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Determinants of Profitability of Health Companies Listed on the Indonesia Stock Exchange

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Abstract

Research aim: *The study aimed to identify the effect of leverage, liquidity, and company size on the profitability of health companies listed on the Indonesia Stock Exchange.*
Design/Methode/Approach: *This research is a type of explanatory research using a quantitative approach. The study population is all health companies listed on the Indonesia Stock Exchange in 2017 – 2021. Purposive sampling techniques were used in this study so 12 companies were used as research samples. The data analysis method used the multiple linear regression test using SPSS*
Research Finding: *The results showed that Leverage negatively affects the Profitability of Health companies on the Indonesia Stock Exchange 2017-2021. Liquidity has a significant positive effect on profitability. The size of the company has a significant positive impact on the Profitability of the Company.*

Research limitation: *The variables of this study are only limited to Leverage, Liquidity, and Company Size.*

Keywords: *Leverage, Liquidity, Company Size., Profitability*

1. Introduction

Health is a promising sector, and increasing demand makes the government include the medical device and pharmaceutical industry in the priority sector to realize the Making Indonesia 4.0 program. The Indonesian government seeks to increase the competitiveness of the medical device and pharmaceutical industry by encouraging the implementation of technology-based digital transformation. This condition provides an excellent opportunity for health companies to increase their market, but it also causes business competition to improve and get tighter. To compete, the company needs good financial management skills in effective and efficient company management and performance so that the profits generated can follow the company's strategy.

The company's success in achieving profits can be seen from its profitability. Profitability is the ability of an enterprise to make a profit in a certain period. High profitability illustrates the more efficient and effective the company is in carrying out its operations so that it can optimize profits. In contrast, low profitability describes the company's lack of efficiency and effectiveness in carrying out operating activities so that the company cannot generate optimal profits [10]. The higher the level of profitability owned by the company, the greater the ability of a company to generate profits. The indicator used to explain the level of Profitability is Return on Assets (ROA), which is the level of the company's ability to generate profits from the assets used. The greater the Company's ROA, the higher the profit or profit obtained and the better the use of company assets [9].

Profitability can be affected by several factors such as leverage, liquidity and Company Size. Leverage is the use of assets and sources of funds by companies that have fixed costs with the intention of increasing shareholder profits [3]. Leverage is one of the important factors to affect profitability because leverage can be used by companies to increase company capital in order to increase profits [6]. Debt to equity ratio (DER) is a ratio used to calculate debt and capital that is useful for covering debts to external parties [3].

The use of debt in company funding activities not only has a good impact on the company but can also have a high risk if the level of leverage is increased, causing more significant debt costs as well. The Profitability of the Company will be low because it results from this more considerable debt. This is because companies' attention shifts from increasing productivity to generating cash flow to pay off their debts. According to the pecking order theory, if the company's debt level is high, it will pay financial expenses in the form of high interest costs, reducing profitability. This is in line with the research results by [4].

Liquidity is a company's ability to pay short-term financial obligations on time. sThe Company's Liquidity is indicated by the size of current assets, namely assets that are easily converted into cash, which include cash, securities, receivables, and inventories. The liquidity ratio is measured using the current ratio [11]. The results of the Current Ratio measurement are increasing or high, indicating good company conditions. However, this can happen because of suboptimal cash use. If the company can fulfil all its obligations, the company is liquid. Good financial conditions will affect the profit obtained by the company, which will be high [1].

The size of the company can also affect profitability. A company can make an overview of its ability to get additional capital from outside funds when financing its operational activities. The company's size is used as a ratio to see information or an overview of the total assets owned by the company in its annual report [11].

Based on data on the profitability of health companies listed on the Indonesia Stock Exchange, which is proxied through Return On Asset (ROA), it can be seen that the average profitability of companies calculated by Return On Asset (ROA) in health companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period fluctuates downward. From 2018 to 2020, the average profitability of the company increased continuously. However, in 2021, the company's average profitability decreased by 0.018. To determine how companies can increase profitability, it is necessary to research the determinants of profitability of health companies listed on the Indonesia Stock Exchange to identify the effect of leverage, liquidity and company size on profitability.

1.1. Statement of Problem

Based on the introduction previously described, the problem formulation is as follows: Leverage, Liquidity and Company Size affect partial profitability in healthcare companies listed on the Indonesia Stock Exchange in 2017-2021.

1.2. Research Objectives

This study aims to: Identify the effect of leverage, liquidity and company size on partial profitability in healthcare companies listed on the Indonesia Stock Exchange in 2017-2021.

2. Method

This research is a type of explanatory research using a quantitative approach. In this study, the research location is a health company listed on the Indonesia Stock Exchange in 2017-2021. In this case, the author analyzes the financial statements to determine the level of Leverage, Liquidity, company size, and profitability.

The study population is all pharmaceutical sub-sector companies listed on the Indonesia Stock Exchange in 2017 – 2021 purposive sampling technique by setting several criteria that must be met by the sample used in this study. The criteria used are pharmaceutical sub-sector health companies listed on the Indonesia Stock Exchange in 2017-2021 and those with net profits with positive values or no losses during 2017-2021. From the selection results, 12 pharmaceutical sub-sector companies that met the criteria were obtained. So, the data used is 60 data. The source of the data used is the annual report published by pharmaceutical sub-sector health companies listed on the Indonesia Stock Exchange for 2017-2021, which can be downloaded through the official website of the Indonesia Stock Exchange, namely: https://www.idx.co.id/perusahaan-tercatat/laporan-keuangan-dan-tahunan/ .

Based on the subject matter that has been formulated, the dependent variable in this study is profitability. The independent variables in this study are Leverage, Liquidity and company size.

The data analysis method in this study uses multiple linear regression analysis with data processing through SPSS software. The regression equation is as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Information:

Y : Profitability of the enterprise

a : Konstanta

b1 : Koefisien Regresi X1

b2 : Koefisien Regresi X2

b3 : Koefisien Regresi X3

X1 : Leverage

X2 : Liquidity

X3 : Company Size

e : Standart Error

3. Results and Discussion

The results of multiple linear regression analysis produce the following equation:

Y = 0,176 – 0,063 X1 + 0,010 X2 + 0,011 X3

The equation above shows that the leverage variable proxied with the Debt Equity Ratio significantly affects the profitability of health companies on the Indonesia Stock Exchange in 2017-2021. The Leverage variable (X1) has a constant value of -0.063 with a significance level of 0.000 < 0.05. The results show that leverage has a significant negative influence on profitability. This follows the results of research by [2][6][7].

The use of debt in company funding activities not only has a good impact on the company but can also have a high risk if the level of leverage is increased, causing more significant debt costs as well. The higher the leverage, the higher the interest expense and will reduce profitability, and vice versa. With funding made through debt, companies can carry out operating activities aimed at obtaining the expected profit, thus generating cash flow to pay off their debts. The higher the leverage, the higher the risk of default that the company will face because the company does too much funding through debt, and vice versa. If the company uses financing through debt, fixed costs in the form of interest expenses will arise. The interest and principal expenses of the loan must be repaid by the company when it matures. The use of debt that is too high will make the company's interest expense increase. The company's burden to pay off high debts can trigger default risk. According to the pecking order theory, if the company's debt level is high, it will pay financial expenses in the form of high-interest expenses, reducing profitability. Companies must be careful with the risk of default because fixed costs can cause profitability levels to decrease or even the company to incur losses if the investment returns obtained with debt are not enough to cover interest expenses [8].

Liquidity variables proxied by the Current Ratio have a significant effect on the profitability of health companies on the Indonesia Stock Exchange in 2017-2021. The Liquidity Variable (X2) has a constant value of 0.010 with a significance level of 0.025 < 0.05. These results show that liquidity has a significant positive influence on Profitability. This is in accordance with the results of research by [1][3][9].

Signalling theory suggests how companies should provide signals to users of financial statements. Signals can be information stating that the company is better than others because the Current Ratio shows its ability to pay its short-term debt. High current assets indicate that the company has funds to pay short-term debts and can be used to support the company's operations to increase sales and profits. From the creditor's point of view, the higher the Liquidity, the better because it means the higher the security margin obtained by the creditor. Then, the Current Ratio can trigger a market response to Return on Assets information. So many markets are interested in investing in companies. There is a capital increase followed by an increase in operational activities so that the Company's Profitability increases.

The Company Size variable proxied with Ln Asset significantly affects the profitability of health companies on the Indonesia Stock Exchange in 2017-2021. The Company Size variable (X3) has a constant value of 0.011 with a significance level of 0.016 < 0.05. The results show that the company's size has a significant favourable influence on profitability. This follows the results of research by [2][6][5]. The company's size can illustrate the company's ability to get additional capital from outside funds when financing the company's operational activities. The company's size is used as a ratio to see information or an overview of the total assets owned by the company in its annual report [11]. Companies with a significant asset value can support extensive operating activities; because of this, the profits generated will be even greater. The amount of profit generated will increase the Profitability of the Company [12].

4. Conclusion

Leverage negatively affects the Profitability of Health companies on the Indonesia Stock Exchange 2017-2021, identifying that the greater the leverage will lead to the more minor the Company's Profitability, and vice versa. Liquidity positively affects the Profitability of Health companies on the Indonesia Stock Exchange 2017-2021, identifying that greater Liquidity will lead to more extraordinary company Profitability and vice versa. Company Size positively affects the Profitability of Health companies on the Indonesia Stock Exchange 2017-2021. Company size measures the number of assets owned by companies with a considerable asset value capable of supporting significant operating activities; because of this, the profits generated will be even greater. Suggestions that can be given based on the results of this study for future researchers are expected to use other variables that we did not study and increase the sample size by increasing the periodization of the survey so that a larger sample is obtained and provides a greater possibility of getting actual conditions.

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