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The Effect Of Profitability, Liquidity, And Company Growth On Asset Structure

Sabrina Rizky Amalia[1)], Nabila Rahmadayanti[2)], Sindy Larasasti[3)], Putri Utami Permata Sari[4)], Meigia Nidya Sari[5*)]
[1,2,3,4,5)] Accounting Study Program, Faculty of Social Science, Universitas Pembangunan Panca Budi, Indonesia

*Corresponding Author :
E-mail : meigia@dosen.pancabudi.ac.id

Abstract
This study is intended to explain the impact of profitability, liquidity, and firm growth on asset structure. The sample in this study includes 138 data selected from 48 industrial companies in IDX for 4 years using purposive sampling system. The data analysis technique used for this research includes panel data regression analysis processed with the help of Eviews 12 application. The results show that profitability and firm growth have a negative effect on asset structure, while liquidity does not have any effect on asset structure.

Keywords: asset structure, profitability, firm growth, liquidity

INTRODUCTION

In an increasingly competitive business environment, industrial companies must manage their resources effectively to survive and thrive. A critical aspect of financial management is asset structure. This asset structure includes various types of assets owned by the company, such as current assets (e.g., cash and receipts) and fixed assets (e.g., machinery and buildings). Industrial companies must manage their resources effectively in order to survive and thrive. A critical aspect of financial management is asset structure. Industrial companies play an important role in the economy, not only contributing to economic improvement but also providing a source of employment. However, to compete in an era of market volatility, companies must be able to manage their assets efficiently. One strategy to achieve this goal is to understand the relationship between profitability, liquidity, and corporate growth and its impact on asset structure. High profitability can increase retained earnings, which can then be used for new investments. Good liquidity reduces reliance on debt because there are sufficient internal sources of funds to pay current liabilities. On the other hand, business growth often requires additional investment in fixed assets to support operational expansion.

Profitability is an indicator of whether a company is effective in generating profits from its production activities. When a company earns a high level of profit, it indicates that it is able to manage costs and generate revenue well. Earned profits can be used for various purposes, such as investing in new assets or paying dividends to shareholders. In this case, retained earnings, or profits that are not distributed to shareholders, can be used to limit the development of new assets. However, profitability is not the only aspect to consider. Liquidity, or a company's ability to cover current liabilities, is also important. Companies with good liquidity have more current assets than short-term liabilities, allowing them to run their day-to-day operations without relying on debt. Conversely, if liquidity is low, the company may need to spend money to pay current liabilities, which will affect the overall asset structure. In addition, company growth is also a component in determining the asset structure. When a company experiences growth, it usually

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requires more investment in fixed assets to support the increased production capacity. For example, if sales increase significantly, the company may need to purchase new machinery or expand its production facilities. However, these investments often require large amounts of capital, so the company may seek external sources of funds, such as debt or the issuance of new stock. Understanding the impact of profitability, liquidity, and growth on asset structure has practical implications for financial management in industrial firms. First, management must focus on improving profitability in order to increase retained earnings as a source of internal financing. Second, maintaining the liquidity ratio at an optimal level is essential so that the firm can meet short-term obligations without resorting to debt. Finally, growth strategies should be carefully planned so as not to jeopardize the financial health of the company. Investments in fixed assets should be made taking into account estimated future cash flows to avoid excessive debt burden.

Profitability is an important indicator that reflects how effective a company is in generating profits from its operations. This is a manifestation of a set of rules as well as actions taken by management, including resource management as well as optimal use of funds. Profitability can be seen through financial statements, especially the balance sheet, which shows items related to profits and expenses (Bringham & Houston, 2019).

According to Sari & Sedana (2020), profitability not only serves as a measure of a company's performance, but is also an important prerequisite for ensuring the company's long-term desirability. Profitability is a key element in achieving financial goals because it reflects management's ability to generate profits. Profitability ratios, measured by various metrics, provide an idea of how well a company uses its assets to generate net income after taxes. The higher the rate of return achieved, the more effective the company is in utilizing its assets to generate profits (Chasanah & Sucipto, 2019). An increase in profitability indicates that the company has been able to manage assets and resources efficiently, which in turn increases shareholder value. Thus, profitability is one of the main factors that attract the attention of investors and other stakeholders. In this context, profits that are not distributed to shareholders can be used for reinvestment in the development of new assets or business expansion.

Based on the research of Chasanah & Sucipto (2019), the liquidity of a company describes the ability of a company to pay its current obligations on time. Liquidity occurs when the value of the company's current assets exceeds the amount of its current liabilities. Thus, companies with high liquidity are those that can meet all their obligations when due, while companies with low liquidity cannot meet these obligations at the agreed time.

A study conducted by Sari & Sedana (2020) revealed that there is a significant relationship between liquidity and firm profitability. Liquidity describes the working capital needed to support the company's operations. Therefore, planning and monitoring liquidity is very important to control the risk of the company's inability to meet current obligations and to avoid excessive accumulation of current assets. According to Prieto & Lee (2019), companies with high levels of liquidity tend to be better able to pay their debts and have an easier time obtaining additional loans because they can meet their short-term needs. In this context, liquidity is measured by the liquidity ratio, which indicates the extent to which a firm's current assets can be used to pay current liabilities (Reschiwati et al., 2020).

Firm growth refers to an increase in the firm's ability to generate revenues, profits, and expand its operating scale over time. In the pecking order theory, firm growth has a positive relationship with financing decisions. In this case, companies with faster company growth have to rely more on external funding (Nurvitasari, 2019). The elements that affect a company's

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growth can be divided into two groups: internal and external. Internal elements include innovation, the quality of human resources, and financial management, while external factors include economic conditions, the level of competition in the marketplace, and government regulatory policies. A growing company is one that is able to effectively manage resources to generate profits, which in turn can increase its assets. Companies with significant growth in assets show good performance in increasing profits (Dhani & Utama, 2017).

A company's asset structure is an important element that reflects how the company's resources are allocated. In simple terms, the asset structure can be seen as a comparison between the fixed assets and the total assets of the company. Fixed assets include items such as land, buildings, and equipment that are used in operations, while current assets can be easily converted into cash. Asset structure can be viewed from an operational aspect, which basically categorizes assets based on certain calculations that support the company's activities. In this case, asset structure can be known from two perspectives, namely, assets that must exist to support the company's operations throughout the accounting period, and assets that must be prepared for the company's operational needs on a permanent basis (Insiroh, 2014)

RESEARCH METHODS

This research method uses quantitative methods, with data collection techniques sourced from secondary data derived from the official IDX website. Panel data regression method is used for data analysis. Sample selection is done through purposive sampling, which means that the sample is selected based on specific criteria that are relevant to the research problem. The sample criteria are:

1. Industrial companies listed on the Indonesia Stock Exchange.
2. Publish full financial reports during the period 2020-2023.

RESULTS AND DISCUSSION

Panel data regression model selection

Panel data regression model selection aims to find an appropriate research model among *Common Effect Model (CEM)*, *Fixed Effect Model (FEM)*, and *Random Effect Model (REM)*.

Chow Test

Table 1

Effects Test	Statistic	d.f.	Prob.
Cross-section F	8.610925	(36,98)	0.0000
Cross-section Chi-square	196.827093	36	0.0000

Based on the Chow test results, the prob value. *Cross-section F value* of 0.0000, *Cross-section chi-square* value of 0.0000 < significance value of 0.05. This means that the appropriate model is the *Fixed Effect Model* (FEM). And continue with the Hausman test.

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Hausman Test

Table 2

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.969217	3	0.5788

The results of Hausman's test show that the *Cross-Sectional Random* value is 0.5788 > the significance level of 0.05. Therefore, the selected model is the *Random Effects Model* (REM). Next, we run the Langrange Multiplier test.

Langrange Multiplier Test

Table 3

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	87.14583 (0.0000)	0.742221 (0.3890)	87.88806 (0.0000)
Honda	9.335193 (0.0000)	-0.861523 (0.8055)	5.991790 (0.0000)

From the LM test results, the Breusch-Pagan value obtained is 0.0000, < the significance value of 0.05. Therefore, the final model result obtained from the model selection test is the *Random Effects Model* (REM).

Panel Data Regression Equation

The explanation is as follows:

$$\mathbf{AS} = \mathbf{0.38174} - \mathbf{0.27732\ ROA} - \mathbf{0.00534\ CR} - \mathbf{0.14125\ GROWTH} + [\mathbf{CX = R}]$$

The constant value of 0.38174 shows that when the independent variables, namely Profitability (ROA), Liquidity (CR) and Company Growth (Growth) are equal to zero (0) or constant, the Asset Structure (AS) variable will increase by 0.38174. For the ROA variable, the value is -0.27732 and shows a negative direction, so that if the ROA value increases by one unit and the other variables are constant, the SA value will decrease by 0.27732. Likewise, the value of the CR variable, where the value is -0.00534, shows a negative direction, so if the CR value increases by one unit, the SA variable will decrease by 0.00534. The Growth variable, with a value of -0.14125, has a negative direction, so if the Growth value increases by one unit and other variables remain constant, the SA value will decrease by 0.14125.

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Hypothesis Testing

Hypothesis testing will be shown through the model feasibility regression coefficient test or simultaneous test (F test) and partial regression coefficient test or t-statistic test (t test).

F-test

Table 4

R-squared	0.162375
Adjusted R-squared	0.143622
S.E. of regression	0.139604
F-statistic	8.658712
Prob(F-statistic)	0.000027

Based on Table 4, it can be seen that the F_{count} value is 8.658712 > F_{table} 2.672182, and the significance value is 0.000027 < significance level of 0.05. So, the variables tested in this study are feasible to use and it can also be seen that the variables of ROA, CR, Growth simultaneously have a significant influence on asset structure.

T-statistic test

Based on the results of the t-test run, it can be seen that:

Table 5

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.381742	0.052567	7.262047	0.0000
ROA	-0.277320	0.103334	-2.683728	0.0082
CR	-0.005343	0.020871	-0.256004	0.7983
GROWTH	-0.141254	0.033309	-4.240774	0.0000

1. The calculated t_{value} is -2.683728 > t_{table} 2.672182, a significant value of 0.0082 < significant value, which is 0.05. Therefore, it can be interpreted that profitability has a significant negative impact on asset structure. Therefore, H_1, which states that profitability affects asset structure, is approved.
2. The calculated t_{value} is -0.256004 < t_{table} 2.672182, while the significance value is 0.7983 > significant level 0.05. It means that liquidity has no effect on asset structure. That is, H_2, which shows that liquidity has an effect on asset structure, is rejected.
3. The calculated t_{value} of -4240774 < t_{table} 2.672182 and a significance value of 0.0000 > a significant level of 0.05. Thus, it can be seen that company growth has a significant negative effect on asset structure. Therefore, H_3, which suggests that firm growth affects asset structure, is rejected.

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Test Coefficient of Determination (R^2)

Table 6

R-squared	0.162375
Adjusted R-squared	0.143622
S.E. of regression	0.139604
F-statistic	8.658712
Prob(F-statistic)	0.000027

The adjusted R-squared value of 0.143662 indicates that the variables ROA, CR, Growth are able to explain 14.3622% of the relationship with the variable SA, while the remaining 85.6378% is influenced by other variables not included in this study.

Discussion

Effect of Profitability on Asset Structure

The results showed that profitability has a negative effect on asset structure. This indicates that when a firm's profitability increases, the proportion of assets controlled by the firm will decrease because some profitable firms prefer to distribute part of their profits to shareholders in the form of dividends, which may reduce the amount of firm assets. As for high profitability, it allows firms to tend to use internal financing such as retained earnings rather than external financing, which is consistent with the pecking order theory that firms are more likely to use internal financing such as equity or retained earnings than external financing such as debt.

The Effect of Liquidity on Asset Structure

The result of the research shows that liquidity has no effect on asset structure. This means that changes in the company's liquidity do not affect the company's decision to process its assets in the company's financial structure. That is, the company can maintain the same composition between current and fixed assets even if its liquidity level changes. Asset structure has more to do with the composition and long-term investment in various assets, while liquidity prioritizes the company's potential to meet short-term liabilities. Therefore, changes in liquidity do not directly cause changes in asset structure.

Effect of firm growth on Asset Structure

The results indicate that firm growth has a negative effect on asset structure. This suggests that there is a relationship between an increase in firm growth and changes in asset structure. Obviously, a firm experiencing growth will require more funds, leading to an increase in corporate debt, which may reduce the proportion of fixed assets in the asset structure, and firms may prefer to invest in current assets to support increased sales (Brealey et al, 2011). However, relying on more debt and current assets can make the firm's structure more risky because current assets are more easily affected by market fluctuations, and firms that rely too heavily on debt will also make interest costs and debt burdens a heavy financial burden that can reduce future firm profits.

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CONCLUSION

From the research conducted, it can be concluded that profitability and company growth have a negative effect on asset structure, while liquidity has no effect on asset structure. As a company's profitability increases, the proportion of assets controlled by the company decreases because some profitable companies prefer to distribute part of their profits to shareholders in the form of dividends, which may reduce the amount of company assets. Asset structure has more to do with the composition and long-term investment in various assets, while liquidity prioritizes the firm's ability to meet short-term obligations. The relationship between increased company growth and changes in asset structure. In a company that is experiencing growth, of course, more funds are needed, so it causes an increase in corporate debt, which can reduce the proportion of fixed assets in the asset structure, and companies may prefer to invest in current assets to support increased sales.

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