Financial Ratio's and Profit Growth: Company Size Moderation

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Abstract

Throughout 2022, telecommunications companies saw a noticeable increase in their net profits, a trend observed across various entities in the industry. This study aims to investigate the impact of financial metrics, namely the Current Ratio, Debt to Equity Ratio, and Total Asset Turnover, as well as the moderating influence of company size, on the profit growth of telecommunications sub-sector companies listed on the IDX between 2019 and 2022. Utilizing a quantitative approach, the study employed purposive sampling to select a sample of 9 companies from a population of 21. Data analysis was conducted using the Moderated Regression Analysis Test. The results indicate the Current Ratio significantly affects profit growth, while the Debt to Equity Ratio and Total Asset Turnover show no significant effects. Additionally, company size moderates the relationship between the Current Ratio and profit growth, albeit without a significant moderation effect on the Debt to Equity Ratio and Total Asset Turnover.

Keywords: Current Ratio, Debt to Equity Ratio, Profit Growth, Total Asset Turnover, Company Size.

1. Introduction

The economic performance of a nation is impacted by the capital market, wherein stocks serve as one of the pivotal instruments. Stocks provide insights into the overall health of a country's economy. Within the capital market, various indices exist, among them the Dow Jones Industrial Average Index (DJIA), referred to as DOW30, stands out as one of the primary stock indices in the US stock market, exerting influence on both domestic also international economies. Generally, the economies of developing nations, particularly in Asia, are interconnected with those of developed nations (Rotinsulu et al., 2021). As per the IMD Global Competitiveness Index for 2023, Indonesia's economy has strengthened by 10 ranks, now standing at 34th place. On December 30, 2022, the DJIA experienced a 0.22% decline, closing at 33,147.25, prompting international exchanges to maintain interest rates at that juncture. The Dow has seen a 0.2% decrease since May. Concurrently, as of December 30, 2022, the Jakarta Composite Index (JCI) showed a growth of 4.09%, eventually closing at 6,850.62 as per the Indonesia Stock Exchange Composite Index.

The primary objective of company operations is to maximize the generation of net profit. Net profit represents the earnings derived from the operational activities conducted by the company. Despite the fact that a significant increase in net profit can attract investment interest, particularly within the telecommunications sector, numerous companies struggle to fully capitalize on profit potentials. It is well understood advancements in telecommunications technology have facilitated remote communication, thereby contributing to the sector's growth. Throughout 2022, telecommunications enterprises witnessed commendable revenue growth, leading to increased net income for several firms, such as PT Sarana Menara Nusantara Tbk (TOWR) also PT Tower Bersama Infrastructure Tbk (TBIG). However, it is noteworthy that not all revenue increases directly translate to higher net profits. This was exemplified by PT Inti Bangun Sejahtera Tbk (IBST), which, despite experiencing revenue growth in 2022 compared to the preceding year, faced a decline in profits (www.indopremier.com, 2023).

Generally, the growth of earnings is influenced by a multitude of factors, among which financial ratios play a significant role. This study delves into three key financial ratios: Current Ratio (CR), Debt to Equity Ratio (DER), also Total Asset Turnover (TATO). Previous study has yielded varied findings regarding the impact of these financial ratios on profit growth. For instance, (Pratama, 2023) contends that CR does not exert influence on profit growth, whereas (Saraswati & Nurhayati, 2020) report a significant effect of CR on profit growth. Conversely (Rahardjo et al., 2024); (Rahmawati & Triyonowati, 2021); (Zulfikar, 2020) was conclude that DER does not significantly impact profit growth, while (Sudjiman & Sudjiman, 2022) stating that DER does influence profit growth. Regarding TATO,

studies by (Pratama, 2023); (Rahardjo et al., 2024); (Zulfikar, 2020) find no association between TATO also profit growth, while (Sudjiman & Sudjiman, 2022) note a significant influence.

This study incorporates a moderating variable, company size, to examine whether its influence strengthens or weakens the relationship between CR, DER, also TATO with profit growth. Past studies present conflicting findings regarding the moderating effect of company size. (Maryanti et al., 2022); (Pratama, 2023) suggest that company size diminishes the impact of CR on profit growth, whereas (Saraswati & Nurhayati, 2020) find the opposite. Similarly, concerning the effect of company size on DER also TATO, several studies indicate that company size fails to enhance this effect.

The objective of this study is to assess the influence of financial ratios represented by CR, DER, also TATO, alongside the moderating effect of company size, on profit growth within the telecommunications sub-sector companies listed on the IDX. This investigation builds upon the information provided earlier to analyze the stated relationships.

2. Literature Review

2.1. Signalling Theory

Signalling Theory elucidates how management endeavors to communicate information regarding the company's performance, future prospects, also financial position to external stakeholders through financial reports. According to (Erawati & Kholifah, 2022) signaling theory underscores the significance of scrutinizing elements within financial statements, such as fluctuations in ratio values, interpreting these changes, also assessing their impact on the company's financial performance. This suggests that comprehending these aspects facilitates decision-making for both management also investors by ensuring access to high-quality information (Saraswati & Nurhayati, 2020).

2.2. Current Ratio

Current Ratio serves as an indicator of a company's financial health concerning its ability to meet short-term debt obligations using current assets in its possession, as highlighted by (Ifada & Puspitasari, 2016). This ratio is often likened to a measure of the company's capability also readiness to settle current debts promptly also in full, with a higher ratio suggesting greater financial capacity also timeliness in payment, as stated by (Rahmawati & Triyonowati, 2021). Consequently, it is inferred that CR provides valuable insight into the company's efficiency in meeting short-term obligations through timely also complete payment collections.

2.3. Debt to Equity Ratio

Is a metric used to assess a company's overall solvency by comparing its total debt to its owned capital, as described by (Rahardjo et al., 2024). Theoretically, the solvency ratio adheres to the principle that a high solvency ratio suggests a lower level of capital also diminished capacity to cover both current also long-term liabilities, as highlighted by (Ariska, 2020). Consequently, it can be inferred that DER reflects the company's capacity to fulfill short also long-term financial obligations by means of its capital structure.

2.4. Total Asset Turnover

Is a ratio utilized to assess the company's ability to effectively utilize its assets to generate profits, as described by (Pratama, 2023). This implies that a company demonstrates favorable TATO when its assets are utilized more frequently, resulting in increased revenue, as emphasized by (Saraswati & Nurhayati, 2020). Hence, it can be deduced that TATO reflects the company's efficiency in earning profits by leveraging its assets.

2.5. Profit Growth

Profit growth refers to the percentage also absolute increase in profit. It stands as a crucial performance metric for profit-driven enterprises. Positive profit growth signifies a stable also promising company condition, while negative growth indicates a company's failure also diminished appeal to investors (Saraswati & Nurhayati, 2020).

2.6. Company Size

Company size is characterized by the scale of assets possessed by a company, categorized into small, medium, also large classifications, which can be quantified by the total assets reported in the company's financial statements, as

stated by (Budiadnyani et al., 2023). Thus, it can be inferred that the size of a company is contingent upon the magnitude of its asset holdings.

2.7. Hyphothesis

According to (Pratama, 2023) suggests that there is no association between CR also profit growth, whereas (Sudjiman & Sudjiman, 2022) discovered a notable correlation between CR also profit growth. Within the framework of signaling theory, CR serves as a gauge of the company's capacity to meet short-term obligations. The hypothesis:
H_1: Current ratio has a significant effect on profit growth

According to (Zulfikar, 2020); (Rahardjo et al., 2024) One study indicates that the DER does not have a significant impact on profit growth, whereas another study by (Sudjiman & Sudjiman, 2022) DER was found to have a significant impact on the profit growth of the company. uncovered a significant impact on profit growth. The hypothesis:
H_2: Debt to equity ratio has a significant effect on profit growth

According to (Zulfikar, 2020); (Pratama, 2023) both concluded that there is no significant relationship between TATO also profit growth. In contrast, (Sudjiman & Sudjiman, 2022) uncovered a significant impact on profit growth. The hypothesis:
H_3: Total asset turnover has a significant impact on profit growth

According to (Maryanti et al., 2022) indicated that company size does not augment the impact between CR also profit growth. Conversely, (Rahmawati & Triyonowati, 2021) unearthed contrasting results, suggesting that company size can amplify the influence of CR on profit growth. The hypothesis:
H_4: Company size is able to moderate the effect of current ratio on profit growth

As per the findings of (Ariska, 2020); (Budiadnyani et al., 2023) it was observed that company size does not enhance the impact of DER on profit growth. The hypothesis:
H_5: Company size is able to moderate the effect of Debt to Equity Ratio on profit growth

As per the findings of (Pratama, 2023); (Saraswati & Nurhayati, 2020) it was indicated that company size does not serve as a moderating factor for the effect of TATO on profit growth. The hypothesis:
H_6: Company size is able to moderate the effect of Total Asset Turnover on profit growth

2.8. Research Model

This study uses independent variables (current ratio, debt to equity, total asset turnover) and earnings growth as the dependent variable with company size as moderation.
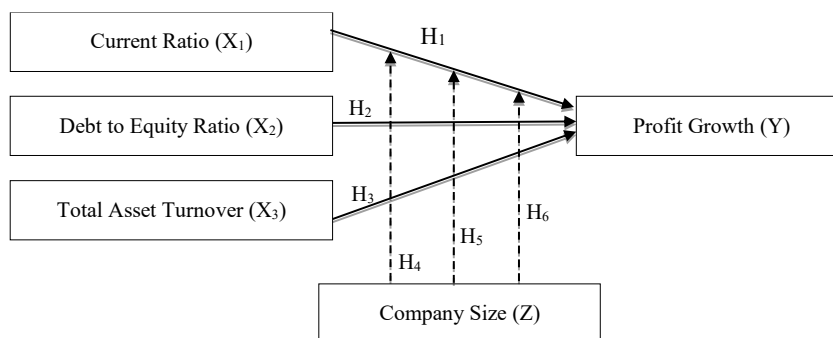

Figure 1. Thinking Framework

3. Materials and Methods

3.1. Materials

The data utilized in this study consist of numerical values also fall under the category of quantitative study, specifically associative quantitative study, which explores the relationship between independent also dependent variables with a cause-and-effect connection (Sugiyono, 2019). The data employed are secondary data obtained indirectly from processed sources, namely financial reports of telecommunications sub-sector companies listed on the Indonesia Stock Exchange (IDX) between 2019 also 2022.

In this context, the population refers to a collection of data comprising entities with specific values also criteria (Sugiyono, 2019). The population for this study encompasses the telecommunications sub-sector companies listed on the IDX, totaling 21 companies. The sampling method employed is purposive sampling, aimed at selecting samples as per predefined criteria. The criteria for sampling include: (1) Companies listed on the IDX, (2) Companies that have published financial reports, (3) Companies that have generated profits, also (4) Companies that have experienced an

increase in profits during the study period. By adhering to these criteria, a total of 9 companies were selected as samples, resulting in a total of 36 samples over the 4-year observation period.

3.2. Methods

The data analysis method employed is Moderated Regression Analysis (MRA), utilized to examine the impact of the independent variable on the dependent variable subsequent to interaction with other variables that may either amplify or attenuate its effect (Sugiyono, 2019). The analytical instrument utilized in this study is the SPSS version 26 software.

3.2.1. Operational Definition and Measurement of Variables

Table 1. Operational Variabel

Variable	Measurement	Scale
CR (X_1)	$CR = \dfrac{Total\ Current\ Assets}{Short\ Term\ Current\ Liabilities} \times 100\%$	Ratio
DER (X_2)	$DER = \dfrac{Total\ Debt}{Total\ Assets}$	Ratio
TATO (X_3)	$TATO = \dfrac{Revenue}{Total\ Assets} \times 100\%$	Ratio
Profit Growth (Y)	$PL = \dfrac{Net\ Income\ For\ The\ Years - Last\ Year\ Net\ Income}{Last\ Year\ Net\ Income}$	Ratio
Company Size (Z)	Company Size = Ln (Total Assets)	Ratio

3.2.2. Equation

Testing the variables in the model in this study was analysed using the Moderated Regression Analysis (MRA) technique. The following is the MRA equation model:

Profit Growth$= \alpha + \beta1CR + \beta2DER + \beta3TATO + \beta4CR \times UKP + \beta5DER \times UKP + \beta6DTATO \times UKP + e$

4. Results and Discussion

4.1 Results

4.1.1 Descriptive Statistics

Table 2. Descriptive Statistic

Variable	N	Minimum	Maximum	Mean	Std. Deviation
CR (X_1)	36	0.210	14.530	2.58056	3.933221
DER (X_2)	36	0.070	4.840	1.48583	1.377898
TATO (X_3)	36	0.100	3.840	0.36333	0.615374
Profit Growth (Y)	36	-0.730	1.200	0.06061	0.460563
Company Size (Z)	36	24.341	33.256	29.59475	2.327035
Valid N (listwise)	36				

Source: SPSS 26 Software Output Results

There are 36 sample data points collected throughout the observation period of this study. The average value of profit growth is 0.6061, with a standard deviation of 0.460563, suggesting a relatively diverse distribution of profit growth data due to the higher standard deviation compared to the average value. CR exhibits variability as indicated by its lower standard deviation relative to the average. Conversely, DER displays limited variability since its standard deviation value surpasses the average value. TATO demonstrates variability with a smaller standard deviation compared to the average. Meanwhile, Company Size exhibits limited variability, as evidenced by its standard deviation value being lower than the average.

4.1.2 Multicollinearity Test

As per Aiken & West (1991) also Eveland (1997) cited in (Hayes, 2005), investigators employing multiple linear regression with moderation should prioritize the normalization of predictor variables representing their interaction to mitigate potential multicollinearity issues. Mean-centering is commonly utilized to minimize multicollinearity in moderating variables. According to Echambadi (2007) referenced in (Hellen, n.d.), mean-centering does not alter the statistical test results; hence, it is considered a reasonable approach in social science study.

Table 3. Multicollinearity Test – VIF (Not Passed)

Model	Tolerance	VIF
CR (X_1)	0.002	518.539
DER (X_2)	0.002	557.308
TATO (X_3)	0.495	2.022
Company Size (Z)	0.081	12.304
X_1Z	0.002	479.248
X_2Z	0.002	602.378
X_3Z	0.297	3.364

Source: SPSS 26 Software Output Result

It becomes evident that variables CR, DER, X1 Z interaction, also X2 Z interaction exhibit tolerance values < 0.1 also VIF values > 10, indicating the presence of multicollinearity issues. Thus, it is imperative to address multicollinearity by employing mean centering.

Table 4. Multicollinearity Test – VIF (Passed)

Model	Tolerance	VIF
CR (X_1)	0.202	4.956
DER (X_2)	0.497	2.012
TATO (X_3)	0.407	2.455
Company Size (Z)	0.417	2.400
X_1Z	0.208	4.804
X_2Z	0.482	2.075
X_3Z	0.447	2.235

Source: SPSS 26 Software Output Result

All variables exhibit a tolerance value > 0.1 also a VIF value < 10. Therefore, all variables are devoid of multicollinearity issues.

4.1.3 Normality Test

Table 5. Kolmogorov-Smirnov Test

	Standardized Residual
N	36
Asymp. Sig. (2-tailed)	0.056[c]

Source: SPSS 26 Software Output Results

The significance value obtained is 0.056, which is ≥ 0.05. Hence, it can be deduced that the data distribution conforms to normality.

4.1.4 Heteroscedasticity Test

Table 6. Heteroskedasticity Test (White Test)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.422[a]	0.178	-0.027	0.466712

Source: SPSS 26 Software Output Results

Upon conducting heteroscedasticity testing using the White test, it is evident from the table provided above that, at a significance level of 5% (0.05), the chi-square table value is 7.815. The obtained R-square value is 0.178, which, when multiplied by the sample size of 36, yields a calculated R-square value of 6.408. Since the calculated chi-square value is less than the chi-square table value, it can be inferred that there are no indications of heteroscedasticity.

4.1.5 Autocorrelation Test

Table 7. Autocorrelation Test (Runs Test)

	Unstandardized Residual
Test Value[a]	-0.01874
Cases < Test Value	18
Cases >= Test Value	18
Total Cases	36
Number of Runs	16
Z	-0.845
Asymp. Sig. (2-tailed)	0.398

Source: SPSS 26 Software Output Results

The outcomes of autocorrelation testing conducted via the Run Test method yielded a significance value of 0.398, which exceeds 0.05. Thus, it can be inferred that the model employed does not exhibit any autocorrelation issues.

4.1.6 Moderated Regression Analysis (MRA) Test

Table 8. Moderated Regression Analysis (MRA) Test

Model		Unstandardized Coefficients		Coefficients Beta	T	Sig.
		B	Std. Error			
1	(Constant)	0.254	0.149		0.1703	0.100
	C_X_1	0.096	0.045	0.823	2.159	0.040
	C_X_2	0.050	0.081	0.1480	0.611	0.546
	C_X_3	0.697	0.803	0.233	0.868	0.393
	C_Z	0.032	0.053	0.161	0.607	0.549
	C_X_1Z	0.035	0.015	0.896	2.386	0.024
	C_X_2Z	0.036	0.039	0.227	0.921	0.365
	C_X_3Z	0.009	0.311	0.007	0.028	0.978

Source: SPSS 26 Software Output Results

The regression equation along with the interpretation as below:

Profit Growth = 0.254 + 0.096 CR + 0.050 DER + 0.697 TATO + 0.032 UKP + 0.035 CR x UKP + 0.036 DER x UKP + 0.009 TATO x UKP + e

Description:
a) The constant value of 0.254 indicates that when the variables CR (X_1), DER (X_2), TATO (X_3), also the moderating variable (company size) are held constant (set to zero), the profit growth value remains at 0.254 units.
b) The coefficient for variable X_1, which is 0.096, signifies that each unit increase in the CR will positively influence profit growth by 0.096 units. With a significance value (sig) of 0.040, indicating significance below the threshold of 0.05, it can be concluded that CR significantly impacts profit growth. Thus, the first hypothesis of this study is confirmed.
c) The coefficient for variable X_2, valued at 0.050, suggests that a decrease of 1 in the DER will positively affect profit growth by 0.050 units. However, with a significance value (sig) of 0.546 exceeding 0.05, it is evident that the DER does not significantly influence profit growth. Hence, the second hypothesis is refuted.
d) The coefficient for variable X_3, amounting to 0.697, indicates that each unit increase in TATO positively impacts profit growth by 0.697 units. Nevertheless, with a significance value (sig) of 0.393 surpassing 0.05, it can be inferred that TATO does not significantly affect profit growth. Therefore, the third hypothesis is rejected.
e) The moderation coefficient X_1Z, valued at 0.035, suggests that a unit increase in company size strengthens the effect of CR on profit growth by 0.035 units. With a significance value (sig) of 0.024 less than 0.05, it is evident

that company size as a moderator enhances the significance of the relationship between CR also profit growth. Consequently, the fourth hypothesis is supported.

f) Prior to moderation, the coefficient for variable X_2 was 0.50, which increased to 0.046 after moderation by the moderator variable. Although this indicates potential strengthening of the relationship between X_2 also profit growth, the significance value (sig) of 0.365 exceeds 0.05, indicating a lack of statistical significance. Thus, the hypothesis is rejected due to insufficient statistical evidence to support the moderating effect.

g) Upon assessing the TATO coefficient before also after moderation, alongside the notably high significance value (sig) of 0.978, it is apparent that there is no significant alteration in the effect of TATO on profit growth following the inclusion of company size as a moderator. Therefore, the assertion that company size fails to reinforce the impact of TATO on profit growth holds true.

4.2 Discussion

4.2.1 Effect of Current Ratio on Profit Growth

The analysis indicates that CR significantly impacts profit growth. This finding aligns with previous study by (Petra et al., 2020), (Hermanto, 2020); (Petra et al., 2020); (Suhartono et al., 2022) which also yielded similar results. A high CR signifies surplus current assets available for short-term liability payments, thereby reducing default risk also fostering profit growth. Conversely, a low CR may indicate liquidity challenges that could potentially disrupt the company's profitability (Hermanto, 2020). The influence of CR on profit growth correlates with the company's ability to maintain smooth operations when faced with imminent short-term obligations, the disruption of which could jeopardize profitability. Within the framework of signaling theory, an excessively high CR may suggest inefficient utilization of funds, implying suboptimal management of current assets by the company. Despite having substantial current assets, this does not necessarily guarantee the availability of adequate working capital to sustain the company's operations (Ningsih & Utiyati, 2020).

4.2.2 Effect of Debt to Equity Ratio on Profit Growth

The analysis indicates that DER does not exert a significant influence on profit growth. This finding is consistent with study conducted by (Dianitha et al., 2020); (Hermanto, 2020); (Siahaan et al., 2023) which reported similar outcomes. Fundamentally, DER does not directly impact profit growth as the total debt acquired by companies for operational also business purposes is not always utilized efficiently. According to signaling theory, DER is intricately linked to a company's debt management practices, thus, whether high or low, this ratio does not consistently serve as an indicator of the company's profit performance. Nevertheless, comprehending DER remains crucial for effective debt management, ensuring the company's ability to fulfill debt obligations promptly also consistently.

4.2.3 The Effect of Total Asset Turnover on Profit Growth

The analysis indicates that TATO does not significantly affect profit growth. This finding aligns with study conducted by (Chasanah & Adhi, 2017), (Septiyarina, 2022), which yielded similar conclusions. An increase in TATO leads to a reduction in profit, which, according to signaling theory, is an unfavorable indication for the company. This implies that despite generating sales through asset utilization, the profitability is not maximized, resulting in minimal profit. Conversely, a decrease in asset turnover leads to a decline in net profit, as the company fails to effectively utilize assets to boost sales, thereby impacting revenue (Chasanah & Adhi, 2017).

4.2.4 Company Size Moderates the Effect of Current Ratio on Profit Growth

The analysis results demonstrate that company size, when acting as a moderator, enhances the significance of the influence of CR on profit growth. This finding corresponds with the findings of (Diyanti & Anwar, 2021) and (Wigati, 2020) where company size can amplify the impact of CR on profit growth. In telecommunications sub-sector firms, a larger company size can furnish more capital for investment also development endeavors, thereby aiding in augmenting profit growth. This serves as a favorable signal for profit-centric enterprises. A larger company size signifies robust financial prowess, as evidenced by a higher current ratio, thereby influencing investors' investment decisions positively also ultimately contributing to the company's profit growth.

4.2.5 Company Size Moderates theEffect of Debt to Equity Ratio on Profit Growth

The analysis reveals that company size, as a moderator, reinforces the impact of DER on profit growth, albeit insignificantly. This outcome aligns with the findings of (Zulfikar, 2020) who elucidated that larger companies tend to exhibit greater resilience against economic influences, hence being less susceptible to external conditions such as DER. For instance, larger-sized companies possess more resources also capital to fulfill obligations, undertake investments, also expand into new markets, all of which contribute to profit growth.

4.2.6 Company Size Moderates the Effect of Total Asset Turnover on Profit Growth

The analysis findings indicate that company size, acting as a moderator, diminishes the impact of TATO on profit growth. This can be attributed to various factors including operational capacity, operational intricacy, management oversight, also economies of scale. This discovery is consistent with study conducted by (Pratama, 2023); (Saraswati & Nurhayati, 2020); (Zulfikar, 2020) which concluded that company size does not enhance the influence of TATO on profit growth. Companies are urged to prioritize the efficiency also effectiveness of asset utilization to boost revenue. Merely possessing substantial assets does not guarantee sizable profits. The key to achieving significant profitability lies in the company's adeptness at managing operations efficiently also utilizing assets judiciously (Karno, 2024).

5. Conclussion

The Current Ratio demonstrates a significant impact on profit growth, where a higher ratio signifies surplus current assets that can potentially bolster profits. However, the DER also TATO do not exhibit significant effects on profit growth, suggesting that overall debt also asset utilization efficiency may not be primary determinants of earnings performance. While company size can moderate the influence of CR, DER, also TATO on profit growth, its effect is not significant on DER also TATO. The researchers hope that the study can be extended by introducing more variables that can be important measures for assessing the impact of earnings growth. Future studies are expected to expand the sample coverage to involve more data and a wider time span, even considering companies in industries other than telecommunications. It is important for companies managing financial statements to maintain stability in the value of their assets and liabilities, so metrics such as current ratio, gearing and total asset turnover remain in the safe category. In addition, future research could explore other variables as moderators of the relationship between current ratio, gearing and total asset turnover and earnings growth, such as inflation rate, business risk and other factors.

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