



The effect of debt to equity ratio and company size on profit growth in property and real estate sub-sector companies listed on the Indonesia Stock Exchange for the 2020-2022 period

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ABSTRACT

This study investigates the interaction of debt-to-equity ratio, company size, and corporate profit on companies in Indonesia's property sector. The aim is to gain insight into how these factors interact and affect the overall value of a company's earnings in a particular property sector area. This analysis uses quantitative methods based on financial data and relevant metrics for a sample of manufacturing companies operating in Indonesia, as many as 23 companies. This study examines the relationship between debt-to-equity ratio, company size, and company profit through statistical analysis and linear regression modeling techniques with SPSS version 26. The results showed that the debt-to-equity ratio did not affect the company's profit; the size of the company had a significant effect on the company's profit. The debt-to-equity ratio and the company's size do not impact the company's profit. The findings contribute to the existing literature on company valuations by providing empirical evidence specific to the property sector. The research has implications for policymakers, investors, and managers, as it offers valuable insights into the factors that drive a company's profit value, helping stakeholders make decisions and strategies to improve performance and competitiveness. Provide benefits in the context of financial management.

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1. INTRODUCTION

In today's rapidly growing economy, all companies must be able to quickly make changes for the better to compete in the business world. Good financial statements are also expected from companies, so they need to focus on implementing their business activities to maximize profits (Haryadi et al., 2021; Purnamasari et al., 2023; Rahmatullah et al., 2022). One factor that measures a company's success is its profit. The ability of a company to manage its assets effectively and efficiently to achieve higher earnings than the previous period, or profit growth from period to period, indicates that the company has superior performance. Financial performance of the company in managing its assets or real estate; Because profit is significant for companies (Chen et al., 2023; Luo et al., 2023; Wang & Luo, 2024). Financial statements result from recording activities of all financial transactions in the company. Financial transactions are all kinds of activities that can affect the company's financial condition, such as sales and purchases. The company's financial accounting department will process the transaction data, either manually or with the ERP (enterprise resource planning) system, which they are used to. The output of the

activities of the financial accounting department is the financial statements. Companies that strictly implement financial reporting rules usually use specific deadlines for preparing the report, for example, the 5th of each month at the beginning of the following month. The overall purpose of financial statements is to provide helpful information for investors and creditors in investment and credit decision-making. Decision types vary widely, as do their decision-making methods and ability to process information (Gu et al., 2024; Gu et al., 2023; Zhang et al., 2023).

The debt-to-equity ratio reflects the ability of a company to fulfill its obligations in executing debt obligations. This is represented by equity or capital used to pay debt, changes that have a significant impact on increasing corporate profits because increasing corporate bonds used for working capital and operational activities of the company can generate optimal profits (Colline, 2022; Gunawan et al., 2022; Iskandar et al., 2022). However, suppose a company's debt is not used optimally or is not invested in production activities, so it does not generate profits. In that case, the company's income and assets are used to pay debt, interest, and others. You will feel overwhelmed—a decrease in the company's revenue and a decrease in the company's profit. Because the value has also decreased, the company's profits have not increased (Saputra, 2022; Supsermpol et al., 2023; Zhang et al., 2023). Debt to Equity Ratio is obtained from the total debt ratio divided by total assets. The lower the Equity Ratio, the better because it is safe for creditors during liquidation (Charisma, Bramasto, & Ameswari, 2021; Maria & Andiani, 2021; Suhendry, Toni, & Simorangkir, 2021). For companies, the amount of debt should not exceed its capital so that the fixed burden is not too high. A low Debt-to-equity ratio will increase the positive response from the market. It will prove the company's ability to pay long-term obligations because the risk arising from the use of funding sourced from debt will be reduced so that shares will increase (Hendrani & Septyanto, 2021; Janice & Toni, 2020; Nukala & Rao, 2021).

Company size is the size expressed in total assets or net sales. This study uses total assets as an indicator of company size. The larger the company, the more likely it is to achieve profit growth by optimizing asset utilization (Budisaptorini et al., 2019; Siswanto et al., 2022). Therefore, a company needs to manage its assets effectively and efficiently to increase its revenue because, as mentioned earlier, when income rises, the company's profit also increases. On the other hand, the company has many assets that have not been utilized optimally to develop business activities. This allows the company to show that its performance is not using its assets optimally to generate profit growth (Ariyani et al., 2019; Mohammad, 2020).

Profit growth is the increase in net income expressed by the company's growth rate. Annual revenue allows a company to explain the results of its financial performance in managing its assets. Profit growth is an increase in the percentage of profit of a company. Changing good profitability indicates an excellent financial condition and increasing company value. When the company's profit increases, the company's performance can also increase (Apriatna & Oktris, 2022; Hakim & Naelufar, 2020; Zahra et al., 2023).

This study aims to empirically investigate the capital structure, the effect of the debt-to-equity ratio, and company size on profit growth. By examining these factors partially and simultaneously, we aim to contribute to the existing literature and provide practical implications for decision-makers in the industry, theoretically contributing in the context of financial management.

2. RESEARCH METHOD

This study used a descriptive quantitative research method with a causal approach. The source of the retrieved data is secondary data. The researcher receives secondary data and directly measures the object under study. However, researchers use data from an institution whose data has been published. The population in this study is property and real estate sector companies listed on the Indonesia Stock Exchange for the 2020-2022 period in Indonesia listed on the Indonesia Stock Exchange. The author used a purposive sampling technique, only taking 23 companies in the property and real estate sectors published according to the research variables that the author analyzed from 2020 to 2022. Data is collected by observation. Observations are made on all data sources following the unit of observation/analysis determined in the study. Data sources for the study were obtained from websites such as manufacturing sector companies in Indonesia, the Indonesia Stock Exchange website <http://www.idx.co.id>, and companies sampled in

this study. This data analysis method makes it easier for researchers to manage and analyze data with the help of the SPSS version 26 program. This data was tested by descriptive analysis followed by classical assumption tests, including data normality, heteroscedasticity, diversity, and autocorrelation. Then, the authors continued with multiple linear regression tests. The author uses the -t test and the -f test test to test the hypothesis. The author formulates research hypotheses, namely H1: Debt to equity ratio has a significant effect on profit growth, H2: company size has a considerable impact on profit growth, and H3: Debt to equity ratio and company size simultaneously have a significant effect on profit growth.

3. RESULTS AND DISCUSSIONS

Before conducting linear regression and moderating regression analyses, table 1 regarding data normality with One-Sample Kolmogorov-Smirnov Test. The following are the results of the classic assumption test from normality data that are proven to be normally distributed data, as seen in Table 2 below.

Table 1. One-Sample Kolmogorov-Smirnov Test

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
N		69
Normal Parameters ^b	Mean	.0000000
	Std. Deviation	.74221336
Most Extreme Differences	Absolute	.146
	Positive	.078
	Negative	-.146
Test Statistic		.146
Asymp. Sig. (2-tailed)		.072 ^c

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

Table 1 shows the magnitude of Kolmogorov-Smirnov's normality; the 2-tale significance normality test is Unstandardized Residual 0.072), which is residual data having a significance value greater than 0.05. It can be concluded that the data is typically distributed. The following multicollinearity test results can be seen in Table 2 below.

Table 2. Multiklonieritas Test

Model	Tableicients ^a	Collinearity Statistics	
		Tolerance	VIF
1	Debt to Equity Ratio	.999	1.001
	Company Size	.999	1.001

a. Dependent Variable: Profit Growth

The multicollinearity test obtained a Variance Inflation Factor (VIF) value of > 10 and a Tolerance value of > 10. The decision result for the multicollinearity test is that if the tolerance value is < 0.10 and VIF < 10, it can be interpreted that there are no symptoms of multicollinearity, so it can be concluded that the model used does not contain symptoms of multicollinearity. The following results of linear regression analysis can be seen in Table 3 below.

Table 3. RegresRegressionr Test

Model	Coefficients a					
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
(Constant)	3.526	4.338		.813	.423	
1	Debt to Equity Ratio	-.013	.139	-.017	-.095	.925
	Company Size	.541	.453	.213	2.194	.043

a. Dependent Variable: Profit Growth

The positive constant of 3.526 means that if the variable debt-to-equity ratio and company size are equal to zero, then the level or magnitude of the company's profit is still 3,526. The regression coefficient of the variable debt-to-equity ratio has a negative value of -0.013, which means that if the value of the variable debt-to-equity ratio decreases one hundred percent, then the company's profit decreases -0.013 times. The regression coefficient of the company size variable is positive at 0.541. This explains that if the value of the company size variable increases by one hundred percent, then the company's profit variable increases by 0.541 times. The following analysis results in hypothesis testing are presented in Table 4.

Table 4. Hipotesis Test

Variable	T-value	P-values	Result
DER → PG	-.095	0.925	Rejected
CS → PG	2.194	0.043	Accepted
DER & CS → PG	0.714	0.498	Accepted

Source: Results of research data processing

Table 4 shows statistically the results of this study. The variable debt-to-equity ratio does not significantly influence company profits. This does not follow the hypothesis proposed by the author. The debt-to-equity ratio reflects the ability of a company to fulfill its obligations in executing debt obligations. This is represented by equity or capital used to pay debt, changes that have a significant impact on increasing corporate profits because increasing corporate bonds used for working capital and operational activities of the company can generate optimal profits (Colline, 2022; Gunawan et al., 2022; Iskandar et al., 2022). However, suppose a company's debt is not used optimally or is not invested in production activities so that it does not generate profits. In that case, the company's income and assets are used to pay debt, interest, and others. You will feel overwhelmed—a decrease in the company's revenue and a decrease in the company's profit. Because the value has also decreased, the company's profits have not increased (Saputra, 2022; Supsermpol et al., 2023; Zhang et al., 2023).

The second finding shows that statistically, the results in this study show that company size variables can significantly influence company profits. This is following the hypothesis proposed by the author. Company size is the size expressed in total assets or net sales. This study uses total assets as an indicator of company size. The larger the company, the more likely it is to achieve profit growth by optimizing asset utilization (Budisaptorini et al., 2019; Siswanto et al., 2022).

The third finding shows that statistically, the results in this study show that the variables debt to equity ratio and company size do not have a significant effect simultaneously on company profits. This does not follow the hypothesis proposed by the author. Debt to Equity Ratio is obtained from the total debt ratio divided by total assets. The lower the Equity Ratio, the better because it is safe for creditors during liquidation (Charisma, Bramasto, & Ameswari, 2021; Maria & Andiani, 2021; Suhendry, Toni, & Simorangkir, 2021). For companies, the amount of debt should not exceed its capital so that the fixed burden is not too high. A low Debt To Ety Ratio will increase the positive response from the market and wi. It will increase the company's ability to pay long-term obligations because the risk of using funding sourced from debt will increase (Hendrani & Sptyanto, 2021; Janice & Toni, 2020; Nukala & Rao, 2021). Then, a company needs to manage its assets effectively and efficiently to increase its revenue because, as mentioned earlier, when income rises, the company's profit also increases. On the other hand, the company has many assets that have not been utilized optimally to develop business activities. This allows the company to show that its performance is not using its assets optimally to generate profit growth (Ariyani et al., 2019; Mohammad, 2020).

4. CONCLUSION

From the results of our research and discussion, the author concludes, including the first hypothesis, the absence of a significant effect of debt-to-equity ratio on company profits. The second hypothesis suggests a substantial impact of company size on corporate profits. Then the third hypothesis is that variable debt-to-equity ratio and company size have no significant influence on company profits. To increase the company's value through the management of capital structure,

profitability, and liquidity, the company must pay attention to the optimal composition of the capital structure, the level of profitability, and financial liquidity. Some things that can be done are increasing the company's profitability by increasing revenue, maintaining financial ratios so that the company's value and profits are high, and paying attention to the optimal composition of the capital structure. The research has practical implications for managers, emphasizing the importance of making informed capital structure decisions, increasing profitability through operational efficiency, and driving market liquidity to increase company value. In addition, investors can leverage these findings to assess the factors driving a company's value in the manufacturing industry and make informed investment decisions. Policymakers can also leverage these findings to develop policies that facilitate access to financing, encourage profitability-enhancing initiatives, and promote a liquid market environment. The authors hope this research can theoretically contribute to this context's financial and banking management literature. This research is far from perfect, namely the sample of companies taken is only property and real estate companies and the research period is limited to only 3 years. The predictive ability will be better if the data period used is long enough.

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