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**THE INFLUENCE OF FINANCIAL PERFORMANCE
ON PROFITABILITY (CASE STUDY OF SUB SECTOR COMPANIES
LISTED ON THE INDONESIA STOCK EXCHANGE FOR
THE PERIOD 2018 - 2020)**

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ABSTRACT

This research aims to find out and analyze the influence of financial performance on profitability. This research uses quantitative studies using purposive sampling techniques with a sample count of 10 companies. The subject of this study is an automotive sub-sector company listed on the Indonesia Stock Exchange for the period 2018-2020. The results showed that there was no effect of Debt to Equity Ratio (X_2) and Firm Size (X_4) on Profitability (Y) in automotive sub-sector companies listed on the Indonesia Stock Exchange for the period 2018-2020. However, there is a positive influence of the Current Ratio (X_1) and Total Asset Turnover (X_3) on Profitability (Y) in automotive sub-sector companies listed on the Indonesia Stock Exchange for the period 2018-2020.

Keywords: CR, DER, TATO, Firm Size, ROA

INTRODUCTION

The rapid pace of competition in the industrial world is a challenge for all industrial sectors. In addition, business progress in Indonesia is also a major factor that supports the country's economic stability. At this time, competition in the development of the industrial world is increasingly critical and sharp, both in the industrial and service sectors. This causes every company to strive to be able to maintain its business and can create increasingly competitive competition between companies with one another field (Febriani et al, 2019). However, at the time of the COVID-19 pandemic, it had many diverse impacts on many industrial sectors, one of which was the automotive industry which is one of the mainstay sectors that have a significant contribution to the national economy.

Companies must have precise strategies to improve the quality of their performance and profits to make the biggest contribution to the Indonesian economy. Profitability is a vital element for the company. The profitability of a company shows a comparison between profits and assets or capital that generates these profits, in other words, profitability is the company's ability to generate profits during a certain period.(Kurniawati et al, 2018). Many factors can affect the company's profitability (profitability), both internal and external factors. Internal factors can be identified through the company's financial performance which can be identified by analyzing financial statements. Analysis of the company's financial statements can be done using several financial ratio analyzes, such as liquidity ratios, debt ratios (solvability), activity ratios, and profitability ratios.

The liquidity ratio is a ratio that reflects the ability to fulfill short-term obligations, in this study, it is proxied by the current ratio (CR) which shows the company's liquidity condition, where the higher the current ratio owned by the company, the risk of the company's failure to meet its short-term obligations will be small and this affects the resilience of the return on assets when the company can take advantage of the availability of funds for profitable investments.

The solvency ratio is a ratio that reflects how big the composition of the company is funded by using debt, in this study, it is proxied by the debt-equity ratio (DER) which shows the strength of capital in paying the company's debt. The company must pay attention to the debt to equity ratio by reducing the use of large debt to reduce the debt burden so that it does not affect the profitability and value of the company.

The activity ratio is a ratio that reflects the efficiency of use asset company, in this study, it is proxied by total asset turnover (TATO) which shows the use of the company's total assets wisely and on target. When the company has a high total asset turnover, the company can manage current and fixed assets properly so that it will increase the proportion of the return on assets. In addition, this study also uses firm size (LTE) to find out how big the size of the company can affect the company's profitability. When the company has a large company size, it will have large total assets so that the company will certainly have more ability to generate profits.

Based on the background that has been described, this research takes the title "The Effect of Financial Performance on Profitability (Case Study of Automotive Sub-Sector Companies Listed on the Indonesia Stock Exchange Period 2018-2020)". The purpose of this study is to partially examine and analyze the effect of the current ratio, debt to equity ratio, total asset turnover, and firm size on the return on assets of the automotive sub-sector companies listed on the Indonesia Stock Exchange for the period 2018-2020.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Signal Theory (Signalling Theory)

Signal theory illustrates that a signal or cue is an action taken by the company's management that provides clues to investors about how management views the company's prospects. This theory reveals that investors can distinguish between high-value companies and low-value companies (Houston, 2015).

Return On Assets

Return on assets is a financial ratio that can reflect the company's ability to generate profits or profits from all assets and financial resources owned by the company (Kasmir, 2016).

Current Ratio

Current ratio is one of the ratios that fall into the category of liquidity ratios or ratios used to see the company's ability to meet short-term obligations that are approaching maturity. (Herry, 2017).

Debt to Equity Ratio

Debt to Equity Ratio is one of the important solvency or leverage ratios and must be considered by investors. The company is said to be well-established and healthy in terms of finances, not only seen from the number of sales and profits generated but can also be seen from the debt to equity ratio.

Total Asset Turnover

Total Asset Turnover is one of the ratios of activity that useful to measure the effectiveness of use and utilization asset company to increase profits. Through the total asset turnover ratio, can be seen the movement of all assets in the company can also know the number of sales of each rupiah of the company's assets. According to (Harry, 2017).

Firm Size

Company size is a reflection of the size of the company that can affect the ease and flexibility of the company to get access to loans from creditors and potential investors in the form of debt and share capital. Suratno, 2016)

Effect of Current Ratio on Return on Assets

Current ratio is a reflection of the company's ability to meet current obligations with asset fluent. Companies that have a higher current ratio indicate the greater the company's ability to meet its short-term obligations. This shows that the company made a large placement of funds on the side of current assets. Overfunding on the asset side has two very different effects. On the one hand, the company's liquidity is getting better. But on the other hand, the company may lose the opportunity to get additional profits, if the funds that should be used for investments that are profitable for the company are reserved too much to meet liquidity. So it is necessary to have a balanced policy between the use of current liability payments and the use of positive investments when the company has a high current ratio (Amanda, 2019). Based on the description above, the first hypothesis is:

H1: It is suspected that the current ratio has a positive effect on the profitability of the automotive sub-sector companies listed on the IDX for the 2018-2020 period.

Effect of Debt to Equity Ratio on Return on Assets

Equity debt ratio have an influence on return on assets. The company's profit achievement is influenced by the debt to equity ratio which describes the company's funding policy. Funding that obtained from debt can be used to improve performance and expand the business so that it will increase company profits (Ardhefani et al, 2021). On the other hand, the company must also remain careful so that the use of debt for business activities and company operations does not add to the company's burden and does not increase investor doubts to invest in the company. (Kurniawati et al, 2018). Based on the description above, the second hypothesis is:

H2: It is suspected that the debt to equity ratio hurts the profitability of the automotive sub-sector companies listed on the IDX for the 2018-2020 period.

Effect of Total Asset Turnover Ratio on Return on Assets

Total Asset Turnover is a picture that shows the relationship between working capital and sales. This ratio shows the relationship between capital and sales, namely how many sales a company has managed to obtain for every rupiah of working capital that has been issued. The higher the total asset turnover value, the better the company in managing its assets. If the company's financial performance is good, the company will be able to optimize the use of assets in sales and investment while still obtaining a high total asset turnover and high return on assets (Irman et al, 2020). If the turnover is slow, it means that the assets owned are too large compared to the company's sales level. The higher the total asset turnover, the more efficient the use of assets and the higher the profit that can be obtained field (Qamara et al, 2020). Based on the description above, the third hypothesis is:

H3: It is suspected that total asset turnover has a positive effect on the profitability of the automotive sub-sector companies listed on the IDX for the 2018-2020 period.

Effect of Firm Size on Return on Assets

Company size is an assessment of the size of the company based on the total asset which he has. Large company size is considered to be able to increase the company's economies of scale. Large companies have the advantage of being easy to access and enter the capital market so that large companies have the opportunity to collect as many sources of funds as possible to be managed properly and increase investor confidence. (Febriani et al, 2019) Based on the description above, the fourth hypothesis is:

H4: It is suspected that Firm size has a positive effect on the profitability of the automotive sub-sector companies listed on the IDX for the 2018-2020 period.

RESEARCH METHODS

Types of research

In this study, researchers used quantitative analysis methods, which are types of research that use methods to test or examine the relationship between variables, where these variables are measured using certain proxies so that data consisting of these numbers can be analyzed using procedural statistics. According to Tofield (Sugiyono, 2010) Quantitative research is used to examine certain populations or samples and the data collection is statistical in nature to test predetermined hypotheses (Sugiyono, 2010).

Population and Sample

The population in this study are all automotive sub-sector companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2020 period, totaling 13 companies. The sampling method used in this research is using a purposive sampling technique. According to (Sugiyono, 2015) Purposive sampling is a sampling technique with certain considerations. The following criteria were used to select the sample in this study:

Table 1. Research Sample Calculation

No.	Information	Amount
1.	Automotive sub-sector companies listed on the Indonesia Stock Exchange in 2018-2020.	(13)
2.	An automotive sub-sector company that publishes complete financial reports in 2018-2020.	(12)
3.	An automotive sub-sector company that publishes financial reports in rupiah currency in 2018-2020.	(11)
TOTAL		10

Source: Indonesia Stock Exchange, 2022

Based on the table above, it shows that sampling carried out using purposive sampling technique has decreased, this happens because there is 1 company that has not published its financial statements in full in 2018-2020 and there are 2 companies that publish their financial statements by not using currency. rupiah. So that the sample in this study as many as 10 samples.

Data Types and Sources

This study uses secondary sourced data, namely data obtained indirectly through intermediaries, for example through media recorded and collected by other parties whose credibility has been tested. Usually secondary data will be in the form of evidence, records, historical reports that have been arranged neatly and archived (Sugiono, 2014). This study uses secondary data in the form of financial statements of automotive sub-sector companies listed on the IDX for the 2018-2020 period.

RESULTS AND DISCUSSION

Descriptive statistics

Descriptive statistics is a statistical analysis that provides a general description of the characteristics of each research variable seen from the average (mean), maximum, and minimum values. Following are the results of descriptive statistical tests on automotive sub-sector companies:

Table 2. Descriptive Statistical Test Results

Descriptive Statistics						
	N	Minimum	Maximum	mean	Std. Deviation	
X1_Current Ratio	30	.60	13.04	3.0261	2.96421	
X2_Debt to Equity Ratio	30	.07	3.75	1.0612	.99045	
X3_Total Asset Turnover	30	.18	1.40	.6712	.30606	
X4_Firm Size	30	5.86	31.51	22.1225	7.04297	
Y_ROA	30	-8.01	29.57	5.6104	8.02459	
Valid N (listwise)	30					

Source: Data processed with SPSS 25 (2022)

From the table above, it is known that the number of samples used in this study is 30. The variable current ratio (X_1) has a minimum value of 0.60 and a maximum of 13.04 with an average of 3.026 and a standard deviation of 2.964. Furthermore, the debt to equity ratio (X_2) variable has a minimum value of 0.07 and a maximum of 3.75 with an average of 1.061 and a standard deviation of 0.990. Furthermore, the total asset turnover variable (X_3) has a minimum value of 0.18 and a maximum of 1.40 with an average of 0.671 and a standard deviation of 0.306. Furthermore, the firm size variable (X_4) has a minimum value of 5.86 and a maximum of 31.51 with an average of 22.122 and a standard deviation of 7.042. The return on assets (Y) variable has a minimum value of -8.01 and a maximum of 29.57 with an average of 5.61 and a standard deviation of 8.02.

Classic assumption test

Classical assumption test is a test used to determine the model in the regression that is able to show a significant and representative relationship. Classical assumption testing in this study can be done by means of normality test, multicollinearity test, and heteroscedasticity test.

Table 3. Normality Test Results
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		30
Normal Parameters, b	mean	.0000000
	Std. Deviation	5.07811592
Most Extreme Differences	Absolute	.140
	Positive	.114
	negative	-.140
Test Statistics		.140
asymp. Sig. (2-tailed)		.137c

Source: SPSS Output Version 25 (2022)

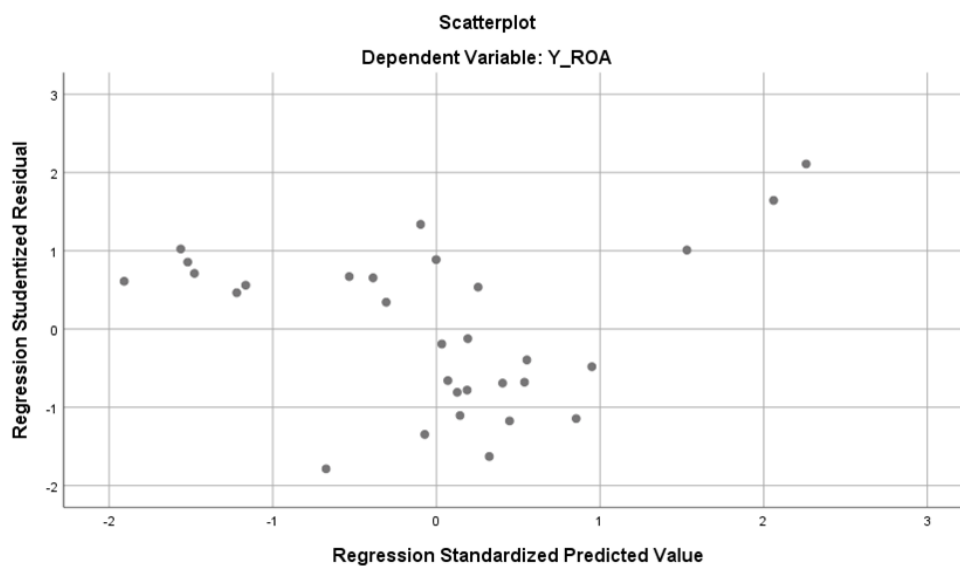
Based on the results in the table above, it shows that the value of sig. (2-tailed) above 0.05, which is 0.137. This means that the residual data is normally distributed.

Table 4. Multicollinearity Test Results

Model	Coefficientsa	
	Collinearity Statistics	
	Tolerance	VIF
X1_Current Ratio	.489	2,046
X2_Debt to Equity Ratio	.426	2,348
X3_Total Asset Turnover	.609	1,641
X4_Firm Size	.682	1.465

Based on the table above, the results of the multicollinearity test on the regression model in the automotive sub-sector company show that the variable current ratio (X_1) has a tolerance value of 0.489 greater than 0.1 and a VIF value of 2.046 less than 10. So it can be concluded that for the variable current ratio does not occur multicollinearity symptoms. The debt to equity ratio (X_2) has a tolerance value of 0.426 which is greater than 0.10 and the VIF value of 2.348 is smaller than 10. So it can be concluded that for the variable debt to equity ratio there is no symptom of multicollinearity. The total asset turnover (X_3) has a tolerance value of 0.609, which is greater than 0.10 and a VIF value of 1.641, which is smaller than 10. So it can be concluded that for the total asset turnover variable there is no symptom of multicollinearity. Firm size (X_4) has a tolerance value of 0.682 which is greater than 0.10 and a VIF value of 1.465 is smaller than 10. So it can be concluded that for the firm size variable there is no symptom of multicollinearity.

Figure 1. Heteroscedasticity Test Results



Source: Data processed with SPSS 25 (2022)

Based on the scatterplot graph showing that the data spreads randomly so that the scatterplot does not form a funnel pattern, it can be concluded that there is no heteroscedasticity in this regression model, so the regression model is feasible to use. To be more sure that this study does not occur heteroscedasticity, the Glejser test will also be presented where the decision making in this test has the criteria that each variable that has a significant value <0.05 then it can be said that there is heteroscedasticity, on the contrary if each variable has a sig value > 0.05 , it can be said that there is no heteroscedasticity. Here's a table of the results of the glejser test:

Table 5. Glejser test Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	3.120	2,671		1.168	.254
X1_Current Ratio	.269	.207	.333	1.304	.204
X2_Debt to Equity Ratio	.937	.663	.387	1.414	.170
X3_Total Asset Turnover	2,663	1,793	.340	1.486	.150
X4_Firm Size	-.105	.074	-.308	-1.422	.167

a. Dependent Variable: ABRESID

Based on the table above, it shows that in this study there was no heteroscedasticity. This happens because each variable has a sig value > 0.05, it can be concluded that this study is free of heteroscedasticity.

Table 6. Multiple Linear Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-4.515	6.333		-.713	.483
X1_ Current Ratio	1.414	.490	.522	2.886	.008
X2_ Debt to Equity Ratio	.865	1,571	.107	.550	.587
X3_ Total Asset Turnover	15,749	4.251	.601	3,705	.001
X4_ Firm Size	-.255	.175	-.224	-1.461	.156

Based on the data in the table above, the following regression equation is obtained:

$$\text{Return On Assets} = - 4.515 + 1.414X_1 - 0.865X_2 + 15.749X_3 + -0.255X_4$$

- Based on the table above, it can be seen that the coefficient of Current Ratio (X_1) is 1.414. While the t arithmetic value is $2.886 > t$ table 2.059 and the significance level is $0.008 < 0.05$, which means that the Current Ratio (X_1) variable has a significant effect on return on assets (Y).
- Based on the table above, it can be seen that the coefficient Debt to Equity Ratio (X_2) is 0.865. While the t arithmetic value is $0.550 < t$ table 2.059 and the significance level is $0.587 > 0.05$, which means that the variable Debt to Equity Ratio (X_2) has no significant effect on return on assets (Y).
- Based on the table above, it can be seen that the coefficient Total Asset Turnover (X_3) is 15.749. While the t arithmetic value is $3.705 > t$ table 2.059 and the significance level is $0.001 < 0.05$, which means that the Total Asset Turnover (X_3) variable has a significant effect on return on assets.
- Based on the table above, it can be seen that the coefficient of Firm Size (X_4) is -0.255. Meanwhile, the t-count value is $-1.461 < t$ table 2.059 and the significance level is $0.156 > 0.05$, which means that the Firm Size (X_4) variable has no significant effect on return on assets.

Table 7. F . test ANOVAa

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1119,596	4	279,899	9,357	.000b
	Residual	747,831	25	29,913		
	Total	1867,427	29			

Source: Data processed with SPSS 25 (2022)

Based on the table above, the f test results show that the calculated f value is 9.357 with a significant value of 0.000, so it can be concluded that the estimated model is suitable for use in this study because it shows results less than 0.05.

Table 8. Coefficient of Determination Test Results Model Summaryb

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.774a	.600	.535	5.46930

Source: Data processed with SPSS 25 (2022)

Based on the table above, the results of the coefficient of determination test that show R square in this study is 0.535 which means that 53.5% of the company's financial performance can be explained by independent variables, while the rest is influenced by other factors not included in this study such as Quick Ratio, Cash Ratio, Receivable Turnover, Inventory Turnover, Fixed Asset Turnover and so on.

Table 9. T . Test Results Coefficientsa

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-4.515	6.333		-.713	.483
X1_Current Ratio	1.414	.490	.522	2.886	.008
X2_Debt to Equity Ratio	.865	1.571	.107	.550	.587
X3_Total Asset Turnover	15,749	4.251	.601	3,705	.001
X4_Firm Size	-.255	.175	-.224	-1.461	.156

Source: Data processed with SPSS 25 (2022)

Based on the table above, the results of the t test show the calculation results along with the level of significance with the following explanation:

- Based on the table above, it can be seen that the coefficient of Current Ratio (X_1) is 1.414. While the t arithmetic value is $2.886 > t$ table 2.059 and the significance level is $0.008 < 0.05$, which means that the Current Ratio (X_1) variable has a significant effect on return on assets (Y).
- Based on the table above, it can be seen that the coefficient Debt to Equity Ratio (X_2) is 0.865. While the t arithmetic value is $0.550 < t$ table 2.059 and the significance level is $0.587 > 0.05$, which means that the variable Debt to Equity Ratio (X_2) has no significant effect on return on assets (Y).
- Based on the table above, it can be seen that the coefficient Total Asset Turnover (X_3) is 15.749. While the t arithmetic value is $3.705 > t$ table 2.059 and the significance level is $0.001 < 0.05$, which means that the Total Asset Turnover (X_3) variable has a significant effect on return on assets.
- Based on the table above, it can be seen that the coefficient of Firm Size (X_4) is -0.255. Meanwhile, the t-count value is $-1.461 < t$ table 2.059 and the significance level is $0.156 > 0.05$, which means that the Firm Size (X_4) variable has no significant effect on return on assets.

CONCLUSION

This study is an empirical study that aims to determine the effect of liquidity, solvency, and company activities on profitability in automotive sub-sector companies listed on the Indonesia Stock Exchange for the 2018-2020 period. The test results that have been carried out previously show the results that partially or simultaneously all independent variables (liquidity, solvency, and activity) have a significant effect on the dependent variable (company profitability). Partially, the company's liquidity and activities have a significant positive effect on the company's profitability. Meanwhile, the company's solvency has a significant negative effect on the company's profitability.

The limitations of this study include that this research only examines one particular industry, namely the automotive industry, besides that this study only uses research data for 3 years, so it cannot explain how the influence of financial performance on profitability, especially the automotive sub-sector from year to year. Furthermore, in this research measurement only uses a few independent variables which consists of the current ratio, debt to equity ratio, total asset turnover, and firm size. For further researchers who are interested in

using the object or sample of this research, it is expected to be able to develop this research more broadly, namely by increasing the number of samples of companies engaged in other sectors and expanding this research by extending the year of observation in order to show better and better results. accurate.

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