

EFFECT OF DEBT TO EQUITY RATIO (DER), TOTAL ASSET TURNOVER (TATO), INFLATION AND INTEREST RATE (SBI) ON PROFITABILITY IN CONSTRUCTION COMPANY (PERSERO) ON THE INDONESIA STOCK EXCHANGE

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Abstract

This study aims to determine the Debt To Equity Ratio (DER), Total Asset Turnover (TATO), Inflation and Interest Rates (SBI) on Profitability in construction companies (Persero) on the Indonesia Stock Exchange. This study uses secondary data in the form of construction company (Persero) financial reports for 2015-2021 accessed on the company's official website and www.bi.go.id. The population in this study were 22 companies and the sample used was 15 companies selected using the Purposive Sampling method. The results showed that DER had a positive but not significant effect on ROA, TATO had a positive and significant effect on ROA, INF had a positive but not significant effect on ROA, and SBI had a positive and insignificant effect on ROA.

Keywords: *Profitability, Debt To Equity Ratio (DER), Total Asset Turnover (TATO), Inflation and Interest Rates (SBI)*

INTRODUCTION

Financial performance is one of the most important things in a business world related to the company, both internally and externally. Financial performance is a benchmark for each company to assess the company's ability to achieve company profits and the maximum performance that has been achieved by the company. Financial performance as a form of analysis is carried out to see how far the company has implemented the rules of financial implementation properly and correctly. Assessment of the company's financial performance generally uses ratio analysis, using ratio analysis will be able to explain an overview of the company's financial position, especially if comparative ratio figures are used as standards (Santia, 2018). Profitability is the ability of a company to generate profits in a certain period. Profit is usually one of the company's performance assessments, where if the profit generated is high then the company's performance is good and vice versa. Apart from being an indicator of the company's ability to fulfill obligations for capital providers, company profit is also an element in creating company value that shows the company's prospects in the future (Prabowo et al, 2019). Profitability is a ratio that describes a company's ability to earn profits through all existing capabilities and sources such as cash sales activities, capital, number of employees, number of branches and so on. The ratio that describes a company's ability to generate profits is also called the Operating Ratio (Agustin, 2020).

In this study the ratio used is ROA. Return on Assets is one of the right ratios to measure a company's financial performance. According to Widodo (2018) Return on Assets (ROA) is a ratio that focuses on a company's ability to obtain earnings in its operations (Orniati, 2019). Factors that affect profitability, especially Return on Assets, include DER, TATO Inflation and SBI interest rates according to his research Darminto (2020), Tinambunan (2020), Salainti (2019) and Robbani (2020). Based on the phenomena that occur on Return on Assets caused by problems and then assisted by previous researchers or the Research gap described above, the authors are interested in conducting an empirical study entitled "Effect of Debt to Equity Ratio (DER), Total Assets Turnover (TATO), Inflation and Interest Rates (SBI) on Profitability in Construction Companies on the Indonesia Stock Exchange".

LITERATURE REVIEW

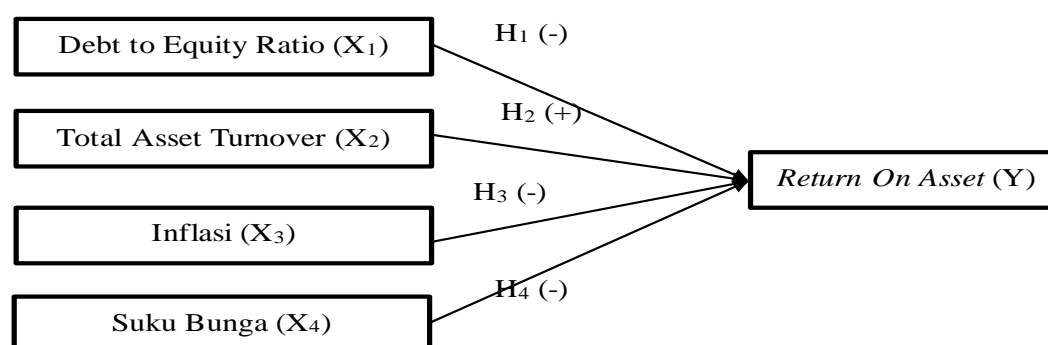
Financial performance is one of the most important things in a business world related to companies, both internally and externally (Sukma, 2019). Financial performance is a benchmark for each company to assess the company's ability to achieve company profits and maximum performance that has been achieved by the company (Wahono, 2018). Profitability is the ability of a company to generate profits in a certain period. Profit is usually one of the company's performance assessments, where if the profit generated is high then the company's

performance is good and vice versa. Apart from being an indicator of the company's ability to fulfill obligations for capital providers, company profit is also an element in creating company value that shows the company's prospects in the future (Prabowo et al, 2019). Return on Assets is a profitability ratio that shows the percentage of profits earned by a company in relation to the total resources or the average number of assets. ROA is a ratio that measures how efficient a company is in managing its assets to generate profits over a period. ROA can help management and investors to see how well a company is able to convert its investment in assets into profit or profit (Prabowo & Sutanto, 2019).

DER is the ratio between total debt and total equity in a company which gives a comparison between company equity (Darminto & Fuadati, n d, 2020). According to Ginting (2018) the Debt to Equity Ratio is a ratio that shows the ability of the company's own capital to fulfill all of its obligations. The data used to calculate the value of the Debt to Equity Ratio is obtained from the company's financial statements in the form of a balance sheet to see how much total debt and total equity the equity has in the company (Salaanti, 2019). One of the ratios included in the activity ratio is Total Asset Turnover (TATO). According to Salinti (2019) Total Asset Turnover is a ratio that shows the level of efficiency in using all of the company's assets in producing a certain sales volume. Total Asset Turnover is a ratio to measure the comparison between fixed assets owned to sales. This ratio is useful for evaluating how much a company's ability to utilize its fixed assets efficiently in order to increase revenue. Total Asset Turnover, which measures how many times the company's total assets generate sales (Nur'aidawati, 2018).

According to Iswanto (2017) Inflation is a process of increasing general prices continuously. While the opposite of inflation is deflation, which is a continuous decrease in prices, as a result, people's purchasing power increases, so that in the initial stage goods become scarce, but in the next stage the number of goods will increase due to the decreasing purchasing power of the people. Inflation is caused by increased demand and increased production costs (Wahono, 2018). According to Ilmi (2017) Interest rates are the amount of money paid in return for using debt. High interest rates will lead to a high volume of public savings. The higher the interest offered by the bank, the higher the enthusiasm of the people to save. Thus investors will prefer to invest their money in savings or deposits rather than stocks. The conceptual framework is a model that explains or explains how a theory relates to the important factors that are known in a particular problem.

Figure 2.1 Conceptual Frame Work



Based on Figure 2.1 above, it shows a hypothesis or temporary conjecture, namely the Debt to Equity Ratio (DER) has a negative effect on ROA, Total Asset Turnover (TATO) has a positive effect on ROA, inflation has a negative effect on ROA, and SBI interest rates have a negative effect on ROA.

RESEARCH METHODS

Data

The object examined in this study is the Debt to Equity Ratio. Total Asset Turnover, inflation, interest rates (SBI) and Return on Assets while the location of this research is located in a construction company listed on the Indonesia Stock Exchange with data obtained from the company's official website and www.bi.go.id. The population used in this study were construction sector companies listed on the Indonesia Stock Exchange for the

2015-2021 period with a total population of 22 companies, the samples obtained for this study were 15 companies. By using purposive sampling technique. The data collection technique used in this study is the documentation method

Analysis Method

To perform data analysis in this study researchers used quantitative analysis. The data obtained in the form of numbers will then be analyzed using statistical tools. The analysis in this study uses panel data regression analysis. There are several methods commonly used to estimate regression models with panel data. There are three models in this data panel namely, Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM).

RESEARCH HYPOTHESIS

- H₁: The Debt to Equity Ratio affects the Return on Assets in construction companies listed on the Indonesia Stock Exchange.
H₂: Total Asset Turnover affects Return on Assets in construction companies listed on the Indonesia Stock Exchange.
H₃: Inflation affects the Return on Assets in construction companies listed on the Indonesia Stock Exchange.
H₄: SBI interest rates affect the Return on Assets of construction companies listed on the Indonesia Stock Exchange.

RESULTS AND DISCUSSION

Tabel 4.8, Panel Regression

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---------------------|-------------|--------------------|-------------|--------|
| C | -0.1242 | 0.0707 | -3.0331 | 0.0031 |
| DER | 0.0342 | 0.0142 | 2.4092 | 0.0178 |
| TATO | 0.1295 | 0.0655 | 1.9778 | 0.0507 |
| INF | 0.2237 | 0.3237 | 0.6911 | 0.4910 |
| SBI | 1.6510 | 1.2253 | 1.3475 | 0.1809 |
| Weighted Statistics | | | | |
| R-squared | 0.1391 | Mean dependent var | 0.0099 | |
| Adjusted R-squared | 0.1047 | S.D. dependent var | 0.1489 | |
| S.E. of regression | 0.1409 | Sum squared resid | 1.9858 | |
| F-statistic | 4.0399 | Durbin-Watson stat | 1.2299 | |
| Prob(F-statistic) | 0.0044 | | | |

Source: Output Eviews10 (2022)

Based on Table 4.8, the regression equation that can be compiled in this study is as follows:

$$ROA = -0.1242 + 0.0342 \text{ DER} + 0.1295 \text{ TATO} + 0.2237 \text{ INF} + 1.6510 \text{ SBI}$$

Based on the equation above, it can be seen that the constant value in this study is -0.1242. This means that ROA, if DER, TATO, INF and SBI are 0 (constant), then the ROA value remains at -0.1242. The DER regression coefficient value is 0.0342, this indicates a positive (unidirectional) relationship. This means that every 1% increase causes ROA to increase by 0.0342%. Furthermore, the value of the TATO regression coefficient is 0.1295, indicating a positive relationship (unidirectional). This means that every 1% increase will cause ROA to increase by 0.1295%. Furthermore, the value of the INF regression coefficient is equal to 0.2237 which indicates a positive relationship (unidirectional). This means that every 1% increase will cause ROA to increase by 0.2237%.

Meanwhile, SBI has a positive (unidirectional) relationship to ROA with a coefficient of 1.6510. Shows that every SBI has increased by 1% causing ROA to increase by 1.6510%.

t-Test Results

The results of testing the hypothesis in this study are as follows:

1. The DER variable partially has a positive and significant effect on ROA. with a tcount value of 2.4092 and a significance value of 0.0178. So it can be said that $t_{count} 2.4092 > t_{table} 1.6604$ and a significance value of $0.0178 < 0.05$. So it can be concluded that H1 is accepted, which means that DER has a positive and significant effect on ROA in construction companies listed on the IDX.
2. The TATO variable partially has a positive and significant effect on ROA with a tcount of 1.9778 and a significance value of 0.0507. So it can be said that $t_{count} 1.9778 > t_{table} 1.6604$ and a significance value of $0.0507 > 0.05$. So it can be concluded that H2 is accepted, which means TATO has a positive and significant effect on ROA in construction companies listed on the IDX.
3. The INF variable partially has a positive and insignificant effect on ROA with a tcount of 0.6911 with a significance value of 0.4910. So it can be said that $t_{count} 0.6911 < t_{table} 1.6604$ and a significance value of $0.4910 > 0.05$. So it can be concluded that H3 is rejected, which means that inflation has a positive but not significant effect on ROA in construction companies listed on the IDX.
4. The SBI variable partially has a positive and insignificant effect on ROA with a tcount of 1.3475 with a significance value of 0.1809. So it can be said that $t_{count} 1.3475 < t_{table} 1.6604$ and a significance value of $0.1809 > 0.05$. So it can be concluded that H4 is rejected, which means that SBI has a positive but not significant effect on ROA in construction companies listed on the IDX.

DISCUSSION

Effect of DER on ROA

The DER variable partially has a positive and significant effect on ROA. with a tcount value of 2.4092 and a significance value of 0.0178. So it can be said that $t_{count} 2.4092 > t_{table} 1.6604$ and a significance value of $0.0178 < 0.05$. So it can be concluded that H1 is accepted, which means that DER has a positive and significant effect on ROA in construction companies listed on the IDX. According to Kasmir (2014), the Debt to Equity Ratio (DER) is the ratio used to assess debt to equity. This ratio is sought by comparing all debt, including current debt with all equity. This ratio is useful for knowing the amount of funds provided by borrowers (creditors) with company owners. In other words, this ratio serves to find out every rupiah of own capital that is used as collateral for debt. The higher the DER indicates the greater the trust from outsiders, this is very possible to improve the company's performance, because DER shows how much debt the company has on equity or own capital (Oktary, 2019). This is consistent with research conducted by Gisela Prisilia Rompas (2013), which states that the variable Debt to Equity Ratio (DER) partially has a positive and significant effect on firm value.

The effect of TATO on ROA

The TATO variable partially has a positive and significant effect on ROA with a tcount of 1.9778 and a significance value of 0.0507. So it can be said that $t_{count} 1.9778 > t_{table} 1.6604$ and a significance value of $0.0507 > 0.05$. So it can be concluded that H2 is accepted, which means TATO has a positive and significant effect on ROA in construction companies listed on the IDX. Total Assets Turnover (TATO) is a ratio that measures a company's intensity in using its assets. The measure used for the most relevant use of assets is sales (Hasanah & Enggariyanto, 2018). This Total Asset Turnover shows the effectiveness of working capital, the relationship between working capital and sales, and the number of sales obtained in a business unit for every rupiah of working capital (Sanjaya, 2019). The more efficient the company is in using its assets to gain profit, the better the level of profitability will be. If the company is not efficient in using its assets, it will add to the company's burden in the form of non-profitable investments (Hasanah & Enggariyanto, 2018).

Effect of Inflation on ROA

The INF variable partially has a positive and insignificant effect on ROA with a tcount of 0.6911 with a significance value of 0.4910. So it can be said that $t_{count} 0.6911 < t_{table} 1.6604$ and a significance value of $0.4910 > 0.05$. So it can be concluded that H3 is rejected, which means that inflation has a positive but not significant effect on ROA in construction companies listed on the IDX. Inflation has a positive relationship with the money

supply. The higher the inflation, the more money circulating in society. Vice versa, if there is deflation, the money circulating in society will decrease. The amount of money in circulation is what will affect profitability. From the company's point of view, inflation tends to increase the market value of assets. The replacement value of assets will increase from a profit standpoint, an increase in inflation will increase accounting profit. This happens to companies that have price flexibility (Sihombing, 2008). With an increase in inflation, followed by an increase in interest rates with high interest rates, it is expected that potential investors are willing to invest in the company. with the increase in investment given, the income will also increase. Nahar and Sarker (2016) revealed that an increasing inflation rate will result in increased prices for goods and services, this will also increase investment. If the investment increases, it will increase the company's profitability. This is in accordance with research conducted by Lailiyah (2017) who found results in her research that inflation had a positive and significant effect on profitability (ROA).

The Effect of Interest Rates on ROA

The SBI variable partially has a positive and insignificant effect on ROA with a tcount of 1.3475 with a significance value of 0.1809. So it can be said that $t_{count} 1.3475 < t_{table} 1.6604$ and a significance value of $0.1809 > 0.05$. So it can be concluded that H4 is rejected, which means that SBI has a positive but not significant effect on ROA in construction companies listed on the IDX. A positive coefficient means that the high or low interest rates of banking companies affect management in disclosing information in the financial statements. The results of this study support previous research from Supriyanti (2008); Atik (2009), both analyzed the influence of interest rates and inflation using a multiple linear regression model which has a partial and simultaneous relationship. The development of interest rates set by banks can be influenced by internal and external factors. Internal factors affect the structure of productive assets, part of which returns are strongly influenced by fluctuations in interest rates, while external factors affect the number of customers who expect a decrease in interest rates before applying for loans to banks.

CONCLUSION

Based on the results of data analysis and hypothesis testing that has been carried out in testing the effect of DER, TATO, inflation and interest rates on the ROA of construction companies listed on the IDX for the 2015-2021 period using the panel data regression method are as follows:

1. The DER variable partially has a positive and insignificant effect on ROA. with a tcount value of 2.4092 and a significance value of 0.0178, which means that each DER increases by one causes ROA to increase by 2.41%.
2. The TATO variable partially has a positive and significant effect on ROA with a tcount of 1.9778 and a significance value of 0.0507. which means that every TATO increase by one causes ROA to increase by 1.98%.
3. The INF variable partially has a positive and insignificant effect on ROA with a tcount value of 0.6911 with a significance value of 0.4910, which means that each increase in INF causes ROA to increase by 0.69%.
4. The SBI variable partially has a positive and insignificant effect on ROA with a tcount of 1.3475 with a significance value of 0.1809, which means that each increase in SBI causes ROA to increase by 1.35%.

Suggestion

Based on the results of the hypothesis testing that has been done, the suggestions that can be given are as follows:

1. The next research is expected to add more observations or add another time period, so that the research results can be better.
2. For companies, it is expected to publish financial reports or audited data in a timely manner, so that these financial reports can be more trusted, especially investors.
3. It is hoped that this research can be used as reference material for further research in retesting research.

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