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Determinats of Profitability and Implications on Corporate Value

Anik Agustina ZM
YAI Persada Indonesia University, Jakarta, Indonesia

Corresponding author: agustinaanik21@yahoo.co.id

Abstract: This study aims to prove empirically the determinants of profitability and their implications for firm value in manufacturing companies listed on the Indonesia Stock Exchange during the 2015-2019 period by using a panel data regression model with 25 manufacturing companies as the research sample. Based on the empirical results, the influencing variables positive and significant impact on profitability is Managerial Share Ownership, Audit Committee Effectiveness, Corporate Social Responsibility, company size. and variables that do not have a significant effect are institutional stock ownership and the Debt To Equity Ratio. positively and significantly. Individual companies are affected by profitability; The biggest positive influence is the company Japfa Comfeed Indonesia Tbk, the smallest positive is the Lion Metal Work Tbk company, and the biggest negative influence is the Bata Shoe Company Tbk, the smallest negative is the company Holcim Indonesia Tbk. The results of this study have implications for firm value (Tobins Q); The variables that show a positive and significant influence are the variable of Audit Committee Effectiveness, Corporate Social Responsibility, Company Size, and Debt To Equity Ratio, Return on Asset variables that have no effect are Institutional Share Ownership, Managerial Share Ownership. the biggest positive influence on changes (Tobins Q) of the company Japfa Comfeed Indonesia Tbk. the smallest positive is the company Semen Batu Raja Tbk, the biggest negative influence is the Company Tempo Scan Pacific Tbk; The smallest negative influence is the company Holcim Indonesia Tbk.

Keywords: Institutional Share Ownership, Managerial Share Ownership, Audit Committee Effectiveness, Corporate Social Responsibility, Company Size, Debt To Equity Ratio, Profitability, and Company Value / Tobins Q.

INTRODUCTION

Good company governance arises because of enterprise issues that arise, in which there isconduct to deliver private advantages, particularly from agents, on the cost of the hobbies of different parties. The life of company governance is anticipated so one can create healthful company governance in order that neither birthday birthday celebration advantages nor loses. Good Corporate Governance, that is a idea based on enterprise theory, is anticipated to characteristic as a device to offer self belief to buyers that they may acquire a go back at the finances they have got invested. Corporate governance is ready how buyers agree with that managers will offer advantages for them, positive that managers will now no longer put money into initiatives which can be now no longer worthwhile with the finances already invested through buyers. Good Corporate Governance is likewise associated with how buyers manage managers (Vivi Adeyani 2016). Agency theory focuses more on the internal aspects of the control mechanism for corporate governance (*Good Corporate Governance*) (August 2013) Therefore this study uses the structure and mechanisms of internal corporate governance consisting of share ownership structure, managerial ownership and the effectiveness of the audit committee. Several researchers, among others (Pertiwi and Hermanto 2017) concluded that Managerial Ownership,

Debt to Equity Ratio and Profitability have a positive effect on Firm Value, while Institutional Ownership has no effect on Firm Value. (Sari and Budiasih 2014) which states that managers, as agents and shareholders, do not always act on behalf of the interests of shareholders because the objectives of the two are different, on the one hand, the welfare of shareholders depends solely on the market value of the company, on the other hand, the welfare of managers is highly dependent on the size and risk of bankruptcy company. As a result, managers are interested in investing in share capital in order to increase growth and reduce corporate risk through diversification, although this may not always improve shareholder welfare.(Suryana and Rahayu 2018) states that there is a negative relationship between the implementation of good corporate governance and the welfare of the shareholders. The effectiveness of the Audit committee is an effort to improve the way the company is managed, especially the way to supervise company management, because it will become a liaison between company management and the board of commissioners and other external parties.

In most cases, shareholders will elect Directors, who will then appoint Managers to run the company on a daily basis, Managers work on behalf of shareholders, meaning they should comply with policies that increase shareholder value. (Dewi Teresia and Hermi 2016). This will often occur due to differences in interests between managers and shareholders, which is called agency conflict. According to(Zakiyah 2017), the cause of this conflict has to do with making decisions related to fundraising activities and making decisions related to how the funds raised are invested.

In this study, it's far suspected that with precise company governance, there might be value performance in order that on the identical time it's going to growth the company's profitability. From the consequences of preceding studies, there are numerous variables that have an effect on organization cost and determinants of profitability, nevertheless displaying one-of-a-kind consequences or even contradicting the consequences of one study.

LITERATURE REVIEW

The Influence of Institutional Share Ownership Structure, Managerial Share Ownership, Audit Committee Effectiveness, Corporate Social Responsibility, Company Size, Debt to Equity Ratio, collectively on Return on Assets

(Bebchuk and Fried 2012) argues that the ownership structure of a corporation will determine the characteristics of the agency problem (The Agency Problem) so that it will map the division between power and supervision in a corporate entity. The dominance of the existence of a corporation with the characteristic of concentrated ownership which is common in developing countries. Usually based on family ownership, however, research is conducted (Lukviarman 2004) found that there are no benefits and the positive impact of concentrated ownership is still better than other companies with spread ownership. Institutional share ownership has an important meaning in monitoring management because institutional ownership will encourage an increase in more optimal supervision. (Damayanti and Suartana 2014).

Managerial ownership is defined as the percentage of votes relating to the shares and options owned by managers and directors of a company. In the financial statements published by the issuer, share ownership is reported in the form of a percentage. Corporate Social Responsibility was first put forward by Howard Botton, 1953 to explain what responsibilities can be expected in a company (Melé 2009) and Simmon and Fredrik, 2009 began to be used since 1970 and is increasingly popular based on John Elkington who developed three important components: Sustainable development, namely economic growth, environmental protection, and social equity which was initiated by The World Commicion on Environment and Development (WCED) which packaged C Corporate Social Responsibility becomes: Profit, Planet, People.

The length of the organization describes the dimensions of a organization which may be assessed from the whole property owned via way of means of the Debt To Equity Ratio, which describes the supply of working finances utilized by the organization, also to expose the dangers confronted via way of means of the organization, in which the more the chance confronted via way of means of the organization, the uncertainty is to generate profits. withinside the destiny it'll also increase. Profitability ratios are a set of ratios that display the mixed consequences of liquidity, asset control and debt on working results (Brigham, F, and Houston 2011). The ratios typically used to degree and compare profitability overall performance are gross income margin, running income margin, net income margin, Return On Equity and Return On Asset. (Eeckhoudt, Gollier,and Schlesinger 2019), Return On Asset has a completely crucial which means as a complete monetary evaluation technique. Return On Asset Analysis is a way normally utilized by employer leaders and traders to degree the effectiveness and usual operations of the employer, normally Return On Asset is used to degree the internet earnings received from the usage of assets, in different words, the better this ratio, the better. asset productiveness in acquiring a internet earnings.

There are numerous ratios to degree the market price of a enterprise, one in every of that is Tobins Q, this ratio is taken into consideration to offer the exceptional information, due to the fact Tobin Q consists of all of the factors of debt and percentage capital of the enterprise, now no longer simply normal stocks and now no longer best enterprise fairness. together with all enterprise belongings, via way of means of together with all enterprise belongings means that the enterprise does now no longer best consciousness on one kind of investor, yes, however additionally from loans, specifically traders withinside the shape of stocks however additionally for creditors due to the fact the supply of enterprise operational financing isn't always best from fairness however additionally from loans given to creditors (Sukamulja 2004). So the extra the cost of Tobins Q indicates that the business enterprise has true boom prospects. This can manifest due to the fact the extra the marketplace cost of the business enterprise's property as compared to the ee-e book cost of the business enterprise's property, the extra the willingness of buyers to make more sacrifices to very own the business enterprise. (Sukamulja 2004). According to (Murwaningsari 2012) firm value (Tobins Q) is the ratio between Market value of equity plus Debt divided by totalassets.

The influence of Return On Asset, institutional share ownership, Managerial Shares Ownership, Audit Committee Effectiveness, Corporate Social Responsibility, Company Size, Debt To Equity Ratio, together have an effect on Firm Value.

Institutional share ownership structure increases the company's efforts in creating good corporate governance implementation, furthermore related to Signaling Theory (Connelly et al. 2011) The large size of the company gives a signal that there is great information in the company, as a result the company will get greater attention from the public so that it will increase the company in carrying out corporage social responsibility.

Tobin's Q ratio is the marketplace price of a enterprise through evaluating the marketplace price of a enterprise indexed at the monetary marketplace with the substitute price of the enterprise's assets. Thus, measuring firm value using the Tobins Q ratio is more appropriate in thisstudy.

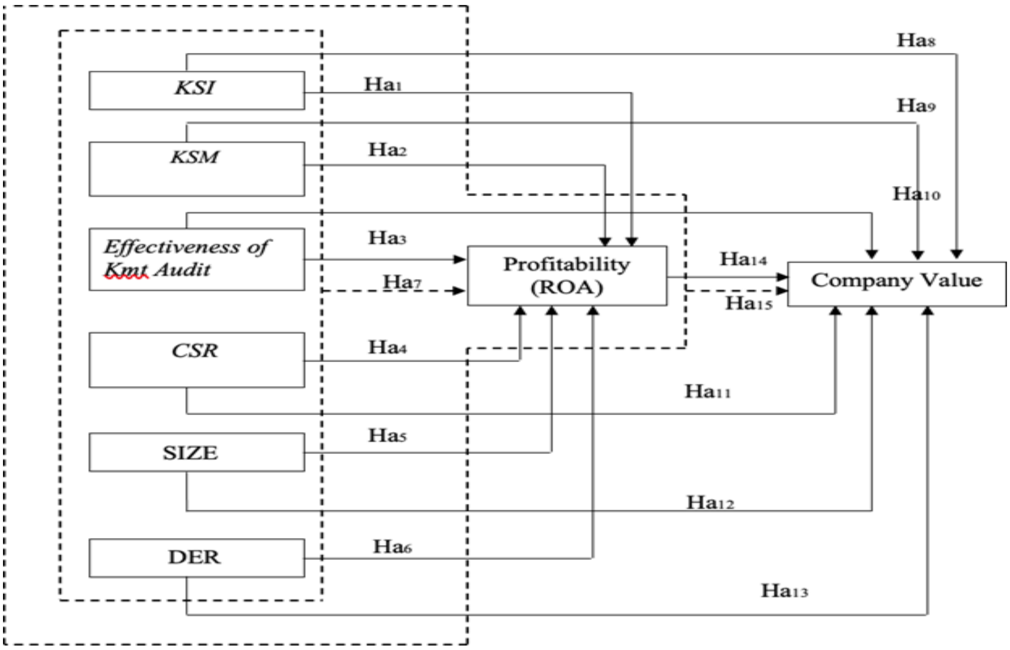

Figure 1. Thought Framework SchematicSource: Researcher (2019)

From the previous scheme, it can be seen from the influence of the variable institutional share ownership (KSI), managerial share ownership (KSM), the effectiveness of the Audit committee, corporate Sicial Responsibility, company size, Debt to Equity Ratio on the dependentvariable profitability (Return On Asset), and its implications. to the company value either partiallyor collectively.

Research Hypothesis

H1: There is a partial influence of institutional share ownership on return on assets (ROA) inmanufacturing companies listed on the IDX in 2015-2019.

H2: There is a partial effect of Managerial Share Ownership on return on assets

(ROA) inmanufacturing companies listed on the IDX in 2015-2019.

H3: There is a partial influence on the effectiveness of the Audit Committee on return on assets (ROA) in manufacturing companies listed on the IDX in 2015-2019.

H4: There is a partial influence of Corporate Social Responsibility (CSR) on return on assets (ROA) in manufacturing companies listed on the IDX in 2015- 2019.

H5: There is a partial influence on company size on return on assets (ROA) in manufacturing companies listed on the IDX in 2015-2019

H6: There is a partial effect of the Debt To Equity Ratio on the return on assets (ROA) of manufacturing companies listed on the IDX in 2015- 2019.

H7: The influence of institutional share ownership, share ownership managerial, Audit Committee Effectiveness, Corporate Social Responsibility, Company Size, Debt To Equity Ratio together with the Return on Assets (ROA) of manufacturing companies listed on the Indonesia Stock Exchange during the 2015-2019 period.

H8: There is a partial influence of Institutional share ownership on Company Value in manufacturing companies listed on the IDX in 2015-2019.

H9: There is a partial influence of Managerial share ownership on Company Value in manufacturing companies listed on the IDX in 2015-2019.

H10: There is a partial influence on the effectiveness of the Audit Committee on company value in manufacturing companies listed on the IDX in 2015-2019.

H11: There is a partial effect Corporate Social Responsibility for company value in manufacturingcompanies listed on the IDX in 2015- 2019.

H12: There is a partial influence on Company Size on the value of manufacturing companies listedon the IDX in 2015-2019.

H13: There is a partial effect Debt To Equity Ratio to company value in manufacturing companieslisted on the IDX in 2015- 2019.

H14: There is a partial effect Return On Asset to company value in manufacturing companies listed on the IDX in 2015-2019.

H15: Influence Return On Asset, Institutional Share Ownership, Managerial Share Ownership, Audit Committee Effectiveness, Corporate Social Responsibility, Company Size, Debt To Equity Ratio collectively towards company value in manufacturing companies listed on theIDX in 2015-2019.

RESEARCH METHODS

The approach taken in this study uses a quantitative and associative approach which is determined on the meaning of each variable as well as the relationship between variables based onquantitative measurements. This study consists of two models: the first model: the dependent variable is Profitability / Return On Asset with the independent variable consisting of corporate governance with proxies: Institutional share ownership structure, managerial ownership, audit committee effectiveness), disclosure of Corporate Social Responsibility, Company Size, Debt ToEquity ratio, and organisation size.

The second model that becomes the dependent variable is firm value with the independent variable consisting of corporate governance with proxies: Institutional share ownership structure, managerial ownership, audit committee effectiveness), disclosure of Corporate Social Responsibility, firm size, Debt To Equity ratio, and Return On Equity. The size of the companies in this sample uses the total assets of the sample companies that are presented in the balance sheeteach year.

The kind of information used on this studies is documentary information. The supply of the information amassed through researchers is secondary information. Obtained from the

Indonesian Capital Market Directory (ICMD), annual reviews (anual report), and sustainability reviews for all businesses decided on as samples. Secondary information used on this have a look at are: Annual Financial Statements, preceding studies information that guide this studies, books associated with this studies.

The facts series approach used on this examine is the oblique remark approach. The version used on this studies is the panel facts regression version (a aggregate of time collection and go section) the usage of the assist of the laptop statistical software application E views 9. zero.

RESEARCH RESULTS AND DISCUSSION

Full Path Analysis Research Model

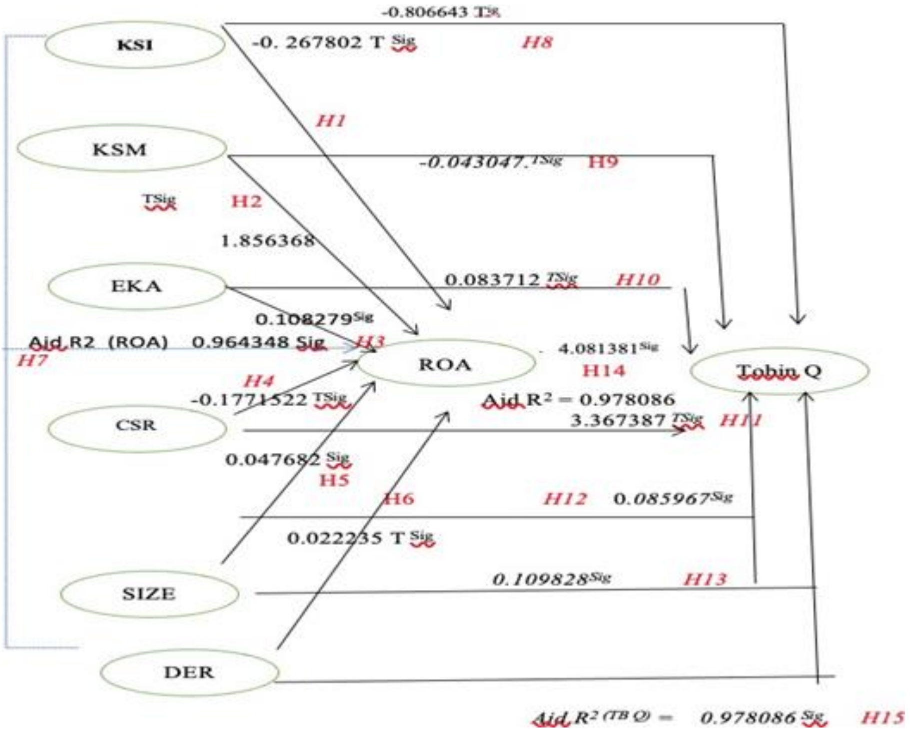

Figure 2. Full Model Analysis Diagram

Table 1. Research Hypothesis Testing Results

Hypothesis	Description	Coeffici ent	Value t / F	Conclusion
H1	Institutional Share Ownership can affect Return on Assets / Profotability	-0.26780 2	-0.588419	Not significan
H2	Managerial Share Ownership can affect Return On Assets / Profitability	1.856368	2.256040	Significant
H3	The effectiveness of the audit committee can affect the return on assets / profitability	0.108279	1.711605	Significant
H4	Corporate Social Responsibility can affect Return On Asset / Profotability	0.771522	2.431932	Significant
H5	Company size can affect Return On Assets / Profitability.	0.047682	2.052598	Significant
H6	Debt To Equity Ratio can affect Return On Asset / Profotability	0.022235	0.314170	Not significan

H7	Institutional Share Ownership, Managerial Share Ownership, Audit Committee Effectiveness, Corporate Social Responsibility, Company Size Debt To Equity Ratio have a joint effect on Return On Asset / Profitability	0.952970	5,937988	Significant
H8	Institutional Shares Ownership can affect Firm Value (Tobins Q)	-0.806643	-2.425497	Not significan
H9	Managerial ownership can affect Company Value (Tobins Q)	-0.043047	-0.032549	Not significan
H10	The effectiveness of the Audit Committee can affect Firm Value (Tobins Q)	0.083712	2.136441	Significant
H11	Corporate Social Responsibility can affect Company Value (Tobins Q)	3,647387	0.764372	Significant
H12	Firm Size can affect Firm Value (Tobins Q)	0.085967	4.818503	Significant
H13	Debt To Equity Ratio can affect Firm Value (Tobins Q)	0.109828	2.332064	Significant
H14	Return On Asset can affect Firm Value (Tobins Q)	4.081381	2.058978	Significant
H15	Institutional Share Ownership, Managerial Share Ownership, Audit Committee Effectiveness, Corporate Social Responsibility, Company Size Debt To Equity Ratio and Return On Asset / Profitability. jointly affect Firm Value (Tobins Q)	0.970782		Significant

Influence on Individual Companies

Individual companies are affected by changes in Firm Value (Tobin's Q). It can be seen from the regression equation of each company. It can be seen from the attachment of the equation that there are several companies that are most positively affected, the biggest is the company Japfa Comfeed Indonesia Tbk, meaning that this company is very sensitive to changes in Firm Value (Tobin's Q) compared to other companies, this can be seen in the following regression equation:

TOBINS'Q_JPFA = 7.779839+ 11.613932 * KSI_JPFA + 7.509227 KSM_JPFA + 7.611467 *EKA_JPFA + 1.930303 * CSR_JPFA - 0.199666 * SIZE_JPFA + 0.248682 * DER_JPFA - 3.331350 * ROA_JPFA

Meanwhile, the company with the smallest positive influence is the company Semen Batu Raja Tbk (SMBR), meaning that this company is not positively sensitive to changes in Company Value (Tobin's Q) compared to other companies, this can be seen in the following regression equation:

TOBINS'Q_SMBR = 0.033217 + 11.613932 * KSI_SMBR + 7.509227 KSM_SMBR + 7.611467 * EKA_SMBR + 1.930303 * CSR_SMBR - 0.199666 * SIZE_SMBR + 0.248682 * DER_SMBR - 3.331350 * ROA_SMBR

While the company that is most negatively affected is the company Tempo Scan Pasifik (TPSC), meaning that this company is very negatively sensitive to changes in Company Value (Tobin's Q) compared to other companies, this can be seen in the following regression equation:

TOBINS'Q_TPSC = -3.358475 + 11.613932 * KSI_TPSC + 7.509227 KSM_TPSC + 7.611467 * EKA_TPSC + 1.930303 * CSR_TPSC - 0.199666 * SIZE_TPSC + 0.248682 *

DER_TPSC - 3.331350 * ROA_TPSC

Meanwhile, the company that is most negatively affected is the company Holcim Indonesia Tbk (SMCB), meaning that this company is not negatively sensitive to changes in Company Value (Tobin's Q) compared to other companies, this can be seen in the following regression equation:

TOBINS'Q_SMCB = - 2.423858 + 11.613932 * KSI_SMCB + 7.509227 KSM_SMCB + 7.611467 * EKA_SMCB + 1.930303 * CSR_SMCB - 0.199666 * SIZE_SMCB + 0.248682 * DER_SMCB - 3.331350 * ROA_SMCB

CONCLUSION

The regression test results simultaneously show that there is a significant influence on Institutional Share Ownership, Managerial Share Ownership, Audit Committee Effectiveness, Corporate Social Responsibility, Company Size, Debt To Equity Ratio and Return On Asset / Profitability on Firm Value (Tobin's Q). In the manufacturing sector listed on the Indonesia Stock Exchange, this shows that the regression equation model can be estimated with panel data using the method Fixed Effect Model (FEM).

This research is supported by (Fauziah 2016), Khaled Abdelkader Muftah said that Managerial Ownership, Institutional Ownership, Independent Commissioner Composition, Audit Committee have no effect on Company Value. The coefficient of determination which shows the contribution of each independent variable of Institutional Share Ownership, Managerial Share Ownership, Audit Committee Effectiveness, Corporate Social Responsibility, Company Size, Debt To Equity Ratio, and Return on Assets explains that the independent shows the contribution of its relationship with the dependent variable Return On Assets of 0.97086 % and the remaining 2.1914% is explained by other variables not included in this equation model.

Individually, the company is affected by changes in company value (Tobins Q). It can be seen from the regression equation of each company that it can be seen from the attachment of the equation that there are several companies that are most positively affected by the largest company, Japfa Commfeed Tbk, meaning that this company is very sensitive to changes in value. company (Tobins Q) compared to other companies, while the company most positively affected by the smallest is Semen Batu Raja, Tbk, meaning that this company is not positively sensitive to changes in Company Value (Tobins Q) compared to other companies.The company most negatively affected is the company Tempo Scan Pacific Tbk, meaning that this company is very negatively affected by changes in Company Value (Tobins Q) compared to other companies, while the company most negatively affected is the company Holcim Indonesia, meaning that this company is not negatively sensitive to changes in Firm Value (Tobins Q) compared to other companies.

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