables were only 8.2% toward the return on assets of property companies. Therefore, expanding the scope of the research by adding additional variables will provide clearer results regarding the factors that significantly affect the profitability of property companies listed on the Indonesia Stock Exchange.

REFERENCES

Abrar, T. F. (2021). *Amankah Investasi pada Saham Emiten Punya Utang Besar?* CNBC Indonesia. https://www.cnbcindonesia.com/mymoney/20210127145655-72-219139/amankah-investasi-pada-saham-emiten-punya-utang-besar

Alarussi, A. S. A. (2021). Financial ratios and efficiency in Malaysian listed companies. *Asian Journal of Economics and Banking*, *5*(2), 116–135. https://doi.org/10.1108/AJEB-06-2020-0014

Anisa, T. D. M., & Febyansyah, A. (2024). Pengaruh Likuiditas, Leverage, Ukuran Perusahaan Dan Pertumbuhan Penjualan Terhadap Profitabilitas. *JIMEA: Jurnal Ilmiah MEA (Manajemen, Ekonomi, Dan Akuntansi)*, *8*(1), 1992–2016.

Badan Kebijakan Fiskal. (2023). *Jaga Daya Beli dan Stabilitas Ekonomi, Pemerintah Berikan Insentif untuk Rumah Lebih Terjangkau*. Badan Kebijakan Fiskal. https://fiskal.kemenkeu.go.id/publikasi/siaran-pers-detil/544

Badan Kebijakan Fiskal. (2024). *TINJAUAN EKONOMI, KEUANGAN, & FISKAL*.

Bank Indonesia. (2023). Perkembangan Properti Komersial (PPKOM). In *Bank Indonesia*. https://www.bi.go.id/id/publikasi/laporan/Pages/PPKom_Triwulan_IV_2023.aspx

Bank Indonesia. (2024). Survey Harga Properti Residensial. In *Bank Indonesia*. https://www.bi.go.id/id/publikasi/laporan/Pages/SHPR__Tw_IV_2023.aspx

Barney, J. B. (1986). Organizational culture: Can it be a source of sustained competitive advantage? *The Academy of Management Review*, *11*(3), 565–665. https://doi.org/https://doi.org/10.2307/258317

BPS. (2024). *BI Rate*. https://www.bps.go.id/id/statistics-table/2/Mzc5IzI=/bi-rate.html

Brilian, A. P. (2024). *Dear Pemerintah , Ini Saran Pengamat biar Industri Properti Tetap Ngegas*. Detik.Com. https://www.detik.com/properti/berita/d-7540508/dear-pemerintah-ini-saran-pengamat-biar-industri-properti-tetap-ngegas

Dasuki, R. E. (2021). Manajemen Strategi : Kajian Teori Resource Based View. *Coopetition : Jurnal Ilmiah Manajemen*, *12*(3), 447–454. https://doi.org/10.32670/coopetition.v12i3.710

Ginting, W. A., & Nasution, S. A. (2020). Faktor-Faktor Yang Mempengaruhi Profitabilitas (Studi Empiris : Perusahaan Property Dan Real Estate Yang Terdaftar Dalam Bursa Efek Indonesia). *Journal of Business and Economics Research (JBE)*, *1*(1), 37–44. https://ejurnal.seminar-id.com/index.php/jbe/article/view/68

Hakim, A. D. A., & Aris, M. A. (2023). The Effect of Green Accounting, Dividend Policy, Leverage, And Firm Size On Firm Value. *Management Studies and Entrepreneurship Journal*, *4*(5), 7747–7756. http://journal.yrpipku.com/index.php/msej

Irman, M., Purwati, A. A., & Juliyanti. (2020). Analysis On The Influence Of Current Ratio, Debt to Equity Ratio and Total Asset Turnover Toward Return On Asset On The Automotive and Component Company That Has Been Registered In Indonesia Stock Exchange Within 2011-2017. *International Journal of Economics Development Research*, *1*(1), 36–44. https://doi.org/https://doi.org/10.37385/ijedr.v1i1.26

Jensen, M., & Meckling, W. (1976). Theory of Firm: Managerial Behavior, Agency Cost and Ownership Structure. *Journal of Financial Economics*, *3*(4), 305–360. https://doi.org/https://doi.org/10.1016/0304-405X(76)90026-X

Larasati, C. I., & Purwanto, P. (2022). How Financial Ratios and Firm Size Affect Profitability: Evidence from Food and Beverages Industry in Indonesia. *The Winners*, *23*(1), 43–50. https://doi.org/10.21512/tw.v23i1.7099

Modigliani, F., & Miller, M. H. (1963). Corporate Income Taxes and the Cost of Capital: A Correction. *The American Economic Review*, *53*(3), 433–443.

Mulyani, E., Firman, Thabrani, G., & Linda, M. R. (2019). PKM Pelatihan Analisis Fundamental dan Teknikal Sebagai Alat Analisis Pengambilan Keputusan Investasi di Pasar Modal Pada Guru

MGMP Akuntansi dan Ekonomi SMA/SMK Kota Bukittinggi. *Wahana Riset Akuntansi*, *7*(2), 1567–1574. https://doi.org/10.24036/wra.v7i2.106949

Nguyen, T. N. L., & Nguyen, V. C. (2020). The Determinants of Profitability in Listed Enterprises: A Study from Vietnamese Stock Exchange. *Journal of Asian Finance, Economics and Business*, *7*(1), 47–58. https://doi.org/10.13106/jafeb.2020.vol7.no1.47

Nityakanti, P. (2024). *BI Kerek Suku Bunga, Begini Dampaknya ke Emiten Properti*. Kontan. https://investasi.kontan.co.id/news/bi-kerek-suku-bunga-begini-dampaknya-ke-emiten-properti

Oktavira, R., & Mudjijah, S. (2023). Pengaruh Current Ratio, Debt To Equity Ratio, Total Asset Turnover, Dan Firm Size Terhadap Profitabilitas. *Jurnal Kajian Pendidikan Ekonomi Dan Ilmu Ekonomi*, *VII*(1), 62–71.

Ramli, D., & Yusnaini. (2022). Pengaruh Sales Growth, Debt To Equity Ratio, Total Assets Turnover Terhadap Return On Assets Pada Perusahaan Property Dan Real Estate Yang Terdaftar Di Bursa Efek Indonesia 2018-2020. *Owner: Riset & Jurnal Akuntansi*, *6*(1), 722–734. https://doi.org/10.33395/owner.v6i1.647

Sari, P. R. P., & Dwirandra, A. A. N. B. (2019). Pengaruh Current Ratio Dan Debt To Equity Ratio Terhadap Profitabilitas Dengan Intellectual Capital Sebagai Pemoderasi. *E-Jurnal Akuntansi*, *26*(2), 851–880. https://doi.org/10.24843/eja.2019.v26.i02.p01

Setiawati, E., & Hendrani, A. (2024). Pengaruh Likuiditas, Leverage Dan Ukuran Perusahaan Terhadap Profitabilitas Perusahaan. *COSTING:Journal of Economic, Business and Accounting*, *7*(3), 5139–5155.

Tarihoran, D. V., & Endri. (2021). Analysis Of Factors Affecting The Profitability In Consumer Goods Sector Companies Listed On The Indonesia Stock Exchange In 2015-2020 Period. *Journal Research of Social Science, Economics, and Management*, *1*(5), 545–558. https://doi.org/10.36418/jrssem.v1i5.59

Umam, A. C., & Hartono, U. (2019). Firm Size, Profitabilitas, Struktur Modal, Kebijakan Dividen, GCG, CSR, dan Nilai Perusahaan (Studi Pada Sektor Finance di Bursa Efek Indonesia). *Jurnal Ilmu Manajemen*, *7*(3), 642–654.

Warner, J. B. (1977). BANKRUPTCY COSTS: SOME EVIDENCE. *The Journal of Finance*, *32*(2). https://doi.org/https://doi.org/10.1111/j.1540-6261.1977.tb03274.x

Wernerfelt, B. (1984). A resource-based view of the firm. *Strategic Management Journal*, *5*(2). https://doi.org/https://doi.org/10.1002/smj.4250050207

Zamillaili, M., & Qoyum, A. (2022). Determinasi Harga Perumahan di Indonesia dan Malaysia. *Sunan Kalijaga: Islamic Economics Journal*, *1*(1), 100–134. https://doi.org/10.14421/skiej.2022.1.1.1597

IConEnt

The 4th International Conference on Entrepreneurship

THE INFLUENCE OF CURRENT RATIO, DEBT TO EQUITY RATIO, INVENTORY TURNOVER, RETURN ON ASSETS AND FIRM SIZE TOWARD PROFIT GROWTH OF CONSUMER GOODS COMPANY LISTED ON INDONESIA STOCK EXCHANGE

Clarissa Caitlin[1], Yanuar Dananjaya[2*]

[1,2]Universitas Pelita Harapan, Surabaya, Indonesia

ABSTRACT

This research is conducted to analyze the influence of Current Ratio, Debt to Equity Ratio, Inventory Turnover, Return on Assets and Firm Size toward Profit Growth of Consumer Goods Companies listed in the Indonesia Stock Exchange for the period 2018 – 2022. The quantitative approach will be used in this study's research design. The research quantitative data is the secondary data acquired from the financial year reports of Consumer Goods Companies listed on the Indonesia Stock Exchange from 2018 to 2022. With purposive sampling technique, 30 companies out of 84 companies in the population are chosen as the sample for this research. SPSS Version 25 is used to compute the multiple linear regression model of this research. The research's result shows that Current Ratio partially has insignificant influence towards Net Profit Margin. Receivable Turnover partially has insignificant influence towards Profit Growth. Debt to Equity Ratio partially has insignificant influence towards Profit Growth. Return on Assets partially has significant influence towards Profit Growth. Inventory Turnover partially has insignificant influence towards Profit Growth. Firm Size partially has insignificant influence towards Profit Growth. Current Ratio, Debt to Equity Ratio, Return on Assets, Inventory Turnover and Firm Size simultaneously have insignificant influence towards Profit Growth.

Keywords – **Current Ratio, Debt to Equity Ratio, Inventory Turnover, Return on Assets , Firm Size, Profit Growth**

INTRODUCTION

The background of the study explores the dynamic and competitive landscape of the global economy, where companies must continuously improve their financial performance to survive and thrive. As economic conditions become increasingly volatile, companies face pressure to achieve consistent profit growth—a benchmark for success and sustainability. However, many organizations struggle to meet profit targets, leading to closures and financial distress. Consequently, companies are compelled to adopt advanced management strategies that prioritize effective resource utilization and strategic financial planning. A significant focus of this research lies in understanding how specific financial ratios and company characteristics impact profit growth.

The study highlights the critical role of financial analysis in assessing a company's capability to sustain profit growth. Financial ratios such as the Current Ratio (indicating liquidity), Debt to Equity Ratio (indicating solvency), Inventory Turnover (indicating efficiency), and Return on Assets (indicating profitability) serve as important indicators of a company's financial health. These ratios provide insight into a company's strengths and weaknesses, helping stakeholders make informed investment and operational decisions. Additionally, Firm Size is included as a variable, as it reflects a company's market influence, operational capacity, and ability to manage resources effectively.

The Consumer Goods industry in Indonesia, a vital sector within the national economy, serves as the focal point of this analysis. This sector encompasses essential goods that contribute to daily life, including food, beverages, and household items, thereby attracting significant interest from investors. Consumer Goods companies must operate at high efficiency to meet the demands of a large and growing consumer base. Given this, financial ratio analysis is crucial in evaluating and ensuring the sustainability of companies within this sector.

According to research conducted by Inna Indaryani, Maryono, Agus Budi Santosa (2022), Current Ratio has a negative influence toward Profit Growth. Meanwhile, the previous research

conducted by Anisa Setyaningdiyah, Agustinus Santosa Adiwibowo (2023) shows that Current Ratio has a positive influence toward Profit Growth. According to research conducted by Hajering and Muslim Muslim (2022), Debt to Equity Ratio has a positive influence toward Profit Growth.

Meanwhile, the previous research conducted by Hayyin Aziza Firly, Arif Hartono, Titin Eka Ardiana (2023) shows that Debt to Equity Ratio has a negative influence toward Profit Growth. According to research conducted by Busman Bactiar, Indayani B, Arlistria Muthmainnah, Sumarsih (2022), Inventory Turnover has a negative influence toward Profit Growth. Meanwhile, the previous research conducted by Silvana (2022) and Naila Sari (2022) shows that Inventory Turnover has a positive influence toward Profit Growth.

According to research conducted by Dwi Joko Siswanto, Faschruella Maudhiky, Ickhsanto Wahyudi, Tantri Yanuar Rahmat Syah (2022), Return on Assets have a positive influence toward Profit Growth. Meanwhile, the previous research conducted by Tyka Melinda Putri, Sonang Sitohang (2019) shows that Return on Assets have a negative influence toward Profit Growth. According to the research by Dwi Joko Siswanto, Faschruella Maudhiky, Ickhsanto Wahyudi, Tantri Yanuar Rahmat Syah (2022), Return on Assets have a positive influence toward Profit Growth. Meanwhile, the previous research conducted by Tyka Melinda Putri, Sonang Sitohang (2019) shows that Return on Assets have a negative influence toward Profit Growth. According to research conducted by Trisandi Eka Putri, Andriansyah (2022), Firm Size has a positive influence toward Profit Growth. Meanwhile, the previous research conducted by Tien Kartika Kumala Dewi, Kartika Hendra Titisari, Purnama Siddi (2022) shows that Firm Size has a negative influence toward Profit Growth.

Due to the inconsistent and different results of previous research, the writer will conduct an analysis about the influence of Current Ratio, Debt to Equity Ratio, Inventory Turnover, Return on Assets, Firm Size and Profit Growth. To sum up, the writer decided to take this research entitled : “The Influence of Current Ratio, Debt to Equity Ratio, Inventory Turnover, Return on Assets and Firm Size Toward Profit Growth of Consumer Goods Company listed on Indonesia Stock Exchange”.

LITERATURE REVIEW AND HYPOTHESES

Signaling Theory

Signaling theory in finance suggests that companies use signals, such as financial disclosures or management actions, to convey information about their economic prospects to external stakeholders, particularly investors and creditors. This theory, originally developed by Spence, emphasizes that companies can communicate quality or stability by sharing reliable information in a transparent manner. According to Brigham and Houston (2011) in Nava Yansi Anggraeni (2022) a signal is an action taken by a company to give investors a clue about how management views the company's prospects. For instance, profit growth is often seen as a positive signal of a company’s health and future profitability.

In practice, signaling is crucial because investors rely on company-provided information to make investment decisions. A well-performing company might signal its strength through high profit growth, efficient operations, or other favorable financial metrics, encouraging investor confidence and potentially increasing share value. Conversely, companies with high debt or poor liquidity might send negative signals, which could deter investment. Signaling theory thus underscores the importance of strategic financial management and transparency, as these can positively or negatively impact investor perceptions and overall market performance

Profit Growth

According to Harahap (2008) in Nur Aidah Istiqomah et al. (2023), profit is vital in financial reports because it serves as the basis for tax calculations, guides investment decisions, aids in forecasting future earnings, helps assess operational efficiency, and evaluates company performance.

Profit growth is the increase in a company's profits over time, reflecting its financial health and effectiveness in meeting business objectives. It is critical for stakeholders like investors and management as it signals stability and success. Factors influencing profit growth include sales, cost management, financial leverage, and market conditions. Consistent profit growth indicates strong management and enhances investor confidence by showcasing a company's potential for long-term success.

Current Ratio

The Current Ratio is calculated by comparing current assets to current liabilities, reflecting the company's ability to pay short-term debts. A higher Current Ratio indicates more current assets, which can support profit growth and smooth operations. However, (Istiqomah & Andayani, 2023) argue that an excessively high Current Ratio may signal an overabundance of current assets, which could hinder profit growth since these assets typically yield lower returns than fixed assets.

H_1 : Current Ratio has significant effect toward Profit Growth of Consumer Goods Companies.

Debt to Equity Ratio

A high Debt to Equity Ratio increases a company's risk by indicating significant reliance on debt for capital. This can signal financial instability to investors and creditors, who may become reluctant to invest or lend, as the company faces challenges in meeting interest and principal payments. Consequently, this can lead to decreased profits for the company (Saraswati & Nurhayati, 2020).

H_2 : Debt to Equity Ratio has a significant effect toward Profit Growth of Consumer Goods Companies.

Inventory Turnover

Inventory turnover is a ratio used to measure how many times the funds invested in inventory are turned over in one period. High inventory turnover indicates the higher inventory turnover in one year and this indicates the effectiveness of inventory management. The more inventory that rotates in a period, the indirect total sales will also increase, along with this increase it will also affect the growth of profits generated. (Hermanto & Juliani Hanadi, 2020)

H_3 : Inventory Turnover has significant effect toward Profit Growth of Consumer Goods Companies.

Return on Assets

Return on Assets (ROA) measures how effectively a company uses its total assets to generate profits. A higher ROA indicates better asset management, leading to increased profits and enhanced company value. Essentially, improvements in ROA are associated with greater profit growth, reflecting the company's ability to generate earnings effectively. (Setyaningdiyah & Adiwibowo, 2023)

H_4 : Return on Assets has significant effect toward Profit Growth of Consumer Goods Companies.

Firm Size

A company's size is reflected in its total assets, with greater assets indicating higher financial turnover and capital. As a company grows larger, it typically achieves higher profits and better business continuity, enhancing its financial performance. This stability reduces the need for profit manipulation, suggesting that larger companies can operate more transparently and effectively (Putri T. E. & Andriansyah, 2022).

H_5 : Firm Size has significant effect toward Profit Growth of Consumer Goods Companies.

Research Model

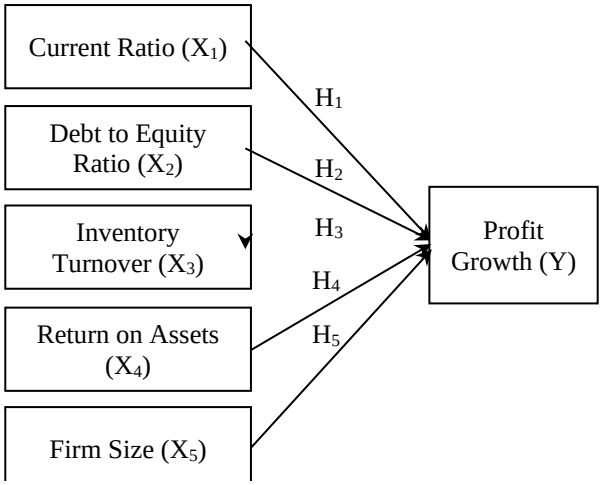


Figure 1 Research Model
Source: Prepared by Writer (2024)

METHODOLOGY

The research model focuses on analyzing the impact of financial ratios—Current Ratio, Debt to Equity Ratio, Inventory Turnover, Return on Assets, and Firm Size—on profit growth. This study specifically targets consumer goods companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022.

The population consists of all consumer goods companies on the IDX, while the sample includes a selected subset that meets specific criteria for consistency in financial reporting over the study period. The data used is from 2018 – 2022 which is 5 years data, the samples used in this research are 150 data in total.

Dependent and Independent Variable

TABLE 1
DEFINITION AND MEASUREMENT OF VARIABLES

Variable	Definition	Formula	Scale
Profit Growth (Y)	Percentage increase or decrease in the value of net profit generated by the company in a period	Profit Growth = $\frac{Y_t - Y_{t-1}}{Y_{t-1}}$ (Harahap, 2019)	Ratio
Current Ratio (X_1)	Measure a company's ability to meet short-term liabilities that will mature within one year.	Current Ratio = $\frac{Current\ Assets}{Current\ Liabilities}$ (Firly, Hartono, & Ardiana, 2023)	Ratio
Debt to Equity Ratio (X_2)	Measure its financial capability through the assets and equity it has to cover its debt.	Debt to Equity Ratio = $\frac{Total\ Liabilities}{Equity}$ (Agung Anggoro Seto et al. 2023)	Ratio

Variable	Definition	Formula	Scale
Inventory Turnover (X_3)	Indicates how frequently a business rotates its stock in relation to its cost of goods sold (COGS) during a specific time frame.	Inventory Turnover = $\frac{COGS}{Average\ Inventories}$ (Sari, SST., M.M, 2020)	Ratio
Return on Assets (X_4)	Measures a company's ability to use company assets to generate profits.	Return on Assets = $\frac{Net\ Income}{Total\ Assets}$ (Sari, SST., M.M, 2020)	Ratio
Firm Size (X_5)	A scale that can be calculated using the level of total assets and sales	Firm Size = $Ln\ (Total\ Assets)$	Nominal

Source: Prepared by Writer (2024)

Data Analysis Method

The quantitative analysis method is the data analysis technique applied in this study. The secondary data used in this research is obtained from the financial reports of consumer goods companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022.

The data analysis method includes statistical techniques, particularly regression analysis, to evaluate the relationships between the financial ratios (independent variables) and profit growth (dependent variable). This method enables the study to determine the significance and impact of each financial ratio on profit growth within the sampled companies.

The analytical model used in this research is the multiple linear regression method with the following equation :

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Where :

Y = Profit Growth
α = Constanta
$\beta_1\ \beta_2\ \beta_3\ \beta_4\ \beta_5$ = Regression Coefficient
X_1 = Current Ratio
X_2 = Debt to Equity Ratio
X_3 = Inventory Turnover
X_4 = Return on Assets
X_5 = Firm Size
e = Error Term

There are 57 samples that are considered outliers, which results in 93 samples after removing the outliers.

RESULT AND DISCUSSION

TABLE 2
DESCRIPTIVE STATISTICS

Descriptive Statistics					
	N	Min.	Max.	Mean	Std. Deviation
CR	93	1.006	5.113	2.6174	1.08976
DER	93	.150	1.550	.6136	.34037
ROA	93	.009	.199	.0948	.04210
IT	93	.868	11.476	4.9673	2.41428

FS	93	13.620	30.936	23.5933	5.75550
PG	93	-.504	.938	.1435	.30403
Valid N (listwise)	93				

Source: Prepared by Writer (2024)

The table above shows the minimum, maximum, mean and standard deviation for the variables used in this research.

Classical Assumption Test

TABEL 3
NORMALITY TEST RESULT – KOLMOGOROV-SMIRNOV TEST

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		93
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	,29045429
Most Extreme Differences	Absolute	,082
	Positive	,082
	Negative	-,062
Test Statistic		,082
Asymp. Sig. (2-tailed)		,140[c]
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

Source: Prepared by Writer (2024)

The asymptotic significance (2-tailed) shown in the table above is 0.140 which is larger than the significance value of 0.05, this indicates that the distribution of the data is normal and has met the criteria of the normality test.

TABLE 4
MULTICOLLINEARITY TEST

Coefficients[a]			
		Collinearity Statistics	
Model		Tolerance	VIF
1	(Constant)		
	CR	.574	1.743
	DER	.518	1.931
	ROA	.576	1.735
	IT	.955	1.047
	FS	.915	1.093
a. Dependent Variable: PG			

Source: Prepared by Writer (2024)

The table above shows that all of the tolerance values are larger than 0.1 and all of the VIF values are also smaller than 10, this indicates that there is no multicollinearity in this regression model.

TABLE 5
HETEROSCEDASTICITY TEST – GLEJSER METHOD

Coefficients[a]		
Model		Sig,
1	(Constant)	.001
	CR	.206
	DER	.385
	ROA	.552
	IT	.513
	FS	.096
a. Dependent Variable: ABSRESID		

Source: Prepared by Writer (2024)

The table above shows that all of the significance values are above 0.05, which indicates that there is no heteroscedasticity in this regression model.

TABLE 6
AUTOCORRELATION TEST – DURBIN-WATSON TEST

MODEL SUMMARY[B]	
MODEL	DURBIN-WATSON
1	1,785
A. PREDICTORS: (CONSTANT), FS, ROA, IT, CR, DER	
B. DEPENDENT VARIABLE: PG	

Source: Prepared by Writer (2024)

It can be seen from the table above that the Durbin-Watson value is 1.785. As for the number of independent variables is 5 or "k" = 5, while the number of samples is 93 or "n" = 93, then (k ; n) = (5 ; 93). This figure is then seen in the distribution of values in the Durbin Watson table, the value of dL is 1.5513, the value of dU is 1.7772 and the value of 4-dU is 2.215. Based on the criteria of dU < d < 4-dU, which is 1.7772<1.7850<2.215, this indicates that there is no autocorrelation in this regression model.

TABLE 7
LINEARITY TEST

	Deviation from Linearity
Current Ratio	0.652
Debt to Equity Ratio	0.129
Return on Assets	0.166
Inventory Turnover	0.408
Firm Size	0.230

Source: Prepared by Writer (2024)

The table above shows that all of the deviations of linearity value are larger than 0.05, this indicates that there is a linear relationship between each independent variable to the dependent variable.

Hypothesis Testing

TABLE 7
MULTIPLE REGRESSION ANALYSIS RESULT

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.012	.225		-.054	.957
	CR	-.061	.038	-.218	-1.609	.111
	DER	.049	.127	.055	.383	.702
	ROA	2.635	.974	.365	2.705	.008
	IT	-.006	.013	-.047	-.448	.655
	FS	.003	.006	.051	.479	.633
a. Dependent Variable: PG						

Source: Prepared by Writer (2024)

From the results seen in table above, the multiple linear regression equation is as follows :

$$Y = -0.012 - 0.061X_1 + 0.049X_2 + 2.635X_3 – 0.006X_4 + 0.003X_5 + e$$

The table above shows that Return on Assets partially has significant influence towards Profit Growth and the hypothesis (H_3) is accepted. Meanwhile, the other hypothesis were rejected.

The Current Ratio, which measures a company's ability to meet short-term liabilities, showed a negative but insignificant effect on profit growth. Although liquidity is essential, the results (T-count of -1.609, Sig. 0.111) suggested that an excess of liquid assets may not contribute meaningfully to profit maximization, as it may imply that assets are not used efficiently. Similarly, the Debt to Equity Ratio (DER), which indicates the level of a company’s financial leverage, had an insignificant effect on profit growth (T-count of 0.383, Sig. 0.702). High leverage can potentially boost returns but also poses risk, as it demands resources for debt servicing, which can limit growth during economic downturns.

In examining Inventory Turnover, the research found an insignificant impact on profit growth (T-count of -0.448, Sig. 0.655). Although inventory turnover reflects the efficiency of stock management, it alone may not predict profit growth if other factors, such as demand and operational alignment, are not optimized. Firm Size also did not significantly impact profit growth (T-count of 0.479, Sig. 0.633). While larger firms may benefit from economies of scale, these advantages may not always translate directly into profit growth, as operational efficiency and market dynamics may play more substantial roles.

However, Return on Assets (ROA) demonstrated a significant positive influence on profit growth (T-count of 2.705, Sig. 0.008), underscoring the importance of asset utilization efficiency. ROA directly relates to how well a company maximizes returns on its existing assets, making it a strong predictor of profitability and confirming its significance in the study. Ultimately, the findings highlight ROA as the primary driver of profit growth among the variables examined, suggesting that asset efficiency is crucial for profitability in the consumer goods sector.

TABLE 8
F-TEST TABLE

ANOVA[a]			
Model		F	Sig.
1		1,665	,152[b]
a. Dependent Variable: PG			
b. Predictors: (Constant), FS, ROA, IT, CR, DER			

Source: Prepared by Writer (2024)

In a statistical analysis with a significance level of 0.05, the F_{table} value obtained is 2.318. The calculated F-value (F_{count}) is 1.665, which is less than the F-table value (2.318). Additionally, the significance value is 0.152, exceeding the significance level of 0.05. These results indicate that the Current Ratio, Debt to Equity Ratio, Return on Assets, Inventory Turnover, and Firm Size have an insignificant simultaneous effect on Profit Growth, leading to the rejection of hypothesis H_6.

TABLE 9
COEFFICIENT OF DETERMINATION

Model Summary	
Model	Adjusted R Square
1	,035
a. Predictors: (Constant), FS, ROA, IT, CR, DER	

Source: Prepared by Writer (2024)

It can be seen in the table above, the value of adjusted R square is 0.035 or 3.5%, which indicates that the influence of Current Ratio, Debt to Equity Ratio, Return on Assets, Inventory Turnover and Firm Size toward Profit Growth is 3.5%. Meanwhile, the other 96.5% is influenced by the other variables which are not examined in this research.

CONCLUSIONS

The study concludes that the financial metrics evaluated—Current Ratio, Debt to Equity Ratio, Inventory Turnover, Return on Assets, and Firm Size—do not provide a comprehensive understanding of profit growth in consumer goods companies on the Indonesia Stock Exchange. Specifically, while Return on Assets shows some correlation with profit growth, other metrics do not significantly impact it. This minimal explanatory power, represented by the adjusted R^2 value of just 3.5%, implies that the majority (96.5%) of the variation in profit growth is likely influenced by factors not included in the model, such as external economic conditions, market trends, or company-specific operational practices.

For companies, the study suggests that improved liquidity management and cautious debt levels could help stabilize profits, as high debt can increase risk and reduce net income. Emphasis on efficient receivables management, including reducing bad debts, could further enhance financial stability. For investors, understanding these financial dynamics could guide investment decisions, especially in assessing which companies are maintaining sound financial health amid external market pressures.

The study also acknowledges several limitations that constrain the explanatory power of its findings. Primarily, the model focused on a specific set of financial ratios without incorporating broader economic or industry-specific variables that may significantly impact profit growth. Such variables, including inflation rates, consumer spending, regulatory changes, or competitive positioning, could provide a fuller understanding of profit dynamics in the consumer goods sector. Additionally, the study's scope is limited to a particular industry and geographical area, suggesting that its findings may not be easily generalizable to other sectors or regions. Future research is encouraged to address these limitations by broadening the range of variables included, potentially creating a more comprehensive model that accounts for both internal financial health and external market influences. This would enhance the understanding of profit growth determinants, offering a more holistic and predictive perspective on company performance in the consumer goods industry and beyond.

REFERENCES

Admin. (2023). *Mengenal Perbedaan Penelitian Kualitatif dan Kuantitatif*. Retrieved from Institut Teknologi Adhi Tama Surabaya: https://pmb.itats.ac.id/mengenal-perbedaan-penelitian-kualitatif-dan-kuantitatif/

Anggraeni, N. Y. (2022). Pengaruh Rasio Keuangan Terhadap Pertumbuhan Laba. *Jurnal Manajemen dan Bisnis, 3*(2), 95-106.

Bactiar, B., B, I., Muthmainnah, A., & Sumarsih. (2022). Pengaruh Debt to Equity Ratio, Current Ratio, dan Inventory Turnover Terhadap Pertumbuhan Laba (Studi Kasus Perusahaan Sektor Pertambangan Yang Terdaftar Di Bursa Efek Indonesia Tahun 2017-2019). *MANDAR: Management Development and Applied Research Journal, 5*(1), 191-197.

Darmawan. (2020). Dasar-Dasar Memahami Rasio dan Laporan Keuangan. UNY Press.

Dewi, T. K., Titisari, K. H., & Siddi, P. (2022). Pengaruh Leverage, Profitabilitas, Ukuran Perusahaan dan Tingkat Inflasi Terhadap Pertumbuhan Laba. *Owner: Riset & Jurnal Akuntansi, 6*(2), 1249-1259.

Firly, H. A., Hartono, A., & Ardiana, T. E. (2023). Pengaruh Rasio Keuangan Terhadap Pertumbuhan Laba Pada Perusahaan Food and Beverage yang Terdaftar di Bursa Efek Indonesia Periode Tahun 2017-2021. *SENTRI: Jurnal Riset Ilmiah, 2*(8), 3258-3268.

GreatNusa. (2023, February 15). *Analisa Laporan Keuangan: Pengertian, Tujuan, Dan Caranya*. Retrieved from GreatNusa: https://greatnusa.com/article/analisa-laporan-keuangan-adalah

Hajering, & Muslim, M. (2022). Pengaruh Rasio-Rasio Keuangan Terhadap Pertumbuhan Laba. *SEIKO : Journal of Management & Business, 4*(3), 164-179.

Harahap, S. (2019). Analisis Kritis Atas Laporan Keuangan. Jakarta: PT. Raja Grafindo Persada.

Haryono. (2017). Pengaruh Kebijakan Deviden dan Pertumbuhan Pendapatan Terhadap Pertumbuhan Laba Pada Perusahaan Manufaktur. *Jurnal Ilmiah Akuntansi dan Keuangan, 3*, 70-76.

Hermanto, & Hanadi, J. (2020). Analisis Pengaruh Faktor Keuangan Terhadap Pertumbuhan Laba. *Jurnal Ekonomi : Journal of Economic, 11*(2), 133-143.

Indaryani, I., Maryono, & Santosa, A. B. (2022). Pengaruh Rasio Keuangan Terhadap Pertumbuhan Laba Pada Perusahaan Manufaktur Tahun 2019-2021. *Jurnal Akuntansi Profesi, 12*(2), 536-547. doi:https://doi.org/10.23887/jippg.v3i2

Ira, L. (2023). *Mengenal Current Ratio dan Cara Perhitungannya*. Retrieved from Tempo.co: https://bisnis.tempo.co/read/1771476/mengenal-current-ratio-dan-cara-perhitungannya

Istiqomah, N. A., & Andayani. (2023). Pengaruh Rasio Keuangan Terhadap Pertumbuhan Laba. *Jurnal Ilmu dan Riset Akuntansi, 12*(2), 1-14.

Jumingan. (2008). Analisis Laporan Keuangan. Jakarta: PT. Bumi Aksara.

Kasmir. (2015). Analisis Laporan Keuangan Edisi Satu. Jakarta: PT. Raja Grafindo Persada.

Kasmir. (2018). Analisis Laporan Keuangan. Rajawali Pers.

Maryati, E., & Siswanti, T. (2022). Pengaruh Debt to Equity Ratio dan Ukuran Perusahaan Terhadap Pertumbuhan Laba (Perusahaan Sub Sektor Property dan Real Estate Yang Terdaftar Di Bursa Efek Indonesia Tahun 2015-2019). *JIMA Jurnal Ilmiah Mahasiswa Akuntansi, 2*(1), 22-31.

NISP, R. O. (2023, October 12). *Kenali Apa Itu Return on Asset (ROA), Fungsi, & Perhitungannya*. Retrieved from OCBC: https://www.ocbc.id/id/article/2021/08/12/roa-adalah

Putri, M. T., & Sitohang, S. (2019). Pengaruh Current Ratio, Total Asset Turnover dan Return On Asset Terhadap Pertumbuhan Laba. *Jurnal Ilmu dan Riset Manajemen*, 1-15.

Putri, T. E., & Andriansyah. (2022). Pengaruh Struktur Modal, Ukuran Perusahaan dan Pertumbuhan Penjualan Terhadap Pertumbuhan Laba. *Journal of Accounting for Sustainable Society (JASS), 4*(1), 16-28. doi:https://doi.org/10.35310/jass.v4i01.969

Safitri, N. L., Handini, D. P., & Alfiana. (2021). Pengaruh Profitabilitas dan Ukuran Perusahaan Terhadap Pertumbuhan Laba Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia Periode 2016-2020. *The 2nd Widyagama National Conference on Economics and Business (WNCEB 2021)*, 8-17.

Saraswati, S. A., & Nurhayati, I. (2020). Pengaruh Rasio Keuangan Terhadap Pertumbuhan Laba Dengan Ukuran Perusahaan Sebagai Variabel Moderasi. *Jurnal Ilmiah Komputerisasi Akuntansi, 15*(1), 241-254.

Sari, N. (2022). Pengaruh Ukuran Perusahaan dan Perputaran Persediaan Terhadap Pertumbuhan Laba Pada PT. Ciputra Development Tbk.

Sari, SST., M.M, M. K. (2020). *Analisis Laporan Keuangan.* Semarang: Politeknik Negeri Semarang.

Setyaningdiyah, A., & Adiwibowo, A. S. (2023). Pengaruh Rasio Keuangan Terhadap Pertumbuhan Laba Perusahaan. *Diponegoro Journal of Accounting, 12*(4), 1-13.

Silvana. (2022). The Influence of Return on Asset, Inventory Turnover and Debt to Equity Ratio Toward Profit Growth of Food and Beverage Companies Listed on the Indonesia Stock Exchange.

Siswanto, D. J., Maudhiky, F., Wahyudi, I., & Syah, T. Y. (2022). The Influence of Debt To Equity Ratio (DER), Return On Assets (ROA) and Company Size on Profit Growth . *Journal of Social Science, 3*(6), 2137-2147. doi:https://doi.org/10.46799/jss.v3i6.486

Sitanggang, D. D. (2022). *Return On Asset Adalah: Fungsi, Manfaat, dan Rumus Menghitung ROA*. Retrieved from DetikFinance: https://finance.detik.com/solusiukm/d-6320778/return-on-asset-adalah-fungsi-manfaat-dan-rumus-menghitung-roa

Yanti, S., Lukita, C., & Astriani, D. (2022). Pengaruh Likuiditas, Solvabilitas, dan Profitabilitas Terhadap Pertumbuhan Laba Pada Perusahaan Sektor Aneka Industri yang Terdaftar di Bursa Efek Indonesia Periode 2018-2020. *Jurnal Mahasiswa Manajemen dan Akuntansi, 2*(2), 284-303.

IConEnt

The 4th International Conference on Entrepreneurship

THE IMPACT OF PROFITABILITY, LEVERAGE, AND TAX AVOIDANCE ON EARNINGS MANAGEMENT IN CONSUMER GOODS COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

Theophilus Tan Ariel[1], Yanuar Dananjaya[2]

[1,2] Universitas Pelita Harapan, Surabaya, Indonesia

[1]yanuar.dananjaya@uph.edu

ABSTRACT

This study analyzes the impact of profitability, leverage, and tax avoidance on earnings management in consumer goods companies listed on the Indonesia Stock Exchange (IDX) for the period 2018-2020. Data were collected using purposive sampling technique with a sample of 93 companies. Using multiple linear regression analysis, this study finds that profitability, leverage, and tax avoidance do not have a significant impact on earnings management either partially or simultaneously. These findings suggest that other factors not studied may play a greater role in earnings management practices in consumer goods companies.

Keywords - **Earnings Management, Profitability, Leverage, Tax Avoidance**

INTRODUCTION

Financial statements are essential for companies to communicate their performance to stakeholders, and a critical aspect of these statements is earnings management, where managers may alter financial reports to present a more favorable view of the company. This practice is often motivated by the desire to meet performance targets or to attract investments by enhancing the company's financial image. Various factors influence earnings management, including internal factors like profitability, leverage, and tax avoidance, which are often cited as drivers that affect managerial decisions to engage in earnings management.

Profitability, leverage, and tax avoidance each have distinct roles in motivating earnings management. Profitability reflects a company's ability to generate profits relative to its assets, and managers in less profitable companies may feel pressure to manipulate earnings to maintain stakeholder confidence. Leverage indicates the degree of company financing through debt, with higher levels potentially increasing pressure from creditors to show financial stability. To avoid breaching debt covenants, managers may engage in earnings management to present a more stable financial outlook. Tax avoidance strategies, aimed at reducing tax liabilities legally, may also drive earnings management as companies seek to enhance cash flow and reinvest retained profits, although the degree of influence tax avoidance has on earnings manipulation remains debated.

This study explores the impact of profitability, leverage, and tax avoidance on earnings management in consumer goods companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2020. As a significant sector in Indonesia's economy, the consumer goods industry, which covers essential products like food and beverages, offers a valuable context for this analysis. Through this study, we aim to contribute insights into how these internal factors influence earnings management practices, providing valuable information for investors, regulators, and corporate managers in identifying key drivers of earnings manipulation.

LITERATURE REVIEW

Earnings management has been a widely studied area in accounting and finance, as it holds significant implications for corporate governance, stakeholder trust, and market efficiency. Earnings management refers to the deliberate manipulation of financial statements by managers to achieve desired financial outcomes (Scott, 2018). This practice can range from legally permissible choices in accounting estimates to more aggressive actions that may compromise the integrity of financial reporting. According to Healy and Wahlen (1999), earnings management is often driven by incentives related to performance targets, market expectations, or regulatory requirements, making it a pervasive issue in corporate governance.

Profitability is frequently linked to earnings management. According to Jensen and Meckling's (1976) Agency Theory, managers in firms with lower profitability may face pressure to meet expectations from investors or to secure bonuses tied to profit targets. High profitability is generally associated with operational success, reducing the likelihood of earnings manipulation. In contrast, low profitability may prompt managers to adjust earnings to meet performance benchmarks or to maintain an appearance of stability (Anindya & Yuyetta, 2020). Studies by Kasmir (2019) show that firms with higher profitability ratios, such as return on assets (ROA), are less likely to engage in earnings manipulation since their operational efficiency is already evident.

Leverage, or the extent to which a firm is financed through debt, also plays a role in earnings management. Agency Theory suggests that firms with high leverage levels experience greater scrutiny from creditors, leading to increased monitoring costs (Amri, 2020). As a result, managers may be incentivized to manipulate earnings to maintain favorable financial ratios, ensuring compliance with debt covenants and reducing the perceived risk of default (Sweeney, 1994). However, some studies, such as by Antonius and Tampubolon (2019), argue that leverage may not significantly influence earnings management, as companies are motivated by other factors to maintain a stable financial image.

Tax avoidance strategies, aimed at minimizing tax liabilities within legal boundaries, are also relevant to earnings management. Firms practicing tax avoidance often adjust financial figures to optimize after-tax income, which may also impact reported earnings (Sinambela, 2019). According to Chen et al. (2010), firms with aggressive tax strategies may manipulate earnings to reduce tax expenses while still meeting shareholder expectations for profit. Nonetheless, empirical evidence on the relationship between tax avoidance and earnings management remains inconclusive, as some studies, like those of Maysani and Suaryana (2019), show a positive association, while others indicate a minimal effect.

This study builds on previous research by examining how profitability, leverage, and tax avoidance individually and collectively impact earnings management practices within the consumer goods sector in Indonesia. This sector is particularly relevant due to its economic significance and the competitive pressures faced by firms to maintain financial stability and investor appeal.

METHODOLOGY

Research Design

This study employs a quantitative approach to analyze the relationship between profitability, leverage, and tax avoidance on earnings management in consumer goods companies listed on the Indonesia Stock Exchange (IDX) from 2018-2020.

Population and Sample

The population includes all IDX-listed consumer goods companies from 2018 to 2020, selected using purposive sampling based on criteria: companies are listed on IDX, publish complete financial reports, and report positive profits for each year. A final sample of 93 companies was obtained.

Data Collection

Secondary data from IDX and company financial reports were used, including financial ratios relevant to profitability, leverage, and tax avoidance.

Variable Measurement

- Earnings Management (Dependent Variable): Measured using the Phillips et al. (2003) distribution approach model:

$$\Delta E = \frac{E_{it} - E_{it-1}}{MVE_{t-1}}$$

- Profitability (ROA): Calculated as Net Income / Total Assets
- Leverage (DER): Measured as Total Debt / Shareholders' Equity
- Tax Avoidance (ETR): Measured as Tax Expense / Net Income Before Tax

Data Analysis

Data analysis includes multiple linear regression to test the individual and combined effects of profitability, leverage, and tax avoidance on earnings management. Key analysis steps:

1. Descriptive Statistics: Summarizes data characteristics.
2. Classical Assumption Tests: Tests for normality (Kolmogorov-Smirnov), multicollinearity (VIF and tolerance), heteroscedasticity (Spearman's Rho and scatterplot), and autocorrelation (Run Test).
3. Hypothesis Testing: Uses t-tests (individual variables) and F-tests (combined variables) for significance.
4. Coefficient of Determination (R^2): Assesses the explanatory power of the model. Data processing was conducted using SPSS software (version 26) to ensure statistical accuracy.

RESULTS

Descriptive Statistics

TABLE 1.
DESCRIPTIVE STATISTICS

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
ROA	93	.00050	.44676	.1077056	.09293959
DER	93	.13014	3.15902	.7036016	.56930551
ETR	93	.03201	.96206	.2751298	.12769309
Earning_Management	93	-.29713	9.50920	.1208498	.99372055
Valid N (listwise)	93				

Source : Data processed using SPSS version 26 (2024)

This table presents the minimum, maximum, mean, and standard deviation values for Profitability (ROA), Leverage (DER), Effective Tax Rate (ETR), and Earnings Management. Most

companies show positive profitability and moderate leverage, while ETR varies, indicating diverse tax management strategies among companies.

Classical Assumption Test

Normality Test

TABLE 2
ONE-SAMPLE KOLMOGOROV-SMIRNOV TEST AFTER OUTLIER ELIMINATION

			Unstandardized Residual
N			53
Normal Parameters[a,b]	Mean		.0000000
	Std. Deviation		1.25503050
Most Extreme Differences	Absolute		.113
	Positive		.061
	Negative		-.113
Test Statistic			.113
Asymp. Sig. (2-tailed)			.087[c]
Monte Carlo Sig. (2-tailed)	Sig.		.475[d]
	99% Confidence Interval	Lower Bound	.462
		Upper Bound	.488
a. Test distribution is Normal.			
b. Calculated from data.			
c. Lilliefors Significance Correction.			
d. Based on 10000 sampled tables with starting seed 624387341.			
Source: Data processed using SPSS version 26 (2024)			

After outlier removal, the Kolmogorov-Smirnov test results indicate a near-normal distribution of residuals (p = 0.475), confirming that the data is suitable for regression analysis.

Heteroscedasticity Test

TABLE.3
HETEROSCEDASTICITY TEST

Correlations						
			ROA	DER	ETR	Unstandardized Residual
Spearman's rho	ROA	Correlation Coefficient	1.000	-.413**	-.157	.087
		Sig. (2-tailed)	.	.000	.175	.535
		N	76	76	76	53
	DER	Correlation Coefficient	-.413**	1.000	.023	-.066
		Sig. (2-tailed)	.000	.	.842	.638
		N	76	76	76	53
	ETR	Correlation Coefficient	-.157	.023	1.000	-.128
		Sig. (2-tailed)	.175	.842	.	.360
		N	76	76	76	53

	Unstandardized Residual	Correlation Coefficient	.087	-.066	-.128	1.000
		Sig. (2-tailed)	.535	.638	.360	.
		N	53	53	53	53
**. Correlation is significant at the 0.01 level (2-tailed).						
Source: Data processed using SPSS version 26 (2024)						

The Spearman's Rho test results show no significant heteroscedasticity, as correlation significance levels are above 0.05. This confirms that variance is consistent across the data points, supporting the reliability of regression results.

Multicollinearity Test

TABLE 4a
MULTICOLLINEARITY TEST USING TOLERANCE AND VIF

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	ln_ROA	.648	1.544
	ln_DER	.673	1.486
	ln_ETR	.939	1.065
a. Dependent Variable: ln_Earning_Management			

Source: Data processed using SPSS version 26 (2024)

TABLE 4b
MULTICOLLINEARITY TEST USING TOLERANCE AND VIF

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-3.494	1.258		-2.777	.008
	ln_ROA	-.018	.372	-.008	-.049	.961
	ln_DER	.483	.333	.243	1.452	.153
	ln_ETR	.675	.595	.161	1.136	.262
a. Dependent Variable: ln_Earning_Management						

Source: Data processed using SPSS version 26 (2024)

The VIF and Tolerance values demonstrate no multicollinearity issues, as Tolerance values are above 0.10 and VIF values are below 10. This indicates that the independent variables do not overly correlate, ensuring the validity of individual variable effects.

Autocorrelation Test

TABLE 5
RUNS TEST

	Unstandardized Residual

Test Value[a]	.08300
Cases < Test Value	26
Cases >= Test Value	27
Total Cases	53
Number of Runs	24
Z	-.969
Asymp. Sig. (2-tailed)	.333
a. Median Source: Data processed using SPSS version 26 (2024)	

The Run Test shows no significant autocorrelation in the residuals (p = 0.333), indicating independence among observations, which meets the assumptions for regression analysis.

Hypothesis Testing

Table 1.6 Multiple Linear Regression Analysis

The regression analysis shows the relationship of each independent variable—Profitability (ROA), Leverage (DER), and Tax Avoidance (ETR)—with Earnings Management. All variables demonstrate minimal and non-significant impacts, suggesting limited influence on earnings management practices.

TABLE 7
COEFFICIENT OF DETERMINATION (R^2)

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.273[a]	.075	.018	129.288
a. Predictors: (Constant), ln_ETR, ln_DER, ln_ROA				
a. Dependent Variable: ln_Earning_Management				
Source : Data processed using SPSS version 26 (2024)				

The R^2 value of 0.018 indicates that Profitability, Leverage, and Tax Avoidance together explain only 1.8% of the variance in Earnings Management, implying that other factors outside the study play a larger role.

Simultaneous F-Test

TABLE 8
F-TEST RESULTS

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6.609	3	2.203	1.318	.279[b]
	Residual	81.905	49	1.672		
	Total	88.514	52			
a. Dependent Variable: ln_Earning_Management						
b. Predictors: (Constant), ln_ETR, ln_DER, ln_ROA Source: Data processed using SPSS version 26 (2024)						

The F-Test results reveal no significant combined effect of the independent variables on Earnings Management (p = 0.279), indicating that, together, these variables do not significantly drive earnings manipulation in the sample companies.

Partial t-Tests

TABLE 9
T-TEST RESULTS

	Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
	(Constant)	-3.494	1.258		-2.777	.008
	ln_ROA	-.018	.372	-.008	-.049	.961
	ln_DER	.483	.333	.243	1.452	.153
	ln_ETR	.675	.595	.161	1.136	.262
a. Dependent Variable: ln_Earning_Management						

Source: Data processed using SPSS version 26 (2024)

Each t-test result shows that none of the independent variables (ROA, DER, ETR) has a statistically significant individual effect on Earnings Management, with p-values exceeding 0.05. This reinforces the minimal role of these factors in influencing earnings manipulation within the sample.

DISCUSSION

These results imply that in the Indonesian consumer goods sector, earnings management practices are not heavily influenced by profitability, leverage, or tax avoidance alone or in combination. This finding highlights the possible influence of other variables, such as corporate governance mechanisms, market conditions, or external regulatory pressures, which may exert greater control over earnings management. Future research could explore these alternative factors to gain a more comprehensive understanding of earnings management drivers in this sector.

CONCLUSION

This study investigates the impact of profitability, leverage, and tax avoidance on earnings management in consumer goods companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2020. The results show that profitability (measured by ROA), leverage (measured by DER), and tax avoidance (measured by ETR) do not significantly influence earnings management practices, whether assessed individually or collectively. The lack of a meaningful relationship suggests that managers in this sector may not rely on earnings manipulation to respond to profitability, debt, or tax considerations, possibly due to the essential nature of the consumer goods industry, which provides stable demand and less pressure for exaggerated financial reporting. Additionally, the relatively conservative debt usage in this sector and regulatory tax frameworks in Indonesia may limit incentives and opportunities for earnings manipulation.

These findings imply that other factors, such as corporate governance structures, regulatory oversight, or managerial incentives, may play a larger role in shaping earnings management practices within this industry. Future research could explore these additional variables to provide a more comprehensive understanding of earnings management drivers in Indonesia’s consumer goods sector.

This study contributes valuable insights for investors, regulators, and company management, suggesting that the motivations behind earnings management in emerging markets like Indonesia may differ from those in more mature economies, emphasizing the importance of context-specific analysis

REFERENCES

Amri, N. F. (n.d.). *Agency Theory (Teori Agensi) Dalam Perusahaan Dan Efeknya*. Retrieved from e-akuntansi: https://www.e-akuntansi.com/agency-theory-teori-agensi-dalam-perusahaan-dan-efeknya/

Anindya, W., & Yuyetta, E. (2020). Pengaruh Leverage, Sales Growth, Ukuran Perusahaan Dan Profitabilitas Terhadap Manajemen Laba. *DiponegoroJournal of Accounting, 9(3)*, 1-14.Artikel Pendidikan. (2022, March 18). *Teori Agensi Menurut Para Ahli Dalam Praktek Akuntansi*. Retrieved from Artikel Pendidikan: https://artikelpendidikan.id/teori-agensi/

Asyati, S., & Farida. (2020). Pengaruh Good Corporate Governance, Leverage, Profitabilitas dan Kualitas Audit terhadap Praktik Manajemen Laba (Studi Empiris pada Perusahaan Manufaktur yang Terdaftar di BEI Periode 2014-2018). *Journal of Economic, Management, Accounting and Technology (JEMATech), 3(1)*, 36 -38. doi:https://doi.org/10.32500/jematech.v3i1.1073

Barton, K. (2022). *Consumer Goods*. Retrieved from wallstreetmojo.com: https://www.wallstreetmojo.com/consumer-goods/

Ghozali, I. (2018). *Aplikasi Analisis Multivariate Dengan Pogram IBM SPSS Edisi Sembilan.* Semarang: Universitas Diponegoro.

Hayati, R. (2021). *Pengertian Teknik Pengumpulan Data, Macam, Cara Menulis, dan Contohnya*. Retrieved from PenelitianIlmiah.Com: https://penelitianilmiah.com/teknik-pengumpulan-data/#:~:text=Riduwan%20(2010)%2C%20Teknik%20pengumpulan,untuk%20memperoleh%20data%20yang%20diperlukan.

Hayes, A. (2022, March 17). *Leverage*. Retrieved from Investopedia: https://www.investopedia.com/terms/l/leverage.asp

Hestanto. (2020). *Teori Keagenan Menurut Beberapa Cendekiawan*. Retrieved from hestanto personal website: https://www.hestanto.web.id/teori-keagenan-menurut-beberapa-cendekiawan/

Kamil, I. (2018). Konsep Praktik Manajemen Laba Dalam Persepsi Etis Mahasiswa (Studi Kasus Pada Universitas Xyz). *Jurnal Profita Vol.11 No.1*, 55.

Kasmir. (2019). *Analisis Laporan Keuangan Edisi Pertama Cetakan Keduabelas.* Jakarta: PT Raja Grafindo Persada.

Krisnan. (2021). *Berikut Ini 4 Pengertian Metode Kuantitatif Menurut Para Ahli*. Retrieved from Meenta: https://meenta.net/metode-kuantitatif/

Larastomo, J., Perdana, H., Triatmoko, H., & Sudaryono, E. (2016). Pengaruh Tata Kelola Perusahaan Dan Penghindaran Pajak Terhadap Manajemen Laba Pada Perusahaan Manufaktur Di Indonesia. *Jurnal Bisnis dan Manajemen, 6(1)*, 63-74. doi:10.15408/ess.v6i1.3121

Maysani, N., & Suaryana, I. (2019). Pengaruh Tax Avoidance Dan Mekanisme Corporate Governance Pada Manajemen Laba. *E-Jurnal Akuntansi, 28(3)*, 1886-1903. doi:https://doi.org/10.24843/EJA.2019.v28.i03.p16

Momoh, O. (2021). *Understanding Population Statistics*. Retrieved from Investopedia: https://www.investopedia.com/terms/p/population.asp#:~:text=A%20population%20is%20a%20distinct,is%20drawn%20for%20a%20study.

Murphy, C. (2021, July 27). *How To Interpret Financial Statements*. Retrieved from Investopedia: https://www.investopedia.com/terms/f/financial-statements.asp

Pornawan, O. S. (2021). *Manajemen Laba*. Retrieved from Kledo.com: https://kledo.com/blog/manajemen-laba/

Purnama, D. (2017). Pengaruh Profitabilitas, Leverage, Ukuran Perusahaan, Kepemilikan Institusional Dan Kepemilikan Manajerial Terhadap Manajemen Laba. *Jurnal Riset Keuangan dan Akuntansi*.

Robby, K. (2012). *Konsep Dan Macam-Macam Metode Penelitian*. Retrieved from Ka Robby: https://karobby.wordpress.com/2012/05/12/konsep-dan-macam-macam-metode-penelitian/Salmaa. (2021). *Purposive Sampling: Pengertian, Jenis-Jenis, dan Contoh yang Baik dan Benar*. Retrieved from Penerbit Deepublish: https://penerbitdeepublish.com/purposive-sampling/

Scott, W. R. (2008). *Financial Accounting Theory Fifth Edition.* Canada: Pearson Prentice Hall.Sumber Pengertian. (2020). *Pengertian Populasi dan Sampel Menurut Para Ahli*. Retrieved from SumberPengertian.ID: https://www.sumberpengertian.id/pengertian-populasi-dan-sampel

Supriyono, R. (2018). *Akuntansi Keperilakuan.* D.I. Yogyakarta: Gadjah Mafa University Press.

Tampubolon, R. A. (2019). Analisis Penghindaran Pajak, Beban Pajak Tangguhan, dan Koneksi Politik terhadap Manajemen Laba. *Jurnal Akuntansi, Keuangan, dan Manajemen*.

Temukan Pengertian. (2019). *Pengertian Variabel Independen dan Contohnya*. Retrieved from Temukan Pengertian: https://www.temukanpengertian.com/2013/06/pengertian-variabel-independen.html

Temukan Pengertian. (2021). *Pengertian Variabel Dependen dan Contohnya*. Retrieved from Temukan Pengertian: https://www.temukanpengertian.com/2013/06/pengertian-variabel-dependen.html

Tokopedia. (2022). *Profitabilitas - Pengertian, Jenis, dan Contohnya: Tokopedia Kamus*. Retrieved from Tokopedia: https://kamus.tokopedia.com/p/profitabilitas/

Tuovila, A. (2022). *Investopedia*. Retrieved from https://www.investopedia.com/terms/e/earningsmanagement.asp#:~:text=Earnings%20management%20is%20the%20use,judgments%20in%20following%20these%20principles.