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The Effect of Company Size, Asset Growth, Asset Structure, Debt Level and Inventory Profitability

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Abstract

This study examines the impact of company size, asset growth, asset structure, debt level (DER), and inventory turnover on profitability (NPM) in the food and beverage subsector industry listed on the Indonesia Stock Exchange (IDX) during the 2021-2023 reporting year. The background of this research is based on the importance of profitability for the continuity of the company and how internal and external factors affect the company's financial performance. The purpose of this research is to analyze the impact of company size. Using data from 25 companies listed on the Indonesia Stock Exchange, this study uses multiple linear regression analysis and hypothesis testing using SPSS statistical software. Based on the test findings, it is known that firm size has a positive impact on profitability, debt level has a negative impact on profitability, and asset growth, asset structure and inventory turnover have no impact on profitability. These results provide insight that companies should utilize size as a signal of stability, manage asset growth efficiently, balance asset structure, reduce dependence on excessive debt, and optimize inventory management according to market strategy to increase profitability and attractiveness to investors.

Keywords: *Profitability, Company Size, Asset Growth, Asset Structure, Leverage, Inventory Turnover*

1. Introduction

In an era of globalization and increasingly competitive business climate, profitability has become a key indicator of a company's success, particularly in the manufacturing sector, which plays a significant role in Indonesia's economic growth. Profitability is a fundamental benchmark for assessing a company's financial performance, reflecting the entity's ability to generate net profit from each sale. Pratama & Wiksuana (2022) identified profitability as a key indicator of management's success in managing company resources. Research by Chen et al. (2020) emphasized the importance of profitability as a key parameter in corporate strategic decision-making. Research by Singh & Kumar (2022) also emphasized that profitability provides comprehensive information on operational efficiency and a company's ability to generate profits. A company's profit in the food and beverage industry can reflect its performance and provide an overview of its future business prospects (Syahzuni, 2019).

Companies with high profitability levels convince all investors to invest. However, a different situation occurred at PT Indofood Sukses Makmur Tbk (INDF), where the entity experienced a decline in profitability despite its continued increase in total assets. The company's total assets increased from IDR 162.78 trillion in 2021 to IDR 168.31 trillion in 2022, and reached IDR 170.45 trillion in the third quarter of 2023. However, the company's profitability actually decreased from 6.21% in 2021 to 5.45% in 2022, and fell again to 4.89% in the third quarter of 2023. This occurred because increased debt for business expansion did not produce optimal results, and challenges in distribution caused a slowdown in inventory turnover (www.idx.co.id).

Company size has a significant correlation with profitability, which can be an indicator of whether a business will prosper or fail. This provides investors with a picture of the entity's future situation. Larger companies have easier access to capital markets and tend to have more stable cash flows (Hutabarat, 2022). One aspect that influences a company's performance is its capacity to generate profits. The larger a company, the better its ability to generate revenue (Dimitric et al., 2019).

Asset growth is a critical factor influencing a company's profitability. Asset growth indicates a company's ability to expand its business scale, as evidenced by the increase in total assets (Priscilla et al., 2021). Furthermore, asset growth can drive increased profitability, but increasing assets requires significant funds to finance the entity's

operational activities. The larger the assets, the greater the expected returns for the entity (Susilawati & Novalia, 2023).

Asset structure contributes significantly to profitability. Entities with large asset structures tend to have large debts. This is because the entity's fixed assets can be used as collateral for its debt (Suherman, 2019). Research by Mulyani & Agustinus (2021) suggests a positive effect of asset structure on profitability.

Debt level is a crucial component influencing profitability because it can increase a company's capital to increase profits. However, if a company does not manage its debt effectively, profitability can decline due to the constant interest expense (Nasir, 2021). Research by Chen et al. (2020) emphasizes the importance of maintaining a balance between debt and equity in driving profitability. Research by Lamba & Atahau (2022) indicates that leverage negatively impacts profitability. The greater the use of debt to finance a company's operations, the lower the company's value, as high debt also increases the financial burden.

Inventory turnover significantly impacts profitability. This is because inventory turnover indicates the number of times inventory is obtained from sales. A slower inventory turnover rate indicates an unproductive or inefficient management of the entity. This impacts profitability because increased inventory sales result in significant profit increases (Mesrawati et al., 2020). An increased inventory turnover rate reduces the need for working capital for inventory (Umrah et al., 2022). Research by Agusentoso (2020) shows that inventory turnover has a positive impact on profitability.

In existing research, Dahmash et al. (2021) stated that company size and asset growth increase profitability (ROA). High fixed assets reduce profitability because companies with large assets tend to be less flexible and have high maintenance costs. Leverage does not have a significant effect on profitability, meaning the use of debt is not always profitable for companies. Research by Susilawati & Novalia (2023) illustrates that company size impacts profitability due to the ease with which large companies obtain funding, stronger competitiveness, and higher trust from investors and creditors. Research by Zulyan (2023) states that asset growth has a positive impact on profitability. This is due to the ability of companies with high asset growth to increase operational capacity and achieve efficiency through better economies of scale. However, these results differ from research by Susilawati & Novalia (2023), who suggest that asset growth does not impact profitability. This could occur because increased assets are not necessarily managed efficiently or make a significant contribution to increasing company revenue. Research by Dewi & Abundanti (2019) and Pratiwi (2019) suggests that debt levels negatively impact profitability. This can occur if increased debt is not matched by increased profits, which can increase interest expenses and financial risk, thereby depressing profitability. Therefore, based on previous research variables, the researchers felt it was possible to further develop this research by adding inventory turnover as an independent variable.

The purpose of this research is to understand the influence of company size, asset growth, asset structure, debt levels, and inventory turnover on profitability in manufacturing entities in the food and beverage sub-sector during the 2021-2023 period. This aims to assist investors in assessing financial performance.

2. Research Methods

This research is quantitative, so each variable needs to be measured or represented with a proxy. This research uses financial comparisons covering five independent variables: company size, asset growth, asset structure, debt level, and inventory turnover, as well as one dependent variable: profitability. The first independent variable, company size, uses the natural logarithm of total assets (Sinaga et al., 2021a). Using the Growth Assets (GA) proxy, the second independent variable, asset growth, is calculated by subtracting the previous year's total assets from the current total assets and then dividing the result by the previous year's total assets (Aurelia & Setijaningsih, 2020). The third independent variable, asset structure, is obtained by comparing current assets to fixed assets (Mulyani & Agustinus, 2021). The fourth variable, debt level, uses the Debt to Equity Ratio (DER) proxy, obtained by comparing total liabilities to total equity (Damayanti & Chaerudin, 2021). The fifth independent variable, inventory turnover, uses the Inventory Turnover (IT) proxy, obtained by comparing total sales divided by the initial year's inventory plus the final year's inventory, then divided by two (Kasmir, 2019:182). The dependent variable, profitability, uses Net Profit Margin (NPM), which is the comparison of net profit after tax and net sales (Kasmir, 2019).

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3. Results and Discussions

Tabel 1
Descriptive Statistical Test Results

Variables	N	Minimum	*Maximum*	*Mean*	*Std. Deviation*
Company Size	75	25,5566	30,8037	28,4572	1,3098
Asset Growth	75	-0,1539	1,6224	0,1422	0,2724
Asset Structure	75	0,0663	18,5884	2,4022	3,3969
Debt Level	75	0,0588	2,3717	0,6883	0,5227
Inventory Turnover	75	2,9603	29,5643	9,9284	6,5105
Profitability	75	0,0052	0,3305	0,1085	0,0819
Valid N (listwise)	75				

Source: Data processing with SPSS (2025).

According to the results of descriptive analysis using SPSS, with a sample of 75 entities, in 2022, PT. Era Mandiri Cemerlang Tbk had the lowest company size value at 25.5566, while in 2023, PT. Mayora Indah Tbk had the highest value at 30.8037. These entities had a standard deviation of 1.3098 with a mean of 28.4572. This relatively high mean indicates that large companies constitute the majority of the research sample. If the mean value is higher than the standard deviation, the company size is considered good. Therefore, the results indicate a good figure. The average company in this study is considered large because it has total assets exceeding 10 billion (Budiadnyani et al., 2023).

Asset growth had the lowest value of -0.1539 for PT. Era Mandiri Cemerlang Tbk in 2022, and the highest was achieved by PT. Toba Surimi Industries Tbk at 1.6224. The standard deviation is 0.2724, and the mean is 0.1422. Entities in the sample experiencing asset decline are indicated by negative asset growth values. This supports the research findings of Putra & Wahyuni (2021), who found that although high asset growth often indicates business expansion, improper asset management can negatively impact profitability.

Asset structure yields mixed results. PT Sariguna Primatirta Tbk achieved the lowest value of 0.0663 in 2021, and PT Hartadinata Abadi Tbk achieved the highest value of 18.5884 in 2021. The average value was 2.4022, and the standard deviation, reflecting the company's significant deviation in this variable, was 3.3969. A relatively large standard deviation indicates significant variation in an entity's asset allocation. Research by Hidayat & Sari (2019) indicates that an asset structure that allocates more to fixed assets can increase profitability.

In 2021, PT Campina Ice Cream Industry Tbk had the lowest debt level, at 0.0588. PT Teladan Prima Agro Tbk achieved the highest value of 2.3717 in 2021. With a standard deviation of 0.5227, the average amount of debt held by a corporation was 0.6883. This figure indicates that some businesses have very little debt, while others have high debt. It's interpreted that more than half, or 68%, of businesses in the food and beverage subsector use debt to finance their operations. However, according to Kasmir (2019), who used a benchmark of 90%, this result still reflects good company financial performance because it's below 90%.

Inventory turnover achieved the lowest value of 2.9603 for PT. Era Mandiri Cemerlang Tbk in 2022, and the highest value for PT. Nippon Indosari Corpindo Tbk in 2022 (29.5643). The standard deviation, reflecting the magnitude of the entity's deviation in this variable, was 6.5105, with an average value of 9.9284. This value indicates significant differences in inventory management efficiency across companies in the sample. Rahman & Dewi (2021) explain that effective inventory management and accelerated working capital turnover are associated with higher profitability.

The profitability measured in this research was lowest for PT. Indo Oil Perkasa Tbk in 2023 (0.0052), and highest for PT. Triputra Agro Persada Tbk in 2022 (0.3305). The average is 0.1085 and the standard deviation is 0.0819. According to Kasmir (2019), profitability is interpreted as healthy if it is above 5%-10% or 0.05-0.10. At this average value, profitability has shown a healthy figure, although there is room for improvement in cost efficiency and strategy.

Overall, the results of this descriptive analysis indicate variations between entities in terms of size, asset growth, asset structure, debt levels, and inventory turnover.

Classical Assumption Test

Based on the findings of the normality test, which obtained a significance of 0.053, above 0.05, it can be interpreted that the data is normally distributed, so the classical assumption test can be continued. Based on the findings of the multicollinearity test, the VIF of all independent variables is <10 and the tolerance value is >0.10, indicating that there is no multicollinearity among the five variables. Based on the findings of the heteroscedasticity test, each independent variable produces a p-value >0.05. Therefore, there is no heteroscedasticity in this research. In the

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Durbin Watson table, n = 75 and k = 5, the significance level of 5% lower limit is defined as 1.4866 (4-dl is 2.5134) and the upper limit value (dU) is 1.7698 (4-du is 2.2302) Durbin Watson value of 2.075 is in the area du ≤ dw ≤ 4-du, meaning there is no autocorrelation in the regression form, so that research here can continue.

Multiple Regression Test

Based on the findings from the multiple regression analysis test, the following regression equation was obtained:

$$NPM = -12,935 + 0,361.FS + 0,071.AG - 0,232.AS – 0,300.DER - 0,052.IT + 1,940$$

Looking at the regression equation, it is known that in the research it has a constant number (α) of -12.935 which can be interpreted as the variables of company size, asset growth, asset structure, debt level and inventory turnover are considered constant or have a value of 0 meaning there is a decrease in the profitability variable which is -12.935. The beta value of X1 on company size is 0.361 meaning that if there is a 1% increase found in X1, there is an increase of 0.361 in the net profit margin. The beta number of X2 on asset growth is 0.071 meaning that if there is a 1% increase in X2, there is an increase of 0.071 in the net profit margin. The beta value of X3 on asset structure is -0.232 meaning that if there is a 1% increase found in X3, there is a decrease of -0.232 in the net profit margin. The beta value of X4 on the debt level is -0.300 meaning that if there is a 1% increase found in X4, there is a decrease of -0.300 in the net profit margin. The beta value of X5 on inventory turnover is -0.052, meaning that if there is a 1% increase in X5, there is a decrease of -0.052 in the net profit margin.

Table 2
Partial Test Results (t)

Hypothesis	Statement	*Unstandardized* Beta	t	*Sig.*	Result
Company Size, Asset Growth, Asset Structure, Debt Level and Inventory Turnover Profitability					
Company Size (H1)	positive	0,361	5,110	0,000	H_1 accepted
Asset Growth (H2)	positive	0,071	0,274	0,785	H_2 rejected
Asset Structure (H3)	positive	-0,232	-2,962	0,004	H_3 rejected
Debt Level (H4)	Negative	-0,300	-3,104	0,003	H_4 accepted
Inventory Turnover (H5)	positive	-0,052	-0,299	0,766	H_5 rejected

Source: Data processing with SPSS (2025).

The partial t-test findings describe the calculated t> t table is 5.110> 1.665 with a significance figure of 0.000 <0.05, as a result, company size has a positive impact on profitability. Asset growth calculated t < t table is 0.274 <1.665 with a significance figure of 0.785> 0.05, as a result, asset growth has no impact on profitability. Asset structure has a calculated t < t table is -2.962 <1.665 with a significance figure of 0.004 <0.05, as a result, asset structure has a negative impact on profitability. The debt level has a calculated t < t table is -3.104 <1.665 and a significance figure of 0.003 <0.05, so it is concluded that the debt level has a negative impact on profitability. Inventory turnover had a calculated t-value < the t-table value, i.e., -0.299 < 1.665, and a significance level of 0.766 > 0.05. Therefore, it was concluded that inventory turnover had no impact on profitability.

Based on the F-test findings, the calculated F-value was 11.070 (the F-table value was 2.35), achieving a significance level of 0.000. Because the calculated F-value exceeds the F-table value and has a probability value lower than 0.05, it indicates that company size, asset growth, asset structure, debt level, and inventory turnover simultaneously impact profitability.

Based on the coefficient (R) test, a value of 0.667 indicates a strong correlation between company size, asset growth, asset structure, debt level, and inventory turnover, as the correlation value is > 0.50. Then, the Adjusted R Square value creates a figure of 0.405, meaning that variations in profitability variables can be influenced by company size, asset growth, asset structure, debt levels and inventory turnover by 0.405 or 40.5%, so that the remaining 59.5% is explained by various other aspects not included in this research.

DISCUSSION

The Effect of Company Size on Profitability

Based on H1, which states that company size has a positive impact on profitability, partial test findings show that company size has a positive impact on profitability, thus being categorized as accepted. The impact of company size on industry profitability. Larger businesses often have higher profitability. This is due to the fact that larger businesses can undoubtedly manage their resources more efficiently, which will increase their revenue (Sinaga et al., 2021a). Industries with large assets optimally utilize existing resources to create optimal business profits, while industries with small assets create profits based on resources. The assets owned by large industries can indicate good company quality and performance results and can signal trust to investors. The size of an entity's operations

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indicates high profits generated (Arifin et al., 2018). Thus, H1 is accepted, according to research by Dahmash et al. (2021) and Abdel et al. (2020), which suggests that company size has a positive impact on profitability.

The Effect of Asset Growth on Profitability

Based on H2, asset growth has a positive impact on profitability, while partial testing found that sales growth has no impact on profitability, H2 in this study was rejected. Several factors can explain the weak effect of asset growth on profitability. One is that asset increases are not always accompanied by increased operational efficiency or increased revenue (Susilawati & Novalia, 2023). If asset expansion is carried out without a well-thought-out strategy or without increasing production capacity in line with market demand, asset growth will only increase costs without positively impacting the entity's profits (Pratiwi & Muthohar, 2021). Profitability and asset growth can also be influenced by various industry structures. Industries with high capital intensity, such as manufacturing, take longer to realize how asset growth affects profitability than service-based industries, which have more flexibility in asset management. In certain cases, investing in fixed assets can reduce operational costs and depreciation, thereby preventing profit increases. Companies with consistent cash flow are better able to optimize existing assets than acquiring additional assets without a clear plan. This can also occur for entities experiencing rapid asset growth but lacking strong market competition. The acquired assets can become a burden rather than a benefit if the growth is not accompanied by proper management planning (Syahzuni & Jimmy, 2022). This suggests that increasing assets is not always a positive signal for investors. If not accompanied by operational efficiency, the company's expansion can be perceived as suboptimal, sending a negative signal that casts doubt on its profit potential. Therefore, hypothesis H2 is rejected and inconsistent with the research by Dahmash et al. (2021). However, this research provides results consistent with the findings of Al-Najjar & Riahi-Belkaoui (2021) that asset growth has no impact on profitability.

The Influence of Asset Structure on Profitability

Based on H3, asset structure has a positive impact on profitability, while partial testing findings indicate a negative impact on profitability, H3 is rejected in this study. The difference between current assets and fixed assets in a company's total assets is known as asset structure. Current assets, such as plant, property, and equipment, are more liquid and require greater capital investment to purchase. The negative and significant effect of asset structure on profitability demonstrates that increasing the proportion of fixed assets in an entity's asset structure can reduce profitability. This can occur due to high depreciation and operating costs associated with fixed assets, which can reduce the entity's net income (Hermanto & Liem, 2022). A high asset structure indicates that a company has more fixed assets, which require significant investment and have high depreciation costs, which can reduce the company's net income (Tika Silvana, 2022). Therefore, research shows that having too many fixed assets can reduce business profitability, sending a negative signal that the company has high operating expenses and is less flexible in managing its capital. Thus, hypothesis H3 is rejected and this research is in line with Dahmash et al., (2021) and where asset structure has a negative impact on profitability.

The Effect of Debt Level on Profitability

Based on H4, which states that debt levels negatively impact profitability, and the partial test findings that debt levels negatively impact profitability, H4 in this study is accepted. If an entity uses a lot of debt in its capital structure, interest expenses and principal repayment obligations will increase, which can ultimately reduce its net profit (Syahzuni & Jimmy, 2022). If an entity cannot optimize the use of debt to generate stable cash flow, the risk of default will increase. This is especially true for businesses in industries with high market volatility, such as manufacturing and retail, where consumer trends can change rapidly and reliance on debt can worsen their financial situation. A high level of debt negatively impacting profitability can be a negative signal to investors, indicating that the company may have high financial risk. In signaling theory, companies that rely on excessive debt without good financial management can be perceived as having less promising prospects, thus reducing investor confidence. Investors perceive entities with high debt as having high financial risk. They will generate the greatest profits to compensate for the risks taken. This proves that excessive debt in the capital structure does not always provide benefits, especially if not accompanied by an appropriate financial management strategy (Magdalena & Munandar, 2024). Entities should concentrate on internal capital management to support growth and innovation rather than relying on debt financing, which can jeopardize long-term financial stability. Due to the obligation to pay principal and interest on debt, entities with high debt levels are also more financially vulnerable. An entity's profitability can decline if its debt-to-income ratio is high because it must repay its loans first (Pratama et al., 2021). Thus, hypothesis H4 is accepted in the same direction and significantly. This research aligns with Magdalena & Munandar (2024) and Yadav et al., (2022), which suggest that debt levels have a negative impact on profitability. This is inconsistent with research by Farias et al., (2023), which states that debt levels have a positive impact on profitability.

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The Effect of Inventory Turnover on Profitability

Based on H5, inventory turnover has a positive impact on profitability, while partial testing findings indicate that inventory turnover has no impact on profitability, H5 is rejected in this study. While intuitively, higher inventory turnover reflects an entity's efficiency in managing inventory, which can increase profits due to faster sales and lower holding costs (Agusentoso, 2020), Surya et al. (2017) also stated that good inventory management can minimize the risk of loss and increase profits. However, the results of this study differ from that theory, indicating that the relationship between inventory turnover and profitability is not always linear or significant in all business conditions. High inventory turnover does not always lead to increased profitability; companies with low profit margins experience high sales volumes but still have small net profits (Sinaga et al., 2021). This occurs in highly competitive industries where entities prioritize low-price, high-volume strategies to maintain market share (Aminati, 2020). Furthermore, the impact of inventory turnover on profitability varies by industry sector. The impact of inventory turnover on profitability can vary depending on the industry sector. Industries with complex supply chains or products with long life cycles, such as the automotive or pharmaceutical industries, are less affected by short-term inventory turnover. In these industries, inventory management strategies are more important than simply turnover speed.

High inventory turnover can also pose its own risks, such as increased operational costs or dependence on certain suppliers. If companies focus too much on fast inventory turnover, they will sacrifice other important aspects such as product quality, customer satisfaction, or raw material price stability. Asset growth should be a positive signal for investors because it indicates company expansion. In this case, the market may not interpret asset growth as a strong signal because it is not accompanied by increased efficiency or financial performance. Therefore, hypothesis H5 is rejected, and this research aligns with Aminati (2020), which found that inventory turnover has no impact on profitability. This research also aligns with research by Surya et al. (2017), which confirmed that inventory turnover has no impact on profitability.

4. Conclusion

This research uses financial report data from manufacturing entities in the food and beverage sub-sector listed on the Indonesia Stock Exchange for the 2021–2023 period, with a sample size of 75 from 25 entities. The objective of this research is to analyze the influence of company size, asset growth, asset structure, debt levels, and inventory turnover on profitability. Based on the research findings, profitability is significantly influenced by company size; the larger the entity, the greater the potential level of profitability. From the perspective of stakeholders and investors, a large company size indicates stability and reliability, which can increase market confidence in business performance. Although company assets increase, the asset growth variable does not impact profitability, indicating that it does not necessarily contribute directly to profit growth. Poorly managed asset growth or failure to be accompanied by increased efficiency may be a factor contributing to the insignificance of this relationship. The asset structure variable has a negative and significant impact on profitability, so that an increase in asset structure can reduce a company's net profit. Profitability is negatively and significantly affected by debt levels, indicating that excessive use of debt is not always beneficial, especially when not accompanied by a sound financial management plan. Companies should focus on managing internal capital to support growth and innovation rather than relying on debt financing, which can jeopardize long-term financial stability. While inventory turnover does not impact profitability, it can be influenced by various factors, including cost structure, pricing strategy, and fluctuating market conditions. Companies with low profit margins experience high sales volumes but still have low net profits. This occurs in highly competitive industries where entities prioritize low-price, high-volume strategies to maintain market share. This research has limitations in its relatively short three-year period, from 2021 to 2023, and its adoption of only five independent variables, which have a more limited impact. Furthermore, the Adjusted R-Square test result of 40.5% indicates that the independent variables cannot be used as a benchmark for profitability, with the remaining 59.5% being influenced by other variables. Future research is recommended to explore other manufacturing sectors, such as real estate or services, and to add other independent variables, such as sales growth, as increased revenue through market expansion and effective marketing strategies contribute positively to company profits (Karimah & Mahroji, 2023). This research could also include a cash flow variable, as it increases liquidity, reduces financial risk, supports investment, and reduces reliance on debt (Magdalena & Munandar, 2024). To maintain a good level of company profitability, entities need to implement more effective management by considering various risks that occur in terms of company size, asset growth, asset structure, debt levels, and inventory turnover. This is particularly true for debt levels in external financing, which should not exceed specified limits. Furthermore, entity management must consistently improve profitability to ensure investor interest in investing their funds in the entity. For regulators, these findings can serve as a reference in formulating policies related to capital structure and debt limits to maintain financial stability in the manufacturing sector and

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promote transparency in financial reporting. Meanwhile, for investors, this study confirms that company size and debt management are key factors in profitability, and therefore require analysis before investing. Furthermore, asset growth does not always increase profits, so investors must assess the efficiency of asset management and the company's overall financial strategy.

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