PROFITABILITY DRIVERS: AN IN-DEPTH ANALYSIS OF HEALTH INDUSTRY COMPANIES

Faizul Mubarok[1], Muhammad Irfan Kurnia[2], Laila Mutiara[3], Yoga Dwi Prakoso[4]
[1]Universitas Terbuka
[2,3,4]Universitas Islam Negeri Syarif Hidayatullah Jakarta
faizul.mubarok@ecampus.ut.ac.id[1*] , muhammadirfankurnia14@gmail.com[2] , laailmutiara@gmail.com[3] ,
yoga.dwiprakoso39@gmail.com[4]

This research examines the influence of liquidity, activity, interest rate, and firm value variables on the profitability of healthcare companies listed on the Indonesia Stock Exchange. Employing purposive sampling, the study chose eight healthcare companies as its sample from 2018 to 2022. Data analysis was conducted using a fixed-effects model. The results showed that two variables, namely asset turnover (activity ratio) and interest rates, have a significant influence on the profitability of companies in the healthcare sector. However, the variables of current ratio (liquidity) and firm value have yet to be proven to significantly influence the level of profitability of these companies. This finding suggests that managers of companies in the healthcare sector should prioritize these factors in managing finances and enhancing profitability. Improving efficiency in asset utilization and a better understanding of interest rate conditions can be effective strategies. Meanwhile, liquidity and firm value do not significantly impact profitability, which may provide additional insights for managerial decision-making in this sector.
Keywords: Profitability, Liquidity, Asset Turnover, Interest Rate, Firm Value

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INTRODUCTION

These studies provide a deep understanding of the factors influencing profitability across various industry sectors, highlighting the diversity and complexity of the relationships between specific variables and corporate financial performance. This study complements and enriches the literature regarding factors that influence profitability. This study aims to analyze the effect of liquidity, activity, interest rates, and firm value on the profitability of companies in the health sector listed on the Indonesia Stock Exchange.

The objective of this research is to investigate the impact of liquidity, activity, interest rates, and firm value on the profitability of publicly traded healthcare companies listed on the Indonesia Stock Exchange. The difference between this research and previous research lies in the variables and company sectors used to measure profitability. This research focuses on the health sector, utilizing the latest data from the past five years. In contrast, previous research has concentrated on the food and beverage sector, with data spanning less than five years. Additionally, this study employs different independent variables, including the current ratio, price-to-book value, asset turnover, and interest rates. Previous studies have only considered sales growth, firm size, and the current ratio as independent variables; this study introduces additional relevant variables.

Understanding the profitability of companies in the healthcare sector is significantly influenced by various factors, and this research plays a vital role in identifying them. By analyzing the impact of liquidity, asset value, activity, and interest rates on profitability, this study provides an in-depth insight into the financial dynamics in the healthcare sector. Stakeholders, including company management, policymakers, and investors, can utilize the findings of this study as a reference to make more informed and productive decisions when managing healthcare sector businesses.

Furthermore, this study makes a significant contribution to risk management, aiding in the management of financial risks during digital transformation. By generating information-rich findings, this study also contributes to the academic literature by deepening the understanding of the correlation between financial and non-financial factors and profitability in the healthcare sector. The findings provide a basis for further research and the development of new theories.

1. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The healthcare industry in Indonesia is an integral part of the priority sectors in realizing the "Making Indonesia 4.0" program, a government initiative aimed at preparing Indonesia for the digital industrial era 4.0. The program focuses on seven key industrial sectors: food and beverages, textiles, automotive, chemicals, electronics, medical devices, and pharmaceuticals. The government identified significant growth opportunities in the health sector, primarily through performance reports and social activities, which showed consistent positive contributions during the pandemic. The health sector increased its contribution by 0.20 percentage points in 2020 and 0.04 percentage points in 2021. However, the main challenges include low operational efficiency, less effective financial management, and slow technology adoption. Issues of interoperability and compliance with ever-changing regulations are also obstacles. It is crucial to remember that improving the quality of care and satisfaction is not just important for profitability, but also for well-being. Variations in deployment levels and reliance on specific services make organizations vulnerable. Technology investments must be assessed based on the return on investment, and the costs of maintaining the technology are significant. One effective method for evaluating company performance is financial analysis, with a focus on profitability ratios. This approach is grounded in the primary objective for which a company is established, namely to maximize profit or gain, as emphasized by [1]. Profitability is measured through ratios that assess the company's ability to generate profits from its sales, assets, and share capital. These profitability ratios assess the company's effectiveness in generating profits over a specific period and provide insights into management's efficiency in executing operational activities, as articulated by [2].

In the context of this study, researchers used Return on Assets (ROA) profitability ratio analysis as an evaluative indicator. ROA is a significant criterion for assessing a company's profitability level, which can influence investment decisions from an investor's perspective. The research conducted by various scholars sheds light on the factors that impact the profitability of companies across different sectors. The factors affecting profitability in food and beverage companies listed on the Indonesia Stock Exchange (IDX) during the period 2019 to 2021 [3]. According to their findings, sales growth and company size have a positive but insignificant influence on profitability, while liquidity has a significant positive impact. A study on food and beverage companies listed on the Indonesia Stock Exchange (IDX) was conducted to examine relevant factors [4]. They

focused on the impact of Corporate Social Responsibility (CSR), leverage, and company size on profitability. Although they found different results, their study added complexity to our understanding of the factors influencing profitability in the sector.

The impact of financial indicators such as the Current Ratio, Inventory Turnover, Debt-to-Equity Ratio, and Company Size on the profitability of consumer goods companies has been explored, offering valuable insights into sector-specific dynamics. Additionally, research on real estate and property companies revealed that Total Assets and Company Size significantly influence Return on Assets, highlighting variations in profitability drivers across industries [5], [6]. The impact of capital structure and working capital turnover on profitability in the automotive industry has been investigated, revealing that variables such as Working Capital Turnover (WCT) and Debt-to-Equity Ratio (DER) significantly affect Return on Assets (ROA), offering deeper insights into sectoral dynamics [7]. Further research found that increasing debt capital tends to reduce company profitability [8], while other studies identified a positive relationship between capital structure and financial performance, underscoring the complexity of financial decision-making in influencing profitability [9]. Research on commercial banks has shown that only Capital Adequacy Ratio (CAR), Non-Performing Loans (NPL), and Net Interest Margin (NIM) significantly influence Return on Assets (ROA), offering deeper insights into profitability factors within the banking sector [10]. Additionally, environmental performance and carbon accounting disclosures have been studied in relation to manufacturing company profitability. Findings indicate that while carbon disclosures do not impact profitability, environmental performance positively affects ROA, providing a fresh perspective on the role of non-financial factors in shaping financial outcomes [11].

This research employs Agency Theory as a comprehensive theoretical framework. Agency Theory studies the relationship between owners and management, highlighting potential conflicts of interest that can affect financial performance. This theory is relevant because these variables are performance indicators influenced by managerial decisions. Profitability, as measured by the return on assets indicator, assesses management's effectiveness in utilizing assets to generate profits, while the current ratio evaluates management's ability to manage liquidity effectively. Asset turnover measures the efficiency with which assets generate income. Interest rates analyze the impact of interest costs on profitability, while price-to-book value evaluates the market's perception of a company's value. With Agency Theory, analysis can reveal how management policies and actions impact profitability and provide recommendations for enhancing governance and improving incentive structures.

A corporation's ability to generate profits and provide value to its shareholders is what defines profitability [12]. It is a critical factor in ensuring a company's long-term sustainability, as profits generated are necessary for investment and expansion purposes [13]. Profitability is assessed using various indicators, including gross profit margin, net profit margin, return on assets (ROA), and return on equity (ROE) [14]. The gross profit margin measures the gross profit as a percentage of sales, while the net profit margin measures the net profit as a percentage of sales [15]. ROA is a measure of how effectively a company generates profits from its assets, while ROE assesses the net profit relative to shareholder equity [16].

A company's ability to meet its short-term financial obligations is referred to as liquidity [17]. The current ratio and quick ratio are commonly used to gauge the extent of liquidity. The current ratio measures a company's ability to settle its short-term debts by utilizing its current assets. On the other hand, the quick ratio evaluates a company's ability to meet its immediate financial liabilities by using readily available current assets [18]. Several studies have found a relationship between liquidity and profitability. A level of liquidity that is too high can reduce the company's ability to invest funds in projects that have the potential to generate profits [19]. On the other hand, liquidity that is too low can also reduce profitability due to difficulties in paying short-term obligations [14]. Therefore, achieving an optimal liquidity balance is critical for profitability [20]. Good liquidity management and a balance between liquidity and profitability are critical for a company's long-term performance and business continuity [20]. Regular monitoring and evaluation are necessary to maintain optimal liquidity levels in response to dynamic changes in the business environment.

The efficient utilization of a company's resources can be measured by its activities. Inventory turnover, accounts receivable turnover, and total asset turnover are some of the activity ratios commonly used to assess this efficiency [21]. High asset turnover indicates optimal utilization of assets to generate sales [14]. However, excessive activity can also result in decreased profitability due to increased operational costs [22]. Company size, leverage, and liquidity influence the relationship between activity and profitability. Managing optimal activity levels is critical for increasing company profitability [14]. Companies must actively monitor activity ratios and adjust their working capital and asset management policies in response to changing internal and external conditions. Thus, effective management of activities can positively contribute to overall company performance.

Interest rates constitute a crucial element of capital costs for most companies [23]. A surge in interest rates can lead to higher interest expenses and a reduction in the company's net profit [19]. Consequently, interest rates typically harm company profitability, as assessed through metrics such as Return on Assets (ROA) and Return on Equity (ROE) [24]. Nevertheless, several studies indicate a positive correlation between interest rates and profitability, particularly in the banking and financial sectors. This is attributed to the escalation in interest income generated when interest rates rise. The extent of the impact of interest rates hinges on the company's financing structure and industry-specific characteristics [23]. Factors such as company size, leverage, liquidity, inflation, and economic growth can moderate the relationship between interest rates and profitability. Thus, interest rate movements significantly impact profitability, and interest rate risk management becomes an important aspect that companies must pay attention to [19].

Company value is the price investors are willing to pay to obtain ownership in a company [25]. Several factors influence company value, including financial performance, governance, and company image [26]. Several studies have identified a positive correlation between company value and profitability levels, as measured by the Return on Assets (ROA) and Return on Equity (ROE) indicators (25, 27). This is due to the availability of investors to pay higher premiums for companies with a good level of profitability, thereby increasing company value [26]
It is crucial to recognize that the cause-and-effect connection between company value and profitability operates in both directions [27]. Enhancing company value can also enhance investor confidence, streamline the acquisition of company funding, and potentially augment future profitability [28]. Additional factors, including company size, leverage, liquidity, dividend policy,

and company growth, act as moderators in shaping the correlation between company value and levels of profitability [29]. In essence, a mutually reinforcing relationship exists between company value and profitability, underscoring the intricate interplay of diverse factors in delineating a company's value [27].

Research Feamework

Factors influencing profitability include company size, leverage, liquidity, sales growth, and company age [12], [14]. Larger companies tend to be more profitable due to economies of scale. While high leverage can increase profitability through leverage effects, it also increases risk [13]. Low liquidity can reduce profitability due to difficulty paying short-term obligations [16]. Various strategies to increase profitability include controlling operational costs, enhancing production efficiency, expanding into new markets, introducing innovative products, and adopting new technologies [14]. Companies must also consider corporate social responsibility (CSR) and environmental factors to achieve long-term profitability [15]. Regular monitoring and evaluation of financial performance is essential to maintain and increase profitability [12]. Long-term profitability has a critical role in ensuring the survival and growth of a company.

H_1: Liquidity affects profitability

H_2: Company Activity Affects Profitability

H_3: Interest rates affect the company's profitability

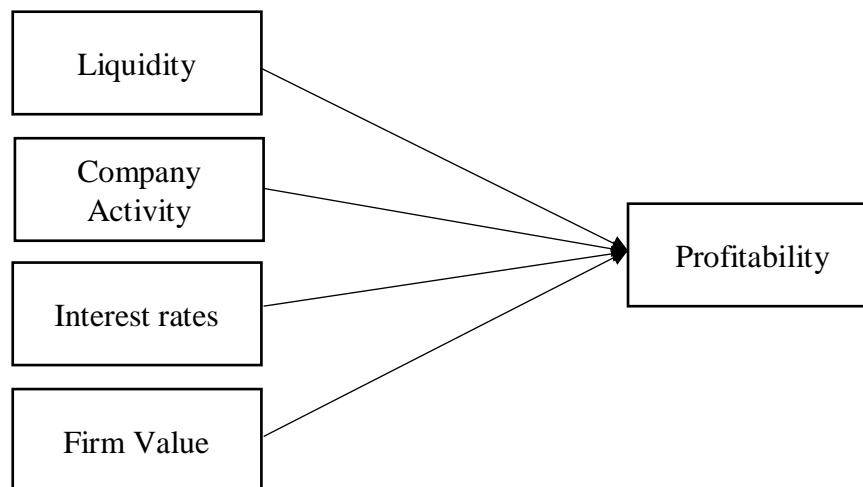H_4: Firm Value Affects Company Profitability

Figure 1. Conceptual Framework

2. RESEARCH METHODS

A panel data regression model is employed in this research to utilize a quantitative methodology that considers variations across both time series and cross-sections, thereby enabling a simultaneous examination of variables. The panel data regression approach offers the flexibility to

capture fixed effects at any specific point in time and account for inter-industry variations. The data used in this study are derived from the annual financial statements of health sector companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022. The selection of the health sector as the focus was based on sustainability considerations and relevance to the research objectives.

This study aims to offer a comprehensive understanding of the factors influencing the profitability of companies within the health sector, and to achieve this goal, the chosen variables under investigation include Return on Asset (ROA), Current Ratio (CR), Asset Turnover (AT), Interest Rate (IR), and Price to Book Value (PBV).

$$ROA_{it} = \alpha + \beta_1 CR_{it} + \beta_2 AT_{it} + \beta_3 IR_{it} + \beta_4 PBV_{it} + e$$

The sample selection process employed a purposive sampling method, enabling researchers to select samples based on specific characteristics that aligned with the research objectives. This study selected eight companies from a population of 33 listed in the health sector on the Indonesia Stock Exchange (IDX) using purposive sampling. Data collection was conducted through the Stockbit Securities website, where company financial statement data was accessed and downloaded from the Stockbit web platform. The Stockbit Securities website was chosen due to its reliability as an integrated and easily accessible source of financial data.

3. RESULTS AND DISCUSSION
Descriptive Statistics
The primary goal of the descriptive analysis of the data is to provide clarity on the characteristics of the variables being studied. Specifically, the company's ability to generate profits from its overall assets is indicated by an average Return on Assets (ROA) of 0.067833. With an average Current Ratio (CR) of 2.544, the company's liquidity is reasonably good, as current assets exceed current liabilities by more than double the amount. An average Asset Turnover (AT) of 0.935175 illustrates the company's efficiency in generating sales from the value of its assets.

Table 1. Descriptive Statistics

	ROA	CR	AT	IR	PBV
Mean	0.067833	2.544	0.935175	0.0475	3.033
Median	0.0735	1.695	0.8	0.05	2.045
Max	0.1791	7.75	1.98	0.06	8.85
Min	-0.0438	0.38	0.157	0.035	0.11
Std. Dev.	0.057718	1.785538	0.471709	0.009871	2.421699
Skewness	-0.136794	0.923203	0.566735	-0.121497	0.723727
Kurtosis	1.882411	3.195038	2.535365	1.374654	2.623715
Obs	40	40	40	40	40

The interest rate (IR) averaged 0.0475, indicating a stable interest rate, while the price-to-book value (PBV) averaged 3.033, indicating a reasonably high share-price ratio. The data distribution

29

for each variable is also reflected through skewness and kurtosis. With maximum and minimum values, the range of data variation is clear, and the sizable standard deviation indicates a significant level of variation. In conclusion, the descriptive analysis provides a comprehensive view of the characteristics of companies in the healthcare sector, providing a solid basis for further analysis of the relationships between variables and hypothesis testing.

Three different testing models were employed to determine the best model for this research: the Chow Test, the Hausman Test, and the Lagrange Multiplier Test. The Chow test helps select the most suitable model between the Common Effect Model (CEM) and the Fixed Effect Model (FEM). According to the results obtained from this test, the probability value of 0.0002 is less than 0.05, indicating that the Fixed Effect Model (FEM) is the superior model.

Next, the Hausman Test was conducted to compare the Random Effect Model (REM) and the Fixed Effect Model (FEM). The probability value obtained from this test is 0.0011, which is also below 0.05, thereby reinforcing the selection of the Fixed Effect Model (FEM) as the preferred model based on the Hausman Test. With positive outcomes from both evaluations, it can be inferred that the Fixed Effect Model (FEM) is the most appropriate model for this study, making the Lagrange-Multiplier Test redundant. The results of the tests are presented in Table 2, which confirms the adoption of the Fixed Effect Model (FEM) as the optimal model for this research.

Table 2. Best Model

Test	Model	Prob	Resolve
Chow	CEM vs FEM	0.0002	Fixed Effect Model
Hausman	REM vs FEM	0.0011	Fixed Effect Model

The assessment of Classical Assumption Tests is the second phase of this study, which includes the Normality Test, Heteroscedasticity Test, Multicollinearity Test, and Autocorrelation Test. The Normality Test assesses the data distribution and its conformity to the normal distribution, a fundamental assumption in regression models. The Jarque-Bera test is employed in this study, yielding a probability value of 0.142179. This value exceeds the 5% significance level, indicating that the data in this study meet the normality assumptions. A heteroscedasticity test is conducted to examine the uniformity of the variance of residuals, which is a critical assumption in regression analysis. In this test, the Gejser test is utilized, providing probability values for each independent variable (CR, AT, IR, PBV). The results indicate that all probability values are above the 5% significance level, indicating the absence of heteroscedasticity in the data.

Table 3. Diagnostic Test

Diagnostic	Indicator	Value	Prob
Normality	Jarque-Bera	3.901342	0.142179
Heteroskedasticity	Glejser	CR	0.4746
		AT	0.1821
		IR	0.4699
		PBV	0.3006
Multicollinearity	VIF	CR	1.366716
		AT	1.338845
		IR	1.004010

		PBV	1.519554
Autocorrelation	Lagrange-Multiplier		0.8615

The Multicollinearity Test utilizes the Variance Inflation Factor (VIF) to assess the level of correlation among the independent variables. The values of VIF for each independent variable (CR, AT, IR, PBV) are all below 10, indicating that there are no issues of multicollinearity within the data. The Autocorrelation Test, on the other hand, is used to determine if there is a correlation between observations in a specific period and those in the preceding period. By evaluating the Lagrange multiplier probability, we obtain a value of 0.8615, which exceeds the 5% significance level, indicating that there are no problems of autocorrelation within the data.

Table 4. Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.059698	0.025040	2.384107	0.0241
CR	-0.002343	0.004620	-0.507117	0.6160
AT	0.054697	0.012531	4.364876	0.0002*
IR	-0.871404	0.345632	-2.521186	0.0177*
PBV	0.001429	0.003933	0.363405	0.7190

*Significant at 5%

The Effect of Current Ratio on Profitability
Table 4 displays the current ratio (CR), which indicates the company's liquidity and its ability to pay off current liabilities using its total assets. The results demonstrate that the current ratio (CR) variable has a probability value of 0.616, which is higher than the 5% significance threshold. This suggests that the current assets (CR) do not have a significant impact on the profitability of companies in the healthcare sector. In other words, a company's short-term obligations can be met independently of its profit earnings, regardless of whether the company can meet its obligations effectively or not.

The company uses cash turnover and inventory from its working capital to pay short-term liabilities, which has no impact on the company's profits. This research aligns with studies conducted by (14, 19, 20). This study contributes to the understanding of the relationship between liquidity, as measured by current assets (CR), and the profitability of companies in the health sector, revealing differences in results compared to previous research that need to be considered when analyzing the health sector in Indonesia.

The Effect of Asset Turnover on Profitability
The health sector's asset turnover (AT) variable has a significant positive impact on a company's ability to generate sales from its total assets, as indicated by the calculated t-value of 4.364876 and a p-value of 0.0002. By comparing net sales with average total assets, this variable provides valuable insight into a company's performance. Additionally, the significance level of 5% is greater than the probability value of 0.0002, indicating the statistical significance of the asset turnover (AT) variable's influence on profitability.

The research results demonstrate that a company's assets play a crucial role in its ability to generate sales and be effective. The larger a company's assets, the more likely it is to generate profit. This finding aligns with prior research, which emphasizes that high asset turnover reflects optimal asset utilization for generating sales [14], [22]. However, excessive activity can also reduce profitability due to higher operational costs.

Based on these results, the asset turnover (AT) variable has a significant impact on the profitability of companies in the health sector. This provides valuable insight for company management, policymakers, and investors to consider the importance of efficient asset use in improving companies' financial performance and profitability in the healthcare sector.

The Effect of Interest Rates on Profitability
The research has yielded a t-value of -2.521186 for the interest rate variable (IR), which comes with a probability value of 0.0177. This probability value is lower than the 5% significance level, indicating a significant negative impact of interest rates (IR) on the profitability of companies operating in the healthcare sector. These research findings are crucial for understanding the determinants that affect the profitability of healthcare companies.

The profitability of health companies can be negatively influenced by interest rates, which in turn can affect the investment performance and cost of capital of companies operating in this sector. Capital costs for healthcare companies increase and profitability declines when interest rates rise. The results of this research are consistent with those of [19], [24], which indicate that interest rates generally harm company profitability, as measured by ROA and ROE. An increase in interest rates can lead to higher interest expenses and a reduction in the company's net profit. Therefore, company management in the healthcare sector needs to pay attention to interest rate dynamics and take strategic actions to manage its impact on their financial performance and profitability.

The Effect of Price to Book Value on Profitability
The price-to-book value (PBV) is a financial metric used to estimate a company's value based on its book value per share. According to the study, the PBV has a probability value of 0.7190, which is higher than the 5% significance threshold. This indicates that the PBV does not influence the profitability of companies in the healthcare industry.

This implies that a company's valuation, as determined by its stock price based on its book value, has no impact on its profits. Additionally, this shows that higher company valuations do not guarantee increased profitability. This is because company value, as measured by PBV, is not the only factor that contributes to increased profitability. The findings in this research align with previous studies conducted by (25, 27, 28).

These findings underscore the complexity of factors contributing to profitability in the healthcare sector, where variables beyond company valuation may play a more significant role. It underscores the importance of considering a comprehensive set of factors in assessing and enhancing the financial performance of companies within the health industry.

4. CONCLUSION

The research conclusion provides valuable insights into the factors that influence the profitability of health sector companies, including liquidity, value, company activity, and interest rates. The analysis of the results indicates that Asset Turnover (ATR) has a positive and significant impact on profitability, as it reflects the company's ability to generate sales from its total assets, thus contributing to its financial performance. On the other hand, the profitability of health sector companies is negatively and significantly affected by interest rates (BIRATE), as changes in interest rates impact the company's cost of capital and investment performance, ultimately resulting in reduced profitability. These findings suggest that health sector companies need to adopt strategies that focus on enhancing their asset turnover while mitigating the impact of interest rate changes on their financial performance.

Conversely, the variable Current Ratio (CR) does not significantly impact profitability, suggesting that the company's ability to pay short-term obligations does not directly affect the profits it earns. Additionally, the profitability of companies in the health sector is still significantly influenced by the price-to-book value (PBV). The practical implications of this research can provide valuable guidance to healthcare sector companies in managing these factors. By gaining a deeper understanding of the identified variables, companies can optimize their financial and operational strategies to enhance profitability and long-term performance.

Limitations of this study include the small sample size of healthcare companies and the inherent assumptions and limitations of the analysis methodology employed. Additionally, changes in the economic or regulatory environment that are not considered in detail, as well as other variables that influence company profitability, can also limit the interpretation of the findings.

Contribution of individual authors

Faizul Mubarok: Conceptualization, research design, data analysis, and final manuscript revision.
Muhammad Irfan Kurnia: Literature review, data collection, and drafting of the theoretical framework.
Laila Mutiara: Methodology development, statistical testing, and result interpretation.
Yoga Dwi Prakoso: Data visualization, formatting, proofreading, and preparation of references.

Conflict of Interests

The authors declare that there is no conflict of interest regarding the publication of this article.

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