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# PROFITABILITY DETERMINANTS MODEL: THEORETICAL AND METHODOLOGICAL ANALYSIS OF RESEARCH

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***ABSTRACT***

*The purpose of this study was to analyze the effect of liquidity (CR) to profitability (ROA) through capital structure (DR) at companies listed on the Stock Exchange Year 2013-2017.The samples taken by purposive samplingof manufacturing companies the period 2013 - 2017.The test results and analysis of the data it can be concluded that liquidity (CR) directly and indirectly has no effect on profitability (ROA) through capital structure(DR) and showed no significant results.*

***Keywords****:Liquidity (CR);Capital Structure (DR); Profitability (ROA)*

## INTRODUCTION

One of the most important aspects of the company is the financial aspect. In the financial aspect, one of them includes funding decision-making activities that the company will take to finance its business activities, and choose the right investment alternative using capital owned by the company. The funding problem will not be separated from a company which includes how much the company's ability to meet the funding needs that will be used to operate and develop its business. The source of funds used is essentially the composition of funds or capital structure of the company. It's essential according to theory by Brealey and Myers (Husnan, 2006); which (1) companies prefer internal financing (funding from the results of company operations); (2) the company tried to adjust the dividend distribution target by trying to avoid changes in the payment of dividends drastically; (3) dividend policy is constant with fluctuations in profitability and unpredictable investment opportunities; and (4) if external financing is needed, the company will issue the most "safe" securities first.

Dewiningrat & Murtanda (2018); Rahmawardhani (2007); Astuti & Rosyid (2015) conducts research on aspects of liquidity (CR), and the results show that liquidity (CR) has effect on the company's capital structure, but the results of Friska (2011), Hardiningsih, et. al. (2012), Mandagi, et. al (2015) and Hardanti (2010) shows liquidity does not affect capital structure. This supports MM's theory which states that the use of high debt will increase the value of the company so that the capital

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structure has a positive influence on the value of the company. States that companies that have high rates of return on assets (profitability) tend to have small amounts of debt because the use of their own capital is greater. Yulita & Gunawan (2019: 37) said that public policy in the traditional market sector is currently an important element for efforts to increase local revenue (PAD). Pitoyo (2018) also stated that the efficient composition can reduce capital costs. By lowering the cost of capital directly increases economic net return and increases the value of the company. It is important for a company to consider the variables or factors that influence profitability so that they can determine the right capital structure decisions, including liquidity and capital structure.

Liquidity is a factor that influences the capital structure, where liquidity is how much the ability of a company to meet obligations that must be fulfilled immediately (Liem, *et al*, 2013). Hanafi (2010), said that profitability measures a company's ability to generate profits (profitability) at certain levels of sales, assets and share capital. Ahmad (2015); Marusya, *et al* (2016) conducts research on aspects of the company's capital structure on the profitability (ROA) and the results show that the company's capital structure has effect on profitability (ROA), but do not support of Widiyanti, *et al* (2015) and Hafsah (2015) which capital structure does not affect profitability (ROA). The greater the ROA means the more efficient use of company assets (same amount of assets) can result in greater profits, and vice versa (Sudana, 2011).

The greater the debt ratio (DR) shows the greater portion of the use of debt in financing investment in assets, which also means that the company's risk will increase (Sudana, 2011). The amount of the calculation of DR shows the amount of total debt that can be guaranteed by the total assets or shows the amount of funds provided by creditors to the total assets owned by the company.That’s why the purpose of this study was to analyze the effect of liquidity (Current Ratio) to profitability (ROA) through capital structure (Debt Ratio) at companies listed on the Stock Exchange Year 2013-2017.

## RESEARCH METHOD

The data from financial statements can be obtained from the Indonesian Capital Market Directory (ICMD), the IDX website of the financial statements of companies listed on the Indonesia Stock Exchange period 2013-2017. The samples used purposive sampling is manufacturing companies listed on the Stock Exchange the period 2013-2017.Data collection methods used in this research is the method of documentation. The state of the method is considered as a guideline or a good grounding in terms of data collection and the analysis of data that will give good directions: (a) an intervening variable, which became an intervening variable in this study is the Capital Structure (DR); (b) the dependent variable is the Profitability (ROA); (c) The independent variable is Liquidity (CR), which later in the quantitative analysis it tested with computer software SPSS’23. The influence of each of these variables on Profitability (ROA) can be described in the model in figure 1 below:

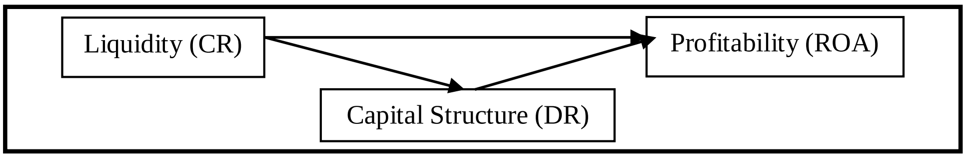


**Figure 1. The Variables Influence of Profitability (ROA)**

**RESULT**

This study is researching on the influence of Liquidity (CR) to Profitability (ROA)through the Capital Structure (DR). It is intended to test how much influence Liquidity(CR) to Profitability (ROA)through the Capital Structure (DR).The variables of this study consisted of liquidity (CR) as independent variables. Profitability as dependent variable and the capital structure as an intervening variable. Descriptive statistics of the variables of the sample of manufacturing firms during the period 2013 to 2017 are presented in the table 1 below:

**Table 1. Statistic Description**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| | Statistic | Statistic | Statistic | Statistic | Statistic |
| Liquidity (CR) | 95 | 24 | 40 | 32,06 | 6.468 |
| Capital Stucture (DR) | 95 | 8 | 27 | 9,76 | 3.752 |
| Profitability (ROA) | 95 | -62 | 452/450 | 44,56 | 61.765 |
| Valid N (listwise) | 95 | | | | |

Total samples are 95, with minimum value of profitability (ROA) is -62; and maximum 452/450; and average of profitability is 44.56with 61.765 of standard deviation. For Capital Structure, minimum value is 8.27; maximum value is 27; and average value is 3.752 with 3.752 of standard deviation. For Liquidity (CR) minimum value is 24, maximum value is 40; and average value 32.06 with 6.468 of standard deviation. Classic assumption test also has been done, with normality score is greater than 0.05 so the data are normally distributed with value of X = 1.855; M = 1.715 and Y = 1.799. Normality Test aims to test whether the regression model, or residual confounding variables have a normal distribution (Ghozali, 2011). The use of regression models for prediction will produce an error (residue) which is the difference between the actual data with the results of forecasting. Then the results can be seen that all the VIF on the results that the regression model did not happen multicoliniearity. A regression model that does not have a problem multicollinearity because VIF (Variance Inflation Factor) under number 10 (6.126-Liquidity (CR) and 0.214 - Capital Structure (DR) and have a number of Tolerance above 0.10 (0.124 - Liquidity (CR) and 0.681- Capital Structure (DR). A good regression model should not happen correlation between the independent variables or free.

**Effect Liquidity (CR) to Profitability (ROA)**

The R Square is 0.128 (is squaring the correlation coefficient or 0.358 x 0.358 =

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0.128). The coefficient of determination of 12,8% that liquidity (CR) can be explained by the variable profitability (ROA). While the remaining 87.2% is explained by other causes beyond the independent variables used in the study, because R Square are likely to be small, the relationship between both variables is weak. Small R Square which means the ability of liquidity (CR) in explaining profitability (ROA) is very limited. The result shows at table 2 below:

**Table 2.Test Result t Liquidity (CR)to Capital Structure (DR)**

| Model | | Unstandardized Coefficients B | Std. Error | t | Sig. |
|---|---|---|---|---|---|
| 1 | (Constant) | 31.056 | .832 | 13.445 | .000 |
| | Liquidity (CR) | .315 | .227 | -3.138 | .004 |

a. Dependent Variable: Capital Structure(DR)

The first equation to calculate path coefficients, ie the regression equation showing the relationship hypothesized. In this case the standardized coefficient beta operating cash flow in equation (1) positive at 0,315/0.236 and significantly ($p < 0.05$) is 0,04, which means the liquidity (CR) could affect capital structure. Standardized beta coefficient value 0.315 is the value r path p1 track.

**Effect of Liquidity (CR) to Profitability through Capital Structure**

The R Square is 0.183 means the ability variable liquidity (CR) and Capital Structure (DR) variables in explaining Profitability (ROA) of 18,3% while the remaining 81,7% is explained by other variables outside independent variables used in this study, because of the numbers mentioned above R Square 0.05, then the two variables are strong.Based on test results obtained table ANOVA or F count was 3,708 with a significance level of 0.165, because the probability of 0.165 is much greater than 0.05, then the regression model can not be used to predict profitability (ROA) or liquidity (CR) and capital structure (DR) together not effect on profitability (ROA).The results in the regression equations show that the unstandardized for beta coefficient value Liquidity (CR) of 2,734 and capital structure with a significance level of 0.000 respectively 0.164 and 0.873. The value of unstandardized beta coefficient is 2,734 lane path p3 value and the value of unstandardized beta coefficient of - 0.229 the value p2 path. The path analysis result showed in figure 2 below:

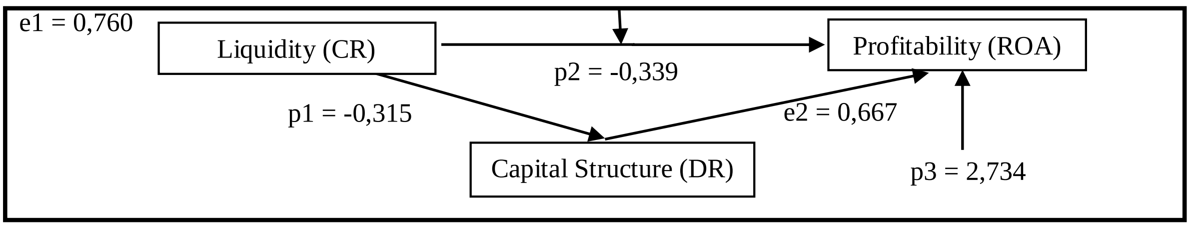


**Figure 2. Path Analysis Result**

Figure 2. shows that the direct effect of liquidity (CR) to profitability (ROA) is positive and significant 2,734 by 0.164 (above 0.05), so it can be concluded that the liquidity (CR) does not directly influence profitability (ROA) (Pitoyo, 2018) that liquidity (CR) has not effect on the company's capital structure. While the indirect effect of liquidity (CR) to profitability (ROA) with capital structure (DR) showed no significant effect due to above 0.05 is 0.164.

The total effect of liquidity (CR) to profitability (ROA)such as: (1) the direct effect of liquidity (CR) to profitability (ROA) (p3)= 2,734; (2) the indirect effect of liquidity (CR) to profitability (ROA) (p1 x p2) = -0,072; (3) the total effect of liquidity (CR) correlation toprofitability (ROA) (p3 + (p1xp2) = 2.662b

Liquidity (CR)showed no direct influence on profitability (ROA) through capital structure (DR) Adiyana (2015), Hartoyo, et. Al (2014). The relationship is not directly supported by empirical evidence because the multiplication unstandardized beta coefficient value p1 and p2 smaller than the unstandardized beta coefficient p3.There are several possibilities to explain these results because : (1) the model proved to be less good, because if in the analysis based on the comparison of the value of R Square with estimated standard error greater results mistakes. (2) an error in the data structure in the study include: (1) there is the possibility of errors in recording or inputting data to the computer; (2) the number and characteristics of the samples used by researchers only 19 companies are relatively small and the characteristics of the data obtained from the website of Indonesia Stock Exchange (BEI) is very limited means have limited data to be processed to make lower quality. Conditions such as researchers because there are some companies that do not include a summary of its financial performance in a timely manner, so that the result does not correspond to actual reality.

The study hypothesis shows the liquidity (CR) can't directly affect profitability (ROA). the company's ability to generate profits up or down, the company's ability to pay short-term debt will not be affected. While the capital structure (DR) does not affect significantly between liquidity (CR) to profitability (ROA). the ability of the company to guarantee long-term debt and short-term debt is good and must be followed by a maximum profit. Based on the results obtained so Ha rejected.

## CONCLUSION

The liquidity (CR) directly and indirectly has no effect on profitability (ROA) through capital structure (DR) showed no significant results, while liquidity (CR) has no direct influence on profitability (ROA). The results can not be degeneralization in manufacturing companies listed in Indonesia Stock Exchange because not many companies that produced positive profit so that the samples obtained are limited. Further research needs to add independent variables other than those used in this study.

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