

What Factors Influence The Profitability of Firms in Indonesia? Evidence from The Industrial Firms

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ABSTRACT

Profitability indicates the company's effectiveness in generating profits and is an indicator for investors, creditors, and stakeholders to assess the performance and prospects of business sustainability. The purpose of this study was to determine the effect of liquidity, interest coverage ratio, leverage, taxation, non-debt tax shield, and asset tangibility on the profitability of industrial companies. The object of this study was the annual financial reports of the industrial sector. This study employed a purposive sampling method, utilizing 185 samples, and multiple linear regression analysis. The results showed that current ratio, debt equity ratio, and asset tangibility had a negative effect on the ROA. The interest coverage ratio had a positive effect on the ROA. Taxation and Non-Debt Tax Shield did not affect ROA. The current ratio, interest coverage ratio, debt-to-equity ratio, taxation, and asset tangibility had a joint effect on ROA. The implications of this study are a means of strategic financial decision-making for management and regulators, as the applicable fiscal policy has not yet fully provided an optimal impact on industrial companies.

Keywords: Profitability; Liquidity; Leverage; Asset Tangibility; Taxation

Faktor apa yang mempengaruhi profitabilitas perusahaan di Indonesia? Bukti dari perusahaan sektor industri

ABSTRAK

Profitabilitas menunjukkan efektivitas perusahaan menciptakan laba selain itu menjadi indikator bagi investor, kreditor, pemangku kepentingan untuk menilai kinerja dan prospek keberlanjutan bisnis. Tujuan penelitian untuk mengetahui pengaruh likuiditas, interest coverage ratio, leverage, perpajakan, non-debt tax shield, dan tangibilitas aset terhadap profitabilitas perusahaan industri. Objek penelitian berupa laporan keuangan tahunan sektor industri. Penelitian menggunakan metode purposive sampling dengan 185 sampel dan analisis regresi linier berganda. Hasil penelitian bahwa Current ratio, Debt equity ratio dan tangibilitas aset berpengaruh negatif terhadap ROA. Interest Coverage Ratio berpengaruh positif terhadap ROA. Perpajakan dan Non-Debt Tax Shield tidak berpengaruh terhadap ROA. Current ratio, interest coverage ratio, debt equity ratio, perpajakan dan tangibilitas aset berpengaruh secara bersama terhadap ROA. Implikasi penelitian sebagai sarana pengambilan keputusan keuangan strategis bagi manajemen dan regulator karena kebijakan fiskal yang berlaku belum sepenuhnya memberikan dampak optimal bagi perusahaan industri.

Kata Kunci: Profitabilitas; Likuiditas; Leverage; Tangibilitas Aset; Perpajakan

Artikel dapat diakses : <https://ejournal1.unud.ac.id/index.php/Akuntansi/index>



e-ISSN 2302-8556

Vol. 36 No. 1
Denpasar, 31 Oktober 2025
Hal. 2131-2146

DOI:
10.24843/EJA.2025.v35.i10.p07

PENGUTIPAN:

Sartika, L., & Amalia, D.
(2025). What Factors Influence
The Profitability of Firms in
Indonesia?
Evidence from The Industrial
Firms.
E-Jurnal Akuntansi,
36(10), 2131-2146

RIWAYAT ARTIKEL:

Artikel Masuk:
9 Agustus 2025
Artikel Diterima:
18 Oktober 2025

INTRODUCTION

Companies in the industrial sector require substantial investments in physical assets, such as machinery, factories, and equipment, to produce goods. These business are heavily affected by economic cycles. During periods of economic expansion, demand for products increases, boosting sales and potential profits. Conversely, during recessions, declining demand creates challenges to profitability.

A company's success in maintaining and increasing profitability depends on its ability to differentiate its products or services, manage costs effectively, and enhance operational efficiency. Industries often require significant capital investments, whether for research and development, infrastructure, or equipment. Many variables can influence a company's sustainability, one of which is profitability. A company's profitability can indicate how effectively it is achieving its goals. When conducting its operational activities, a company must be positioned to benefit its business, and competition in the industrial sector tends to be very intense (Ali et al., 2021). Companies must compete to gain market share, innovate products or processes, and maintain operational efficiency.

Internal factors such as liquidity, interest coverage ratio, leverage, taxation aspects, non-debt tax shields, and asset tangibility also play a significant role in determining a company's profitability (Rantika et al., 2022). A high level of liquidity enables a company to enhance its profitability by fostering confidence among investors and creditors. At the same time, the interest coverage ratio indicates the company's ability to manage its interest expenses effectively. Leverage, as an indicator of capital structure, plays a crucial role in determining financial risk and profitability. Furthermore, taxation and non-debt tax shields influence a company's tax burden, while asset tangibility can impact a company's ability to obtain financing and manage risk. More tangible assets provide additional security, but they also require a significant capital investment.

Several researchers have investigated the factors that influence company profitability. According to Banda & Edriss (2022), Taxation and asset tangibility negatively impact profitability, while non-tax debt shields and the interest coverage ratio have a positive effect on profitability (Sianturi & Anjelina, 2021) found that liquidity and leverage have a positive and significant impact on company profitability. This is not in line with research Nuraini & Suwaidi (2022) found that leverage negatively affects profitability and profitability is positively and significantly affected by liquidity.

Financial regulations that impact corporate profitability include taxation, leverage, and liquidity policies. This research examines companies' efforts to adapt their financial strategies in response to regulations that impact profitability. Most previous studies place regulation only as a control variable, not as the main factor determining corporate behavior and financial performance. This new perspective suggests that profitability is influenced not only by internal corporate policy factors but also by external policies that shape cost structures and financing access.

This study differs from previous similar studies in that it simultaneously examines internal financial aspects represented by liquidity, leverage, interest coverage ratio, and asset tangibility, while fiscal aspects are represented by taxation and non-debt tax shields. This combination yields a more comprehensive understanding of the factors that determine profitability. The objective of this study is to determine the effect of liquidity, interest coverage ratio, leverage, taxation, non-debt tax shields, and asset tangibility on the profitability of industrial companies listed on the Indonesia Stock Exchange.

Profit is the reward for taking risk in a situation of uncertainty (Knight, 1951). Profit theory is used to understand things that can influence a company's profitability and how the company can gain a competitive advantage. Profit theory is a concept used in economics to explain how a company or country can maximize its income. The managerial efficiency theory of profits is an economic theory that focuses on the role of managerial skills and efficiency in generating profits for a company (Chandler, 1973). This theory suggests that a manager's ability to make effective decisions, allocate resources efficiently, and optimize the production process makes a significant contribution to the company's profitability. In Trade-Off Theory (Myers, 1984), companies face a constant trade-off between risk and return. This theory states that each financial decision involves a trade-off between benefits and costs.

Well-managed liquidity can support operational efficiency, and adequate liquidity can provide a company with the flexibility to meet financial obligations without difficulty. The *Trade-Off Theory* suggests that while liquidity provides financial stability, it simultaneously reduces operational efficiency when maintained beyond an optimal level (Myers, 1984). Firms that prioritize excessive liquidity sacrifice potential investment returns, thereby experiencing lower profitability. Research by Sianturi and Anjelina (2021); Saleh et al., (2021); Banda & Edriss (2022); (Qiu, 2023); Rahmadhani et al (2023) state that current ratio has a positive effect on return on asset. On the other hand, research by Sukmayanti & Triaryati (2019) state that current ratio has a negative effect on return on asset because increasing liquidity will reduce profitability because the company cannot fully utilize it for working capital, new business development, or business expansion. This differs from the research findings, as Chang & Sufiyati (2024) state that current ratio does not affect return on asset. Therefore, this study proposes the following hypothesis:

H₁: Current ratio has a negative effect on The Return on Asset.

Companies with a high interest coverage ratio (ICR) tend to have lower financing costs because they can secure financing at better interest rates. Creditors view the company as a safer investment due to its ability to make regular interest payments on its debt. Lower financing costs can increase a company's profitability by increasing profit margins. The ICR of high reflects a company's financial stability and its ability to manage debt effectively. The relationship between profitability theory and ICR reflects a company's financial health, which can influence its ability to achieve profitability goals (Chandler, 1973). According to Banda & Edriss (2022); (Saleh et al., 2021); (Innocent, 2015), ICR has a positive effect on return on asset because the higher the ICR, the higher the company's profitability. This disagrees with the research by Ayoush et al (2021); which found that ICR statistically did not affect return on asset. Therefore, this study proposes the following hypothesis:

H₂: Interest coverage ratio has a positive effect on The Return on Asset.

Using debt to fund high-yielding investments can increase the company's net income. The use of leverage can result in decreased profitability if not managed properly. According to the managerial efficiency theory of profitability, managers must consider the additional risks associated with using leverage (Chandler, 1973). Excessive debt can increase the risk of bankruptcy, which can disrupt company operations and reduce long-term profitability. Research by Al-Jafari & Al Samman (2015); Innocent, (2015); Cevheroglu-Acar, (2018) Moradi & Paulet, (2019); Banda & Edriss, (2022); Qiu, (2023) found that debt equity ratio has a negative effect on return on asset. This is not in line with research by Sianturi & Anjelina (2021); (Ogunode et

al., 2022); Pusaka & Takarini (2023); Chang & Sufiyati, (2024) state that debt equity ratio has a positive influence on return on asset. Therefore, this study proposes the following hypothesis:

H₃: Debt equity ratio has a negative effect on the Return on Asset.

Various tax planning strategies can be employed to reduce the company's tax burden, increase net cash flow, and ultimately enhance its profitability. Companies need to ensure that their tax planning strategies comply with applicable tax laws and regulations. Tax violations or aggressive tax practices can result in significant financial penalties and a detrimental reputation, ultimately reducing the company's profitability and reputation. Some companies have access to specific tax credits that they can utilize wisely. By effectively managing these tax credits, companies can reduce their tax burden and increase profitability. According to the managerial efficiency theory of profits, managers have an incentive to optimize a company's tax structure to increase net profits (Chandler, 1973). Research by Banda & Edriss, (2022); Vätavu, (2014); Nuraini & Suwaidi, (2022) found that taxation has a negative effect on corporate profitability. However, this contradicts research Oyinkansola & Omodero (2023) which found that corporate taxes have a positive effect on profitability. This differs from research by Sitorus et al., (2023) who found that taxation has no effect on profitability. Therefore, this study proposes the following hypothesis:

H₄: Taxation has a negative effect on the Return on Asset.

The relationship between Non-Debt Tax Shield (NDTS) and profitability can be viewed as part of a company's strategy to achieve maximum profits. Reducing the tax burden without incurring debt can be achieved through various means, such as tax deductions for asset depreciation, tax incentives for research and development, or utilizing specific tax credits. By optimizing the use of tax incentives and other tax benefits, companies can increase their net income, which in turn can support a higher ROA. In the context of profit theory, companies tend to seek ways to maximize profits, and the use of Non-Taxable Assets is one way to achieve this target (Knight, 1951). Research by (Wang & Wang, 2015); Banda & Edriss, (2022); Ahtesham et al., (2024) found that NDTS has a positive effect on Return on Assets because it can increase company profitability. This differs the results of the previous study Sritharan, (2016) found NDTS has a negative effect on return on assets. However, research by Khan et al (2018) shows that NDTS has no effect on return on assets. Therefore, this study proposes the following hypothesis:

H₅: Non-Debt Tax Shield has a positive effect on The Return on Asset.

Theoretically, fixed assets can be used as collateral to obtain external financing. This reduces the risk of bankruptcy and enhances the company's credibility in the eyes of creditors. However, the Trade-Off Theory explains that when the proportion of fixed assets is too high, the benefits of stability and access to financing are offset by efficiency costs, thereby reducing the company's profitability. Research by Banda and Edriss (2022), Le et al. (2020), and Vätvu (2014) has found that asset tangibility negatively impact return on asset because A high proportion of fixed assets reduces investment liquidity and flexibility, thereby depressing profits. This differs from the research by İltaş & Demirgüneş (2020); Isayas (2022), which states that asset tangibility has a positive effect on return on asset. This finding is not in line with the research results Chang & Sufiyati (2024) which states that asset tangibility does not impact profitability. Therefore, this study proposes the following hypothesis:

H₆: Tangibility of assets has a negative effect on The Return on Asset.

Profitability reflects a company's ability to generate profits from managed assets, and is influenced by several factors including liquidity, capital structure, managerial efficiency, and fiscal policy. The Profit Theory (Knight, 1951) emphasizes that profit serves as compensation for risk, while the Managerial Efficiency Theory of Profit (Chandler, 1973) posits that a company's efficient resource management determines its level of profit. Banda & Edriss (2022) found that Interest coverage ratio and Non-Debt Tax Shield had a positive effect, while taxation and asset tangibility had a negative effect on the profitability of non-financial firms in Malawi. Sianturi & Anjelina (2021) found that liquidity and leverage had a positive and significant effect on the profitability of manufacturing firms in Indonesia. Nuraini & Suwaidi (2022) found that leverage had a negative effect on profitability, while liquidity had a positive effect. Oyinkansola & Omodero (2023) found that taxation had a positive impact on firm profitability in Nigeria, contrary to the common perception that taxes are often considered a burden. Le et al (2020) found that asset tangibility had a negative effect on profitability in Vietnamese construction firms, as fixed assets carry a greater burden than financial benefits. Therefore, this study proposes the following hypothesis:

H₇: Current ratio, Interest coverage ratio, Debt equity ratio, Taxation, Non-Debt Tax Shield, and Asset Tangibility simultaneously influence the return on asset.

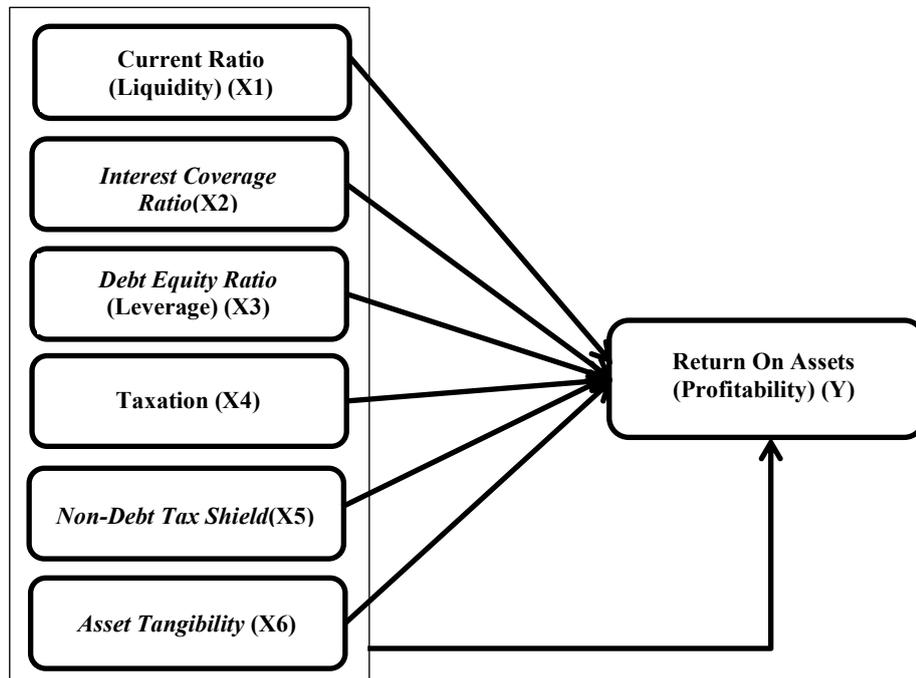


Figure 1. Research Model

Source: Research data, 2024

RESEARCH METHODS

This research focuses on relationships or correlations using secondary data using a quantitative approach. The secondary data consists of financial reports of industrial companies listed on the IDX from 2018 to 2022 utilizing 185 samples.

Table 1. Operational Variables and Measurement

Variables	Measurement
Dependent Variable	
Profitability	ROA = PBIT / Total Assets (Banda & Edriss, 2022a)
Independent Variables	
Liquidity	<i>Current Ratio = Current Assets / Current Liabilities</i> (Banda & Edriss, 2022a)
ICR	PBIT / Interest Expense
Leverage	DER = Total Debt / Equity (Banda & Edriss, 2022a)
Aspect Taxation	Tax Expense / PBIT (Banda & Edriss, 2022a)
NDTS	Depreciation / Total Assets (Banda & Edriss, 2022a)
Asset Tangibility	Fixed Assets / Total Assets (Banda & Edriss, 2022)

Source: Research Data, 2024

Classical assumption testing using normality, multicollinearity, heteroscedasticity, and autocorrelation tests ensures that the basic assumptions of the linear regression model are met. Hypothesis testing uses multiple linear regression analysis, the coefficient of determination, the T-test, and the F-test to examine the influence between variables. Multiple regression models that can be developed are:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + e.....(1)$$

X1 = Likuiditas

X2 = *Interest Coverage Ratio*

X3 = Leverage

X4 = Perpajakan

X5 = *Non-Debt Tax Shield*

X6 = Tangibilitas Aset

RESULTS AND DISCUSSION

Descriptive statistics focus on collecting, presenting, and interpreting data with the goal of summarizing and describing the basic characteristics of the observed data. The following table shows the results for each variable used in the study: mean, maximum, minimum, and standard deviation:

Table 2. Results of Descriptive Statistical Analysis

	N	Min.	Max.	Mean	Standard Deviation
Liquidity	185	0.07	422	4,6391	31.09237
ICR	185	-1147.3	203.1	-0.901	133,9224
Leverage	185	0.01	41.48	1,7609	3.95233
Taxation	185	-16.25	5.9	0.1599	1,4652
NDTS	185	0.00	0.21	0.0297	0.03271
Asset Tangibility	185	0.00	0.94	0.4894	0.23097
Profitability	185	-1.02	0.68	0.0481	0.15775
Valid N (listwise)	185				

Source: Research data, 2024

The liquidity variable has an average of 4.6391 and a high standard deviation of 31.09, indicating significant differences across companies, with some having excess current assets and others having relatively low levels. The ICR variable has a negative average value of -0.901, indicating that some companies are having difficulty covering interest expenses from their operating profits, indicating financial stress. The leverage variable has an average of 1.7609, a minimum of 0.01, a maximum of 41.48, and a standard deviation of 3.95233. This average value indicates that companies generally use debt approximately 1.76 times their equity. However, the very high maximum value suggests that some companies rely on debt financing, which can increase financial risk.

The taxation aspect variable has an average value of 0.1599, indicating differences in tax burden management strategies between companies. The NDTS variable had an average of 0.0297 and a small standard deviation of 0.03271, indicating that most companies had relatively similar depreciation to total asset ratios. The Asset Tangibility variable had an average value of 0.4894, indicating that most company assets were tangible fixed assets, which could reduce financial flexibility and asset utilization efficiency. The Profitability variable had an average of 0.0481, a minimum of -1.02, a maximum of 0.68, and a standard deviation of 0.15775, indicating a performance gap across companies in the industry. Overall, these results illustrate the wide diversity of financial characteristics of the companies in the sample, particularly in terms of liquidity and interest-paying capacity, which serve as an important basis for the research's regression analysis.

The normality test verifies whether the assumptions of a normal distribution are met. If the p-value obtained is less than the established significance level of 0.05, it can be concluded that the data does not follow a normal distribution.

Table 3. Results of Residual Normality Test

		Unstandardized Residual	
N			185
Normal Parameters ^{a,b}	Mean		0
	Standard Deviation		0.10959105
Most Extreme Differences	Absolute		0.089
	Positive		0.089
	Negative		-0.084
Test Statistics			0.089
Asymp. Sig. (2-tailed)			0.001c
Monte Carlo Sig. (2-tailed)	Sig.		0.100d
	99% Confidence Interval	Lower Bound	0.092
		Upper Bound	0.108

Source: Research Data, 2024

The results show that the residual data values for each observed variable are normally distributed. This study proves that the significance value of the residual data is $0.1 > 0.05$.

Multicollinearity test to determine whether there is a significant relationship between independent variables. Multicollinearity occurs if the tolerance value is < 0.10 and the VIF is > 10 .

Table 4. Multicollinearity Test Results

Model	Unstandardized Coefficients		Collinearity Statistics	
	B	Std. Error	Tolerance	VIF
(Constant)	0.106	0.023		
Liquidity	-0.001	0	0.629	1.59
ICR	0.001	0	0.619	1,615
Leverage	-0.006	0.002	0.937	1,067
Taxation	0.003	0.006	0.993	1,007
NDTS	-0.031	0.285	0.889	1,125
Asset Tangibility	-0.085	0.041	0.845	1,183

Source: Research Data, 2024

All independent variables tested in this study showed no signs of multicollinearity. The proven tolerance values for each independent variable were (0.629), (0.619), (0.937), (0.993), (0.889), and (0.845) > 0.1 , and the VIF values for each independent variable were (1.590), (1.615), (1.067), (1.007), (1.125) and (1.183) < 10 .

The autocorrelation test examines whether the confounding errors in the preceding and following periods are related. Researchers use the Durbin-Watson test for this test.

Table 5. Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Durbin-Watson
1	0.681a	0.463	0.445	1,968

Source: Research Data, 2024

The results of the autocorrelation test show that the research data does not show autocorrelation because the dW value = 1.968 dU = 1.8267 and $4 - dU = 2.1733$, so it can be concluded that the dU value in this research data is $1.8267 < 1.968 < 2.1733$.

The heteroscedasticity test determines whether there is a difference between one observation and another. The lejser test is used to calculate heteroscedasticity. If the p-value is <0.05, it can be concluded that heteroscedasticity is present in this study.

Table 6. Heteroscedasticity Test Results

Model	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
(Constant)	0.062	0.018	3,417	0.001
Liquidity	0,000	0,000	-1.38	0.169
ICR	-8.17E-05	0,000	-1.24	0.218
Leverage	0.001	0.002	0.444	0.658
Taxation	0,000	0.005	0.092	0.927
NDTS	0.156	0.226	0.691	0.490
Asset Tangibility	0.007	0.033	0.204	0.839

Source: Research data, 2024

The results of the heteroscedasticity test indicate that each variable does not have heteroscedasticity. The significance values of each independent variable are (0.169), (0.218), (0.658), (0.927), (0.490), (0.839) > 0.05.

Multiple linear regression analysis helps in modeling and measuring the strength of the relationship between the dependent and independent variables, as well as providing the direction of the resulting influence. The regression model that can be developed is $Y = a + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + e$.

Table 7. Results of Multiple Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	Adjusted R Square	t	Sig.	F	Sig.
	B	Std. Error	Beta					
1				0.429				
(Constant)	0.106	0.023			4,609	0,000		
Liquidity	-0.001	0,000	-0.213		-3,029	0.003		
ICR	0.001	0,000	0.483		6,823	0,000		
Leverage	-0.006	0.002	-0.153		-2,658	0.009		
Taxation	0.003	0.006	0.028		0.493	0.623		
NDTS	-0.031	0.285	-0.006		-0.107	0.915		
Asset Tangibility	-0.085	0.041	-0.124		-2,048	0.042		
Regression							24.03	0.000b

SouSource: Research Data, 2024

The results of the multiple linear regression analysis are Profitability = 0.106 - 0.001 (Liq) + 0.001 (ICR) - 0.006 (Lev) + 0.003 (Tax) - 0.031 (NDTS) - 0.085 (AT)

The liquidity regression coefficient value is -0.001, which means the direction of the influence of liquidity on profitability is negative, where every increase in liquidity by one unit will decrease profitability by 0.001. The ICR regression coefficient value is 0.001, indicating the direction of the influence of ICR on profitability is positive, every increase in ICR by one unit will increase profitability by 0.001. The leverage regression coefficient value is -0.006, indicating the direction of leverage on profitability is negative, every increase in leverage by one unit will also decrease profitability by 0.006.

The regression coefficient value of the aspect taxation of 0.003, indicating the direction of the influence of the taxation aspect taxation on profitability is positive, with each increase of one unit of the aspect taxation, profitability will increase by 0.003. The NDTS regression coefficient value is -0.031, indicating a negative NDTS effect on profitability. Every one-unit increase in NDTS results in a decrease in profitability of 0.031. The asset tangibility regression coefficient value of -0.085 indicates a negative effect of asset tangibility on profitability, with every one-unit increase in asset tangibility decreasing profitability by 0.085.

The coefficient of determination can have a value between 0 and 1. An R² value close to 1 indicates that the independent variable has the most influence on the dependent variable. The results of the coefficient of determination test show an adjusted R square value of 0.429, this means that the independent variable influences the dependent variable by 42.9%, while the remaining 57.1% is influenced by other variables not studied.

The t-test is used to test the effect of the independent variable on the dependent variable. If t count > t table and p-value < 0,05 the hypothesis is accepted. The results show that the t-value for liquidity is -3,029 > 1,97338, thus accepting hypothesis 1, namely that Current ratio (liquidity) has a negative effect to Return on Asset (profitability). The perspective of Trade-Off Theory, companies with high liquidity incur opportunity costs because most of their funds are tied up in low-yielding current assets. Although current assets provide security in meeting short-term obligations, excessive accumulation of cash and receivables can actually reduce the company's ability to invest these funds in higher-yielding projects. Thus, these results confirm that there is a trade-off between financial security and asset efficiency, where increased excess liquidity reduces company profitability (Myers, 1984). According to researchers, these findings indicate that the higher the current ratio, the lower the company's profitability. In industrial companies in Indonesia, high levels of funds held in the form of cash or uncollected receivables actually reduce the potential for productive investment, ultimately depressing net income.

The results of testing hypothesis 1 are also supported research by Sukmayanti & Triaryati (2019) that liquidity negatively impacts profitability because the company is unable to meet its short-term needs in full or to a lesser extent because some of its assets are used for company operations. This differs from the research findings Sianturi & Anjelina (2021); Saleh et al., (2021); Rahmadhani et al (2023); (Qiu, 2023) state that liquidity has a positive effect on profitfability because high liquidity indicates

that a company has adequately paid off its short-term debt. The more liquid a company's current assets are, the more profitable it will be.

The finding t-count ICR was $6,823 > 1,97338$, so hypothesis 2 was accepted, namely The Interest Coverage Ratio (ICR) has a positive effect to Return on Asset (Profitability). These results indicate that companies with the ability to cover interest expenses through operating profit are more likely to achieve optimal profitability. This finding aligns with the managerial efficiency theory, which states that companies that effectively manage interest expenses gain greater trust from creditors and investors, resulting in a lower cost of capital. A high ICR reflects financial stability and operational efficiency, which directly increases ROA. This finding aligns with research by Innocent, (2015); Saleh et al., (2021); Banda & Edriss, (2022); (Arhinful & Radmehr, 2023) a high ICR indicates the company's operational ability to cover interest expenses, thus indicating better short/medium term solvency and efficient interest expense management. However, this contradicts research Ayoush et al., (2021) which proves that the interest coverage ratio not affect profitability.

The finding t-value for leverage was $-2,658 > 1,97338$, thus accepting hypothesis 3, namely that leverage has a negative effect on profitability. According to the managerial efficiency theory of profit, managers must consider the additional risks associated with the use of leverage. Efficient managers will manage these risks wisely, resulting in optimal decisions for the company. For example, using debt to fund profitable investments can increase the company's net profit. However, using debt can also incur interest costs that the company must pay. These costs can reduce a company's net profit, especially if the interest rate is high. Too much debt can lead to financial constraints, where the company has little financial flexibility to address unexpected situations or to make investments that encourage growth. This can limit the company's ability to generate high profits. High debt levels can also reduce investor confidence, affect stock prices, and reduce the company's ability to obtain investment capital.

The finding aligns with research by Al-Jafari & Al Samman (2015); (Innocent, 2015); Cevheroglu-Acar, (2018); Moradi & Paulet, (2019); (Le et al., 2020); Banda & Edriss, (2022); (Nuraini & Suwaidi (2022); (Habibniya et al., 2022); Qiu (2023) state that leverage negatively impacts profitability because companies with high profitability tend to have low debt levels, and vice versa. In times of corporate crisis, large loans will negatively impact business performance.

The finding t-value for taxation ratio of $0,493 < 1,97338$. It can be concluded that hypothesis 4 is rejected, meaning that the taxation aspect do not affect profitability. The taxation aspect is a conditional variable, and each company has different plans to address it. The managerial efficiency theory of profit suggests that managers have an incentive to optimize the company's tax structure in order to increase net profits. If the taxation aspect affects profitability, the company tends to take steps to minimize the tax impact and maximize net profits. Some companies have also successfully managed their finances and corporate structure in a way that minimizes the impact of taxes on profitability. Companies that implement effective tax planning can manage their tax structure wisely. By utilizing tax incentives and legal tax strategies, the company can minimize its tax burden, thereby minimizing the impact on profitability.

The finding aligns with research by Gabrielli, (2023) ; Sitorus et al. (2023); (Sinebe & Ebiaghan, 2024) show taxation not affect return on asset because the tax structure imposed on companies does not change significantly in the short term. Therefore, the tax ratio is relatively stable over time, without providing a direct indication of changes in profitability. In contrast to Oyinkansola and Omodero's (2023) research, which found that corporate taxes have a positive effect on profitability. However, this finding not aligns with research Vätavu, (2014) ; (Banda & Edriss, (2022) ; Nuraini & Suwaidi, (2022) indicates that taxation has an impact on profitability, as taxes act as additional production costs for companies, thereby negatively affecting their ability to generate profits.

The results show that the NDTs t-count value is $-0,107 < 1,97338$, it is concluded that hypothesis 5 is rejected. The Non-Debt Tax Shield (NDTS) not affect profitability because not all company expenses qualify for tax benefits. Tax authorities do not recognize some expenses as tax deductions or may be subject to certain restrictions. Therefore, NDTS cannot always be fully realized. The tax benefits of NDTS can come from indirect or non-operational expenses of the company, such as asset depreciation. The tax benefits of NDTS may not be balanced with the costs incurred by the company, such as the tax benefit from depreciation is not commensurate with the acquisition cost of the asset. In profit theory, profitability is more influenced by operational efficiency and core business performance, rather than just the tax benefits obtained from non-operational expenses. Companies will concentrate on additional aspects that can increase profitability, such as operational efficiency, product innovation, or marketing strategies.

The finding aligns with research results Khan et al., (2018) that NDTS does not affect profitability because it not directly impact the company's cash flow, but only reduces the tax burden which in turn increases available cash flow, but does not directly affect the company's income or profitability. Research differ by Sritharan, (2016) found NDTS has a negative effect on Return on Assets. Likewise, research (Wang & Wang, 2015); Banda & Edriss, (2022); Ahtesham et al., (2024) shows that there is an influence between NDTS and profitability because managers need to focus on increasing NDTS so that government policies do not expose companies to high tax rates.

The results show that t-value for asset tangibility was found to be $-2,048$, which is greater than $1,97338$. Thus, hypothesis 6 is accepted, meaning that asset tangibility negatively impacts profitability. The perspective of Trade-Off Theory, high fixed assets do provide collateral for debt financing, but they also incur significant costs such as depreciation and maintenance. Excessive fixed assets can reduce operational flexibility and slow asset turnover, thereby reducing the efficiency of asset use in generating profits. Thus, companies face a trade-off between long term financing stability and short term profit generating ability (Myers, 1984). According to researchers, some tangible assets, such as PPE, can experience depreciation or a decrease in value over time. If the decline in asset value is faster than the company's ability to generate revenue from those assets, this can negatively impact profitability. Tangible assets are often difficult to change or sell quickly if market conditions change or if the company wants to shift its focus to more profitable business areas. This limited flexibility can lead to a company's inability to adapt to market changes, ultimately reducing its profitability. Tangible assets are often vulnerable to security risks such as theft, damage, or natural disasters. The cost of securing assets or replacing damaged assets can lead to decreased profitability.

The finding aligns research by Vätvu (2014); Le et al., (2020); Banda & Edriss, (2022) found that asset tangibility negatively impacts profitability because when a company has more tangible assets, it tends to have fewer liquid assets, thus failing to invest in long-term investments. Conversely, research by İltaş & Demirgüneş (2020); Isayas, (2022) state that asset tangibility has a positive effect on profitability because fixed assets can serve as collateral when a company needs to borrow money from a bank due to a lack of capital. This finding is not in line with the research results Chang & Sufiyati, (2024) which state that asset tangibility do not affect profitability.

The results show that F-count value of 24,033 and an F-table value of 2,15. Suppose the obtained F-value is $24,033 > 2,15$ and the p-value is $0.000 < 0,05$. In that case, hypothesis 7 is accepted, which states that liquidity, interest coverage ratio, leverage, aspects of taxation, non-debt tax shield, and asset tangibility simultaneously affect profitability. The profitability of an industrial company is not determined by a single factor, but rather the result of the interaction of various internal aspects, including liquidity, interest payment capacity, capital structure, and asset composition, as well as external aspects such as fiscal obligations. Therefore, company management needs to manage current assets more productively, maintain the ability to cover interest expenses at an optimal level, avoid excessive reliance on debt-based financing, and be cautious about adding fixed assets without considering their potential economic returns.

The finding aligns research by Khan et al., (2018); (Ramli et al., 2019); Le et al., (2020); Banda & Edriss (2022); Yuan et al., (2022); (Arhinful & Radmehr, 2023) Simultaneous analysis is an appropriate approach to the determinants of profitability because financial variables are interrelated and can neutralize or strengthen each other's effects.

CONCLUSION

The objective of this study was to determine the effect of liquidity, interest coverage ratio, leverage, taxation aspects, non-debt tax shield, and asset tangibility on the profitability of industrial companies listed on the Indonesia Stock Exchange. The research object was the annual financial reports of industrial companies listed on the IDX for the period 2018 to 2022. The study findings indicate that liquidity, leverage, and asset tangibility hurt profitability. The interest coverage ratio has a positive impact on profitability. The study findings indicate taxation and the non-debt tax shield do not effect profitability. The study findings indicate liquidity, interest coverage ratio, leverage, taxation, and asset tangibility simultaneously affect profitability. This study has several limitations, including a sample size limited to industrial sector companies listed on the Indonesia Stock Exchange (IDX) for the 2018–2022 period, making the results unable to be generalized to other sectors or non-public companies. The variables are measured using a single proxy that does not fully represent the actual situation. The multiple linear regression analysis method does not consider the possibility of dynamic relationships or endogeneity between variables. Finally, this study does not differentiate the influence of variables across diverse industrial subsectors, making the results aggregate.

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