The Effect of Capital Structure, Diversification Liquidity and Company Size on Profitability Property Sector Companies Indonesia

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Abstract
This study was conducted to examine the effect of the variables of Firm Size, Liquidity, Equity Structure, and Diversification on Profitability in Property Sector Companies listed on the Indonesia Stock Exchange for the 2019-2021 period. The sampling technique used was purposive sampling and obtained a sample of 63 companies. The data analysis technique used is multiple linear regression tests. The results showed that the structure of equity has negative effect on Profitability and firm size has positive effect on profitability, while diversification and liquidity had no significant effect on profitability. The implications of this research for managers must be careful when adding debt because the amount of debt will burden interest costs which has an impact on reducing profits and size is matter on profitability of property sector. The larger the assets of the property company the greater the profit obtained

Keywords: Capital Structure, Liquidity, Diversification, Firm Size and Profitability

1. Introduction

Property sector is one of the strategic sectors in supporting the achievement of national development. This strategic position can be seen from its linkages with other sectors. Therefore, the development of the property sector is an important and strategic public agenda when looking at the developments that are occurring rapidly in the context of globalization and liberalization, poverty and inequality, democratization and regional autonomy, as well as damage and natural disasters. In addition, the development of the property sector cannot be separated from the context of the ongoing process of political, cultural, economic and bureaucratic transformation. Currently the development of the property sector is faced with domestic problems in the form of the dynamics of strengthening civil society as part of the democratic transition process at the regional and national levels as well as the development of various transaction models and relationships between providers and users of construction services within the government and private sector. The construction sub-sector is one of the mainstay sectors for driving economic growth and is always required to continue to increase its contribution through benchmarks to national GDP. This is a tough challenge, considering that the global economy is currently being hit by a crisis which is feared to have an impact on increasing the costs of infrastructure production processes and decreasing the liquidity of construction companies. The building company is one of the property industry sub-sectors listed on the Indonesia Stock Exchange (IDX).

In the current era of increasingly fierce competition, companies must anticipate and deal with all situations and conditions in order to survive and advance in order to increase business competition. In achieving the goal of prospering shareholders and employees, company managers must be able to anticipate all changes in circumstances and conditions both inside the company and outside the company. The property company is considered a development industry that has rapid and fast development, because the number of residents is increasing day by day and it will also impact on increasing demand in the property and real estate sector. So that every company is increasingly improving its performance so that the company's goals can be achieved, namely maximizing profitability. Profitability is important for companies, because profitability describes how companies use their resources.

Profitability is a measure of a company's financial performance (Afkar, 2017) which is one of the considerations for investors to assess a company, therefore an increasing level of profitability indicates a better company's financial performance which shows the company's management ability to earn profits from the assets used. as well as with a good management structure. Several factors that affect profitability include capital structure, liquidity, diversification and company size.

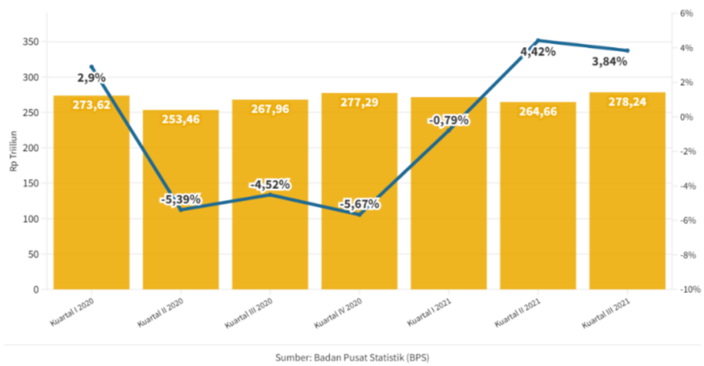

Figure 1.
Construction & Property Sector Performance

The Central Statistics Agency (BPS) noted that the gross domestic product (GDP) at constant prices (ADHK) for the construction sector was IDR 278.24 trillion in the third quarter of 2021. Its value grew 3.84 % compared to the same period the previous year (year on year/yoy) of IDR 267.96 trillion. The construction & property sector has experienced a contraction since the second quarter of 2020. This is the impact of the Covid-19 pandemic which has limited various activities. The performance of the construction and property sector began to recover in the second quarter of 2021 with an increase of up to 4.42 %. This sector also returned to positive growth in July-September 2021. (*www.bps.go.id)*

The first factor affecting profitability is Capital Structure. The capital structure is the composition of the working equity used by the company in its financing, seen from the comparison of the total *liabilities* with its own equity which will later be used to obtain profitability. According to Wahyuni (2012), in his research he stated that the lower the debt level, the higher the profitability. Conversely, Arista & Topowijono (2017) shows that capital structure, as measured by long-term debt, does not affect profitability, but short-term debt and interest rate payments do affect profitability. Conditions like this are inconsistent in a study where nothing is certain, but theoretically when the level of debt is high enough compared to the equity owned, it has a high risk.

The second factor that affects profitability is liquidity. According to Munawir (2010), that liquidity shows the ability of a company to meet its financial obligations that must be fulfilled immediately, or the company's ability to meet financial obligations when billed. The definition of liquidity in general (liquidity) refers to a company's ability to meet its short-term obligations. Liquidity can affect profitability when there are temporary cash difficulties and arise due to a lack of cash to meet short-term obligations that can affect the company's operational ability. In addition, it can be more serious at a time when the total value of *liabilities* exceeds the total value of assets or negative equity value, which will have an impact on increasing operating costs, decreasing productivity, trusting customer or partner support, lost opportunities even to lagging behind technology which ultimately reduces power. company competitiveness. This is a problem in companies that are faced with conflicting problems of company liquidity and profitability. If a company determines large assets, it is likely that what will occur at the level of liquidity will be safe, but the expectation of getting large profits will decrease which will then have an impact on company profitability or vice versa. In Paul et al., (2021), he also argues that it strengthens that liquidity has a significant effect on profitability.

The third factor that affects profitability is the diversification strategy needed to increase the company's profitability. Companies with various business segments have many options to generate profits. Companies that carry out a business diversification are companies that have more than one business unit, so that they carry out business diversification to increase the added value of the company owner. A diversification strategy is a form of business development by expanding the number of business or geographic segments in order to expand the existing market share (Sari, 2019). A diversification strategy is needed to increase the company's profitability. Companies with various business segments have many options to generate profits. Most food and beverage companies have more than 1 business segment to attract more customers. The diversification strategy certainly requires high innovation so that the products can sell well in the market

Fourth factor that affects profitability is the size of the company. The research results of is Atiningsih & Izzaty (2021) suggest that company size has a positive effect on profitability. Larger companies have a better variety of services, production capacity and management strategies, and can take advantage of the benefits of economies of scale and scope which represent reduced company costs due to increased production scale (Ambrose et al., 2019). This makes it easier for large-scale companies to gain access to funding to develop their businesses and attract the trust of investors and creditors. Meanwhile, small-scale companies will be faced with several fundamental problems (Sheppard, 2020). Companies that are larger in size will be relatively stable and able to generate profits, as in previous research conducted by Rohmah (2020) that company size has a partial effect on profitability.

Based on previous research studies and gap analysis of research Arista & Topowijono (2017), Paul et al., (2021), Sari (2019) and Rohmah (2020), so it is interesting to carry out further research to analyze the profitability of the property sector. In this study, it will be investigated

Vol. 7, No.02; 2023

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further whether Capital Structure, Liquidity, Diversification and Company Size can affect Profitability in Construction Service Companies listed on the Indonesia Stock Exchange for the 2016-2020 period , so the authors are interested in conducting research with the title **"The Effect Of Capital Structure, Diversification Liquidity And Company Size On Profitability Property Sector Companies Indonesia"**

The objectives to be achieved in this study are as follows 1) To analyze the Effect of Capital Structure on profitability, 2) To analyze the Effect of Liquidity on profitability, 3) To analyze the Effect of Diversification on profitability and 4) To analyze the effect of company size on profitability

2. Theoretical Review

2.1. Profitability

Profitability shows that whether the company has good prospects in the future. The better the profitability ratio, the better it describes the company's ability to achieve high profits. The conclusion from the definition above is that profitability is a ratio to see the ability of a company to gain profit or profit. The higher the profitability ratio means the better the company is at generating profits or profits.

2.2. Capital Structure

Irham Fahmi (2015 : 184) states that the Capital Structure is as follows: "Capital Structure is an illustration of the form of the company's financial proportions, namely between the equity owned which comes from long-term debt (long-term liabilities) and equity (shareholders' equity) a source of financing for a company. According to Abdul (2015 : 81) Capital Structure is as follows: " Capital Structure is a comparison between total *Liabilities* (foreign equity) with total own equity / equity)".

2.3. Liquidity Ratio

The Liquidity Ratio can be defined as the ratio that shows the company's capability in covering its short-term liabilities. The liquidity ratio is also known as a ratio that can be used to measure the extent to which a company is capable of paying off its short-term obligations that are due (Harry, 2016 : 149). In line with this, (Prastowo, 2011:83) says that the liquidity ratio is the ratio that describes the company's ability to fulfil its short-term obligations to short-term creditors.

2.4. Diversification

The product diversification strategy is an important strategy in increasing sales volume. According to (Tjiptono, 2016) a diversification strategy is an effort to find and develop new products or markets, or both, in order to pursue growth, increase sales, profitability, and flexibility. According to J. Nijman, diversification as part of a product strategy is the expansion of the development of goods and services that have been offered by the company, by adding new products or services

2.5. Company Size

According to Brigham & Houston (2010) company size is as follows: "Company size is the size of a company that is shown or assessed by total assets, total sales, total profits, tax expenses and others." Then the size of the company according to (Torang, 2013:93) is: "Organizational size is determining the number of members associated with choosing how to control activities in an effort to achieve goals".

2.6.Framework

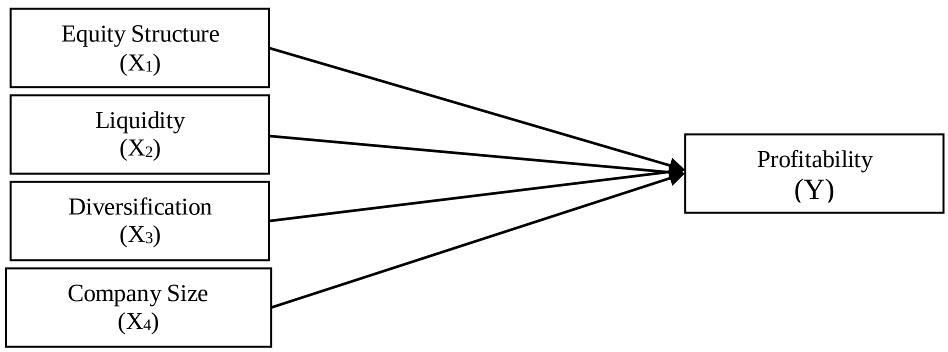

Figure 2. Research Thinking Framework

Based on the conceptual framework above, it can be stated that the relationship between variables and the research hypothesis is:

This ratio emphasizes the importance of *Liabilities funding* for companies to increase profitability. The greater the percentage of funding coming from shareholder equity, the greater the protection for the lender from the point of view of creditors. Capital structure will have a positive impact on profitability if the use of *liabilities* can achieve sales targets and increase company profits, thereby increasing company profitability and vice versa (Krisnando & Novitasari, 2021). Based on the research conducted by Yanuesti (2017) and Ali (2015) the test results show that the debt to equity ratio (DER) has a significant effect on return on equity (ROA). Then the formulation of the research hypothesis is:

H_1 : Capital Structure influences Profitability

Research by Sari et al., (2020) proves that liquidity has a significant effect on company profitability. This means that if liquidity decreases, the company's profitability will increase. Paul et al., (2021) and Afrinda et al., (2013) also argue that this strengthens that liquidity has a significant effect on profitability.

H_2 : Liquidity affects Profitability

Kusmawati (2008) conducted research on companies listed on the Indonesia Stock Exchange in 2004 showing that not all companies with multiple businesses produce better profitability. Satoto (2009) conducted research on the effect of a diversification strategy on firm performance. The research results of Satoto (2009) show that diversification has a negative effect on company performance. The results of Patrick (2012) research show that companies that carry out product diversification have better performance.

H_3 : Diversification has an effect on Profitability

Companies that are able to increase their company profits will have the opportunity to expand. Expansion is an active action to expand and enlarge the company. Companies that have a larger size have an influence on increasing company profitability and company value (Hansen & Juniarti, 2014). Agree with this statement, Niresh & Velnampy (2014) are able proves that company size has a significant positive effect on profitability. Larger companies will be relatively stable and able to generate profits, as in previous research conducted by Rohmah (2020) that company size has a partial effect on profitability.

H_4 : Company Size has an effect on Profitability

3. Research Methods

3.1. Research Design

The type of study used in this research is a descriptive study so that the main purpose of this research is to examine how the causal relationship of the several variables to be tested (Kuncoro, 2013).

3.2. The Scope of Research

The scope of this research is only limited to the relationship of the variables Capital Structure, Liquidity, Diversification and Company Size to Profitability. As for the research location using the sector population Property listed on the Indonesia Stock Exchange.

3.3. Operation Definition and Variabel Measurement

This study uses two groups of variables, namely the dependent variable and the independent variable as follows:

1. Profitability
   Profitability is measured using the following formula.
   ROA = Profit after tax / Total Assets ………...(1)
2. Capital Structure
   Capital structure is measured using the following formula.
   Debt to Equity Ratio = $\frac{Total\ Liabilities}{Stockholders'Equity}$ …………………………………………...(2)
3. Liquidity
   Liquidity is measured using the following formula.
   $$\text{Rasio Lancar} = \frac{\text{Aset Lancar}}{\text{Kewajiban Lancar}}$$
4. Diversification
   Diversification is measured using the following formula.
   H = $\sum = n\ i\ 1\ Segsales\ 2$ / ($\sum = n\ i\ 1\ sales\ 2$)

5. Company Size
   Company size is measured using the following formula.
   Company Size = Ln Total Assets

3.4. Population and Sample

The population used in this study are all banking companies listed on the Indonesia Stock Exchange (IDX). While the sample used in this study is the purposive sampling method. Certain methods, namely as follows:

1. Property sector company listed on the Exchange Indonesian Securities (IDX) period 2019 - 2021
2. Property sector companies submitting financial reports consecutively for the 2019-2021 period
3. Companies whose equity is positive

3.5. Data Type and Sources

This study uses secondary data in the form of financial reports listed on the Indonesia Stock Exchange (IDX). The data can be downloaded via the IDX website (https://www.idx.co.id/id).

3.6. Data Analysis Technique

The data analysis used in this study is a multiple regression model. The tests carried out are the determinant coefficient R^2, t test and F test.

4. Analysis and Discussion

The Results of Multiple Linear Regression is shown on table 1

Table 1

Multiple Linear Regression Analysis

Model	***Unstandardized Coefficients***			
	B	**std. Error**	t	Sig.
(Constant)	-0.073	0.036	-2.029	.044
DER (X_1)	-0.006	0.002	-2.805	.006
Current Ratio (X_2)	0.00003	0.000	.250	.803
Diversification (X_3)	0.005	0.024	.217	.828
Sizes (X_4)	0.003	0.001	2.350	.020
R	0.278			
R^2	0.077			
F Count	3,851			
Sig.	0.005			

Source: Processed data

From the above table the model of linier regression

Profitability: $-0.073 - 0.006X_1 + 0.00003X_2 + 0.005X_3 + 0.003X_4$

The interpretation of the regression above is as follows:

1. Constant (a)

This means if all independent variables have a value of zero (0), then the value of the profitability variable of -0.073.

2. Capital Structure (X_1) to beta (Y) = -0.006

The Capital Structure coefficient value for variable X_1 is 0.00 6 and is negative. This implies that for every increase of one DER unit, the profitability variable will decrease by 0.006 assuming that the other independent variables of the regression model are constant.

3. Liquidity (X_2) to beta (Y) = 0.00003

The Liquidity coefficient value for variable X_2 is 0.00003 and is positive. This implies that for every one unit increase in liquidity, the profitability variable will increase by 0.00003 assuming that the other independent variables from the regression model are constant.

4. Diversification (X_3) to beta (Y) = 0.005

Diversification coefficient value for variable X_3 is 0. 005. This means that for every increase in HI by one unit, the profitability variable will increase by 0.005 assuming that the other independent variables in the regression model are constant.

5. Company Size (X_4) to beta (Y) = 0.00 3

Firm Size coefficient value for variable X_4 is 0.00 3. This implies that for every increase in company size by one unit, the variable Beta (Y) will increase by 0.00 3 assuming that the other independent variables from the regression model are constant.

The R square value based on the results of the analysis using the multiple regression test tool is obtained at 0.077 or equal to 7.7 %. the remaining 92.3 % is influenced by other variables.

From the table 1 the results of hypothesis testing are obtained as follows:

1. Capital Structure has a Sig of 0.006 so it can be concluded that Capital Structure has negative effect significant to Profitability.
2. Liquidity has a Sig. of 0.803 so it can be concluded that Liquidity has not significant positive effect on Profitability.
3. Diversification has Sig. 0.828 so it can be concluded that Diversification no significant negative effect on Profitability.
4. Company size has a Sig. of 0.020 so it can be concluded that company size significant positive effect on Profitability.

If seen from the table above the significance value is of F 0.005 <0.05, it can be concluded that the independent variables namely Capital Structure, Liquidity, Diversification and Company Size jointly affect Profitability.

4.1. Discussion

The results of statistical tests show that Capital Structure, Liquidity, Diversification, and Company Size simultaneously have a significant influence on the ROA of Property Sector

Companies, as evidenced by the significance level in the F test of 0.005, less than 0.05 and R square of 0.077, which means that the independent variables can explain the dependent variable of 7.7% while the remaining 92.3% is explained by other variables outside the research variables. So it can be concluded that Capital Structure, Liquidity, Diversification, and Company Size simultaneously have a significant influence on Profitability in Property Sector Companies but the value is still small so it is necessary to include other variables that have not been included in the model which also affect profitability such as sales growth variables, inventory turnover, corporate governance and others.

4.1.1. The Effect of Capital Structure on Profitability

The results of Hypothesis 1 Testing show that Capital Structure has a significant negative effect so that it can be concluded that Capital Structure has an effect on Profitability so that H_1 accepted. Companies that have high DER tend to have low ROA. On the other hand, companies that having a low DER tends to have a high ROA. A high DER value affects the acquisition of ROA, which causes the acquisition of value The company's ROA is low. This is caused by the payment of costs incurred as a result of debt or loans that are larger than the income from debt utilization. Declining company profits cause the value of ROA to be low. These results indicate that the level of debt in the property sector is already very high so that the cost of debt burdens the company and reduces profits. It is also shown from the descriptive analysis that the average debt is 1.24 times that of equity. This result is consistent with the debt *trade-off* theory. This is consistent with research conducted by Violita & Sulasmiyati (2017) which states that Capital Structure has a significant negative effect on Profitability.

4.1.2. The Effect of Liquidity on Profitability

The results of Hypothesis 2 testing show that Liquidity has a positive but not significant effect so it can be concluded that Liquidity has no effect on Profitability so H2 is rejected. The results of the regression test show that Liquidity has no effect on *Return On Assets* , because the higher Liquidity indicates a company in a liquid state (the company has sufficient current assets that can be converted into cash) this has a good impact on financial performance because it shows the company's ability to meet obligations are due on time, and indicates the company has sufficient inventories to meet consumer needs . However, high liquidity (Current Ratio) does not always have a good impact on company profitability because it will show that there are excess current assets that are not used effectively and efficiently, which can lead to reduced profits or company profits (profitability). This is in accordance with the research of Rohmah (2020) and Sari (2019) saying that Liquidity has no effect on Profitability.

4.1.3. The Effect of Diversification on Profitability

The results of Hypothesis 3 testing show that diversification has an insignificant negative effect so that it can be concluded that diversification has no effect on profitability so that H_3 rejected, which means that when the company diversifies more and more it does not have an effect on profitability. If viewed in terms of *agency theory,* diversification will make managers take *over action excessive investment* due to distortions to the allocation of capital internally so that it becomes inefficient and results in high-risk funded projects. Companies that diversify will lose

Vol. 7, No.02; 2023

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investment opportunities in business segments that may provide greater returns than creating new business segments that require a long time to earn returns. This is in accordance with Research Pratiwi (2020) said that Diversification has no effect on Profitability.

4.1.4. The Influence of Firm Size on Profitability

Hypothesis 4 test results show that company size has a significant positive effect so that it can be concluded that company size has an effect on profitability so that H_4 accepted. This can be interpreted if the company's assets increase, the profitability will also increase. The addition of assets to the company is also offset by the company's ability to manage assets so as to increase profitability company. The results of this study are in accordance with the theory because theoretically the higher the total assets which indicate the assets owned by the company indicates that the company is classified as a large company. And conversely, the lower total assets indicate that the company is classified as a small company. The greater the total assets indicate that the greater the assets owned by the company so that investors will be more secure in investing in the company (Rivai et al., 2013:480) this will increase company profits and ROA will also increase. This is in accordance with the results of research from Rohmah (2020) which proves that SIZE has an effect on ROA. Yahya & Faradila (2016) proved that SIZE had a significant positive effect on ROA. This result is in contrast to Sari (2019) proving that SIZE has no effect on ROA.

5. Conclusion, limitation and suggestion

Based on the results of data analysis as described above, a conclusion can be drawn that Capital structure has a significant negative effect on profitability and Company size has a significant positive effect on profitability but liquidity has no significant positive effect on profitability and diversification has no significant negative effect on profitability.

The limitation of this study is the R Square value is 0.077 which is low so that the variables Capital Structure, Liquidity, Diversification and Company Size have a joint effect of 7.7% and the remaining 92.3% are influenced by other variables. And The diversity of diversification reports in the different financial statements is different for the sample companies. In addition, research ois only focused on Property Sector Companies listed on the Indonesia Stock Exchange for the 2019-2021 period.

The suggestion for further research should consider the addition of other variables that can affect profitability such as sales growth, inventory turnover and also using other measures to measure diversification The suggestion for companies, especially property companies, to be able to consider the resources owned by the company is good in the form of own capital other than debt that is used to obtain profitability. With the utilization of good capital then profitability earned also increased. Funding decisions made by The company must be right so that the company's goals can be achieved in accordance with the targets set.

The implication of the result for manager is expected to be careful when making capital structure decisions, especially those related to adding debt because debt can reduce company profits when the cost of debt is more than the use of debt. In addition, property company managers must be able to manage property company assets to become productive assets so that they can improve company performance. The intended theoretical implications are related to the contribution of research results to science in the theories used to solve research problems. The model is only able to explain 7.7% of profitability, so the model is not yet strong, so it is necessary to add other variables that are not included in this study.

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