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The Effect of Company Size on Profitability: Case Study of LQ45 Companies in the Period 2021-2023

Muhammad Noor Amin[1*], Abdul Ghoni [2], Isra Misra [3]

[1,2,3] State Islamic Institute of Palangka Raya, Palangka Raya, 73112, Central Kalimantan, Indonesia

Email
Aminnm159@gmail.com[1], abdul.ghoni@walisongo.ac.id[2], isra.misra@iain-palangkaraya.ac.id[3]

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Abstract

This study focuses on studying the effect of company size on profitability in companies listed on the Indonesia Stock Exchange in the LQ45 index. Profitability is often associated with financial performance. Ln (*total assets*) is used to calculate company size. On the other hand, return on assets, or ROA, is useful for measuring a company's profitability. The research sample consists of 23 businesses that meet certain criteria from 2021–2023. This quantitative study uses data from annual financial reports. The results show that business size has a significant negative effect on profitability. Thus, larger businesses tend to experience worse financial performance..

Keywords: *Company Size , Profitability , ROA*

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1. Introduction

Companies are required For develop performance to be able to survive and exist improvement because of existence progress field growing business competitive and dynamic . Field finance become aspect main For evaluate performance company , especially in its profitability . From profitability No only disclose how much quantity from advantages , but also describes accuracy related usage For operational from source power . Then from That is so urgent for party external , investors, and companies in understand What just factors that can influence profitability (Faraby 2022) .

Factors that influence profitability are of primary concern to both people within the company, such as management, and people outside the company, such as investors and regulators.

In this context, firm size is often considered as one of the main determinants of profitability. Large firms are believed to have competitive advantages such as the ability to access capital markets more easily, greater economies of scale, and power in negotiating with business partners. These advantages provide large firms with the opportunity to improve operational efficiency and expand market share through greater investment. (Srirahayu and Solehudin 2024) .

In the capital market in Indonesia, the LQ45 index is often used as the main reference to evaluate the performance of large companies with high liquidity and solid financial foundations. The LQ45 index is determined based on various standards, including stability profit , growth income , as well as effective management . Companies in index This generally own good reputation in the eyes of stakeholders interest Because ability they guard stable performance in the middle market dynamics (Empress 2021) .

An essential factor for analyzing financial performance is the size of the company . In general, theory , a more company big own a number of advantages , such as scale more economy efficient , ability For get capital with more costs low , and strength in do negotiations . However , large sizes can also bring challenge alone , such as cost increased operational , management greater risk complex , and difficult bureaucracy overcome . Because of that that , various interrelated internal and external variables influence the relationship between company size and profitability, but this relationship is often not direct. (2011 Analysis) .

2. Literature Review

Company Size

The amount of net sales of a company for several years in the same year is called the size of the company. If the income from sales exceeds the variable costs and fixed costs, the company will get a profit before tax. However, if the sales are smaller, the company will suffer a loss. The size of the company reflects the characteristics related to the organizational structure of the company (Pradhana 2014) .

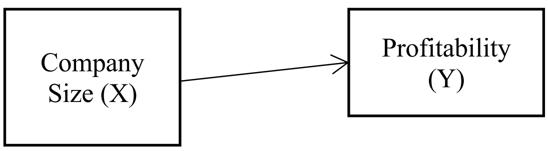
Companies that have excess assets or are better known can get more attention from investors, creditors, governments, and economic analysts than small companies. Total assets of a company are defined as all wealth owned by a company as a result of previous transactions and are expected to generate more profits in the future. Investors focus on whether the money they have has the opportunity to grow if they invest in the company. The government's focus on big businesses is focused on the expectation of paying taxes (Sawitri 2017) .

Profitability

Profitability is said to be the ability of a company to generate profits in a certain period. Profit is often a measure of a company's performance. Excessive company profits indicate good performance, and vice versa. Profit also shows the company's ability to fulfill its promises to its sponsors. In addition to being compared to assets, equity, sales, and other financial positions, company profits also create value and show future prospects. (Thaib and Dewantoro 2017) .

According to (Sutan Indomo 2019) , Profitability refers to the ability of a company to generate profits related to sales, total assets, and capital. Net income is usually compared to things like sales, assets, or shareholders' equity to see how well the company is performing. This comparison helps describe the results as a percentage of the activities or investments made. The main thing in assessing a company's profitability is to calculate net income after income tax or the difference between total income and all costs during a certain period, the results of this calculation will later be displayed in the company's income statement. This report is fundamental to investors and creditors because it helps them understand how well the company manages its finances and makes a profit in the present and future (Nursasmita 2021).

Company size and profitability are the basis of this research framework. The mind map of the framework is as follows:



Source: Processed by researchers (2024)

According to Based on the above framework , the hypotheses of this study include:

H_0 : Company size does not have a significant effect on the profitability of LQ45 companies for the 2021-2023 period.

H_a : Company size has a significant effect on the profitability of LQ45 companies for the 2021-2023 period.

3. Research Design and Method

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Types of research

Type research used in study This nature quantitative . Type the own objective For test hypothesis and review connection between variables and can measured in a way numerical . This approach is used to identify the influence of size company (independent) against profitability of LQ45 companies (dependent) listed on the BEI (Indonesia Stock Exchange) in period 2021-2023 time .

Sampling Tcchniques

Study This use Purposive Sampling is useful in determining research samples. This method is an approach to selecting samples based on certain criteria or considerations (Lenaini 2021) . This technique was chosen because it was designed to collect appropriate information and support the research objectives. The researcher assumes that the selected sample has adequately represented the population. The criteria applied in this study include: (1) Companies that are consistently listed in the LQ45 index on the Indonesia Stock Exchange in period 2021–2023 period , (2) The Company routine provide financial reports for the years 2021–2023, (3) Companies in the LQ45 index that prepare financial reports in exchange rates Rupiah currency regularly in 2021–2023.

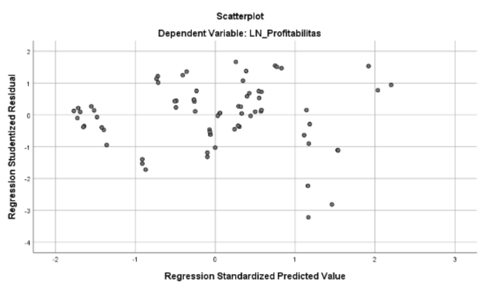
Table 2. Normality Test

Model		Sig
1	Asymp. Sig. (2-tailed)	.095 [c]

Source: Processed data, 2024

The result of the normality test show that the significance value is 0,095. Because the significance value is higher that 0,05, it can be concluded that the data in the regression model in this test follows a normal distribution

Table 3. Heteroscedasticity Test



Source: Processed data, 2024

The heteroscedasticity test is used when you want to check whether there is a difference in residual variation between one observation and another. others . Heteroscedasticity conditions can result in inaccurate regression coefficient estimates, so this heteroscedasticity needs to be addressed in the regression model (Fa jrul Novrizal and Fitri 2016) . Based on the residual scatterplot, the distribution of random points and the absence of a particular pattern indicate that the regression model is free from heteroscedasticity problems.

Table 4. Autocorrelation Test

Model	*Durbin-Watson*
1	1.934

Source: Processed data, 2024

In the table, the Durbin-Watson value (dw) = 1.934 is obtained. The requirement for no autocorrelation is that the Durbin-Watson value must be between the lower limit (du) and the upper limit (4-du). From the Durbin-Watson table, the lower limit (dl) value is 1.5803 and the upper limit (du) is 1.6390. Thus, the 4-du value is 2.361 (4 - 1.6390). This shows that the calculated dw is in the range of 1.6390 < 1.934 < 2.361. Therefore, it is concluded that there is no indication of negative or positive autocorrelation in the regression model.

This test aims to assess whether there is a relationship between the nuisance error in period t with the nuisance error in the previous period in the linear regression model. The autocorrelation occurs because observations are made based on time sequence in the regression model, which means that the error in one observation is influenced by the error in the previous observation. (Hasibuan, AR, and NP 2016) .

Table 5. Test of Determination Coefficient (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.369 [a]	.136	.123	.99625

Source: Processed data, 2024

The table shows the correlation value (R) = 0.369. From these results, the coefficient of determination (R Square) = 0.136 is obtained, which indicates that the influence of the independent variable (Company Size) on the dependent variable (Profitability) is 13.6%.

Table 6. F Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.463	1	10.463	10.542	.002 [b]
	Residual	66.498	67	.993		
	Total	76.961	68			

Source: Processed data, 2024

From the output, the calculated F value is obtained = 10.542 with a significance level of 0.002 which is less than 0.05. This indicates that the regression model can be used to estimate the profitability variable, it can also be said that there is a significant influence of the company size variable on the profitability variable. Therefore, H0 is rejected and Ha is accepted, which indicates that company size has a significant influence on profitability.

Table 7. Hypothesis Testing

Model	t	Sig
1 (Constant)	3.646	.001
Company Size	-3.247	.002

Source: Processed data, 2024

It is known that the significance value of the independent variable is 0.002 (<0.05), which indicates that the independent variable has a significant effect on the dependent variable. The t-value of (-3.247) indicates a negative relationship, which indicates that when the independent variable increases, the dependent variable will decrease, and vice versa.

4. Results and Discussion

Discussion

The results above , it can be concluded that company size has a significant negative effect on the profitability of companies recorded in the LQ45 index on the IDX in 2021-2023. Increasing company size has an impact on decreasing profitability. This is because the high company size is not supported by effective control over the company's assets, such as total assets, technology, and intellectual property, which of course are determinants for assessing the size of the company. Although large companies have abundant wealth, managing these resources is often a significant challenge. Large total assets are not always accompanied by optimal utilization. In some cases, these assets become a burden because they require high operational and maintenance costs (Mulia 2021) .

Therefore, although company size is often associated with financial strength and large markets, the findings of this study indicate that large size also brings its own challenges. Without proper management on source power possessed , size company can become obstacle than superiority , causing profitability decreased . The company must focus in increase efficiency , management strategic assets , as well as development capability managerial For ensure that growth size company in line with improvement profitability (Riniwati 2016) .

The results of this study are the same as the studies conducted by (Isbanah 2015) , (Catur Fatchu Ukhriyawati and Riani Dewi 2019) , (Christina Dewi Wulandari and Tri Damayanti 2022) , and (Juliana and Melisa 2019) which confirmed that company size has a negative effect. According to (Rikalmi and Wibowo 2014) a company is not only assessed based on its size. A large company does not necessarily generate large profitability, and vice versa. In fact, according to (Wahyudi, Wibowo, and Hartati 2023) company size cannot be a guarantee that a company has the skills to create high profits.

The results of this study differ from the studies of (Luckieta, Amran, and Alamsyah 2021) , (Miswanto, Abdullah, and Suparti 2017) , and (Purba and Yadnya 2015) which state that company size has a positive and significant effect on profitability. The results of the studies (Ayu and Setiadewi 2012) and (Lorenza, Kadir, and Sjahruddin 2020) state that company size has a negative but insignificant effect on profitability. Meanwhile, (Sutan Indomo 2019) in his research results stated that company size has a positive and insignificant effect on profitability.

5. Conclusions

The results of the study show that company size has a significant negative impact on the profitability of companies listed on the LQ45 index on the IDX from 2021-2023. Due to the large size of the company, its profitability decreases. Although company big own source abundant power , management source Power the often become significant challenges . Large total assets No always accompanied with optimal utilization . In a number of cases , assets the become burden Because need cost high operational and maintenance .

Company size as measured by Ln total assets has a significant negative effect on profitability in companies listed on the LQ45 index on the IDX during 2021-2023. Therefore, it can be said that large companies cannot always maintain consistency in to achieve profitability in its operations . On the side other , company small will also more capable increase benefits . Can concluded that increase size company to company The LQ45 index listed on the IDX in 2021-2023 will result in decline profitability .

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