

Original Article

Analysis of CSR, Firm Size, and Financial Ratio on the Indonesia Stock Exchange: How Does it Impact on Profitability?

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Abstract: This research aims to examine the influence of CSR, leverage, company size and liquidity on profitability. This research was conducted on companies in the energy sector and basic materials sector listed on the Indonesia Stock Exchange for the period 2019-2022. The sample selection in this research used a purposive sampling method, and 90 sample companies were obtained from 14 companies in the energy sector and 13 companies in the materials sector. The data used in this research consists of quantitative data obtained from secondary data using unbalanced data. Moreover, they are using the SPSS version 26 analysis tool. This research provides results that the variables CSR, leverage and company size do not affect profitability. Meanwhile, the liquidity variable influences profitability. This research also contributes to company management regarding the importance of profitability for companies to improve the company's image with the profits obtained.

Keywords: CSR, Leverage, Firm Size, Liquidity, Profitability.

I. INTRODUCTION

Competition in the business world makes every company strive to be more competitive so that it is not less competitive with other companies. The goal of the company is to gain profit and maintain the existence of the company, by increasing all the company's activities and optimizing the resources that it has so that the company achieves maximum profit (Dwiyanthi and Sudiartha, 2017). The achievement of this goal is determined by the performance of the company, which can later constitute the foundation for decisions made by stakeholders inside and outside the company. One of the important matrices in a company that is used to take into account the performance of the company is profitability. According to Tambunan et al. (2023), the ability of the company to make a profit is called profitability, so the higher the profit ratio, the better because it describes the high profitability of the company. According to Sholikha et al. (2019), the variable CSR and company size have a significant influence on profitability, while leverage does not affect profitability. In research conducted by (Arifin et al., 2019) showed results that liquidity affects the company's profitability.

One of the important matrices in a company that is used to take into account the performance of the company is profitability. Through this financial analysis, business managers will evaluate the company's speed in making profits and share it with investors. Good company performance will affect the profits the company earns. Then the profits that the company earns will be greater. However, there is one more thing that is important to understand when determining profits, which is how to calculate them. The correct calculation will have a positive impact on the business itself.

Conversely, if the calculation is wrong, it can be negatively impacted. Profitability can be influenced by many factors, such as CSR, leverage, company size, and liquidity. Through profitability analysis, business managers will evaluate the company's speed in making profits and distributing them to investors. In business, company is very important to know the financial condition in detail with the analysis of the financial ratio performed. Not only knowing the condition of the company, but also able to predict the company in the future. Where this will be used by investors to predict whether the company will be a good investment or not; higher profits will also generate profits per share and higher corporate profits (Adhe et al., 2020: 94). The company not only earns profits but also needs to improve its company image, one of which through the CSR program. However, CSR is often considered to be burdening the company's budget. In implementation because, it requires a certain amount of costs, resulting in a decrease in the income of a company that leads to a decrease in the level of profitability of the company. However, as more investors attract the business, its reputation in the eyes of the community will also increase (Pratiwi et al., 2020).

Companies also need additional financing or capital with debt or leverage. Leverage is using a company's assets and sources of funds at a fixed cost. Leverage is company debt to increase company financing (Susilawati and Purnomo, 2023).



Maximize profit potential for goals. If leverage is too large, it is proven to cause a decrease in profits due to use. Debt has a fixed interest rate. The loans used by the company are a reference for getting greater profits. After getting bigger profits, the company will be able to survive and compete in the business world and can create businesses on a larger scale.

The capital that companies earn to finance investments and make profits is one of the advantages of large companies. The total assets and sales of the company can be processed from the scale of the company or the size of the company. Declaring financial characteristics are used on the size of the company. Large and stable companies will find it easier to get capital in the capital market than small companies. A company will easily obtain greater profit and flexibility due to the opportunity in the company. The small amount of profit a company will affect its profitability, the profitability of the company will increase if the profit or profit generated also increases (Symbolon et al. 2019).

Liquidity also affects profitability. According to Irfani (2020), liquidity is a company's short term obligation that must be fulfilled with the guarantee of smooth assets owned and with the ability of the company. Including short-term liability, including business debt, dividends, tax, and so on which belongs to a smooth asset. The higher the number, the better the position of the company in the eyes of the creditors because the company has the ability to pay its debt on time. Business is good because it has the ability to generate income without having to invest real money and other businesses to make a profit.

This research uses the energy sector as a sample because the energy sector is an important sector that affects other sectors in carrying out its activities. Energy is one of the industrial sectors that has a significant influence on increasing production and output specific to the country's economy as a whole. In addition, this industry requires large capital. This means that the company needs a large capital for its operations.

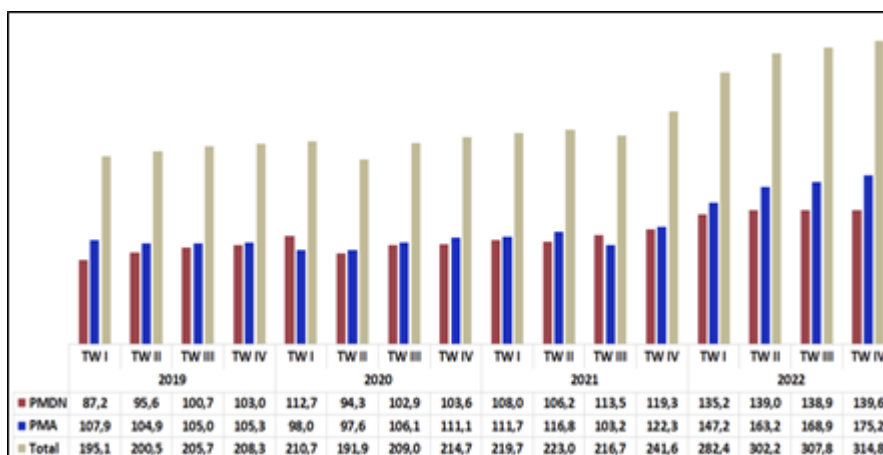


Figure 1: Investment Realization Data (2019-2021)

Source: Official page of the Capital Planting Agency

In Figure 1, according to the official website of the Capital Plantation Coordination Agency, the investment realization data for the period 2019-2021 has been decreasing and in the period of 2022, has experienced a rather significant increase. It is necessary to explore further what is causing such declines and increases, especially in the energy and basic material sectors. Financial management is the wrong factor in the decrease or increase. Through good financial management then, the company will be able to increase the realization of investment. The existence of such a decline can cause a company difficulty in raising its rates. At the same time, management uses the financial ratio to evaluate the company in order to determine its performance. Managers might assess ways to boost a company's gross margin, for instance, if it currently has a low one. The lack of operational efficiency in the company, while is usually the cause of a decrease in the company's earnings or even losses. The decrease in such profits or losses is usually due to the costs and expenses of the company that exceed the company's income.

There are some cases where the company's turnover increases, but the company stays the same even with a decrease in profits. This evaluation should be based on financial and non-financial results. The results examine the financial statements of each company. They are reflected in the information obtained from the financial report, comprehensive profit and loss, equity development reports, cash flow reports and annexes to the annual report. Financial ratios can be used to assess the financial status and performance of the company. The position and performance can be known by comparing the financial ratio of a company from one year to the next to determine whether it has been rising or falling.

II. LITERATURE REVIEW

A) Signaling Theory

The first suggested theory of signals by Michael Spence (1973) suggests that the signal is sent by the information owner or attempts to transmit the signal, with the aim of providing useful information to the recipient. This signal is a detailed detail of the actions taken by the management in response to its request. Information that a company has issued is important because of its influence on external investment decisions. This theory shows investors how to look at the company's prospects. A profitable company will be more viewed by investors as the company earns maximum revenue.

B) Profitability

According to Henry (2016:192), a profitability ratio is a metric that assesses an organization's capacity to turn a profit from regular commercial operations. The use of profitability ratios can be done by comparing the various components of financial statements, in particular the balance sheet and loss report. Measurements can be made over several periods. The objective is to observe the development of a company over a certain period of time, whether it decreases or rises, and to find out the causes of its change. (Nasir, 2021). In this ratio, the proxy uses ROA (Return On Asset). The return on asset, or ROA, is computed as the net profit of the business (often annual revenue) divided by the total assets.

C) Corporate Social Responsibility

According to Lela Nurlela (2019:11), Companies that consistently strive to conduct morale and promote economic growth are said to be engaging in corporate social responsibility (CSR), taking into account the negative impacts of the company and improving the environmental quality and welfare of local communities without ignoring the interests of stakeholders and environmental sustainability as the company's responsibility for the impacts of the company's operations may have—disclosure of corporate social responsibility expressed in the index. The index is obtained by comparing the number of scores that have been found to the maximum score. In this study, it used the 2016 index with 136 indicator items.

D) Leverage

This variable, using the calculation using the Debt to Equity Ratio (DER), is a metric used to quantify the amount of debt utilized by a business. This ratio is helpful in determining how much money the company's owner received from the loan or creditor and how much of their own capital was utilized to secure the funds. Financial leverage refers to a company's ability to harness financial resources that incur fixed costs in its business operations to higher profits. (Fuad et al., 2019). The company will suffer losses if the leverage is high, in fact, the company will have difficulty making profits or large profits because the company would divert the increased profits of the company to cash-flow activity for debt disbursement. By using borrowed capital, the company can further develop or expand its business so as to provide opportunities for the company (Putra and Kadang, 2020). When a company has more debt than equity, then its debt rate decreases as the burden of interest payable also increases. It affects low profitability. The ratio used to calculate leverage is the Debt to Equity Ratio (Widhi and Suarmanayasa, 2021).

E) Firm Size

According to Muchlisin Riadi (Januwito, 2022), a measure or variable that represents the size of a small company based on total assets, equity, total sales, and income is often called a firm size. Depending on the company's size, increasing or decreasing profitability will have different effects. A company's profitability increases with its size, but eventually, the profitability of the business will decline if it grows beyond a certain point (Nasir, 2021). Another way to reduce the size of the business is to look at total sales. Businesses with high sales rates typically select accounting practices that lower profitability since the costs associated with increased sales are typically higher. In any case, a company's scale is helpful in acquiring a huge resource, a capital resource. It is easier for businesses to purchase the supply of goods to sell thanks to this financing. Encouraging sales helps the company turn a profit.

F) Liquidity

According to Irfani (2020), liquidity is a gauge of a business's capacity to pay down all of its short-term debt with its safe assets as it matures. The short-term liabilities of this company can be categorized as external and internal liabilities. Corporate short-term debt can be tax, business debt, dividends, and so on. Without that capability, the company would not be able to carry out business operations. Because liquidity is the degree of working cash availability needed for a company's operational activity, liquidity and profitability are strongly associated. The ability of a business to settle short-term debt with a steady asset is referred to as liquidity. Thus, a high ratio of liquid assets to liquid liabilities indicates a high level of short-term liability coverage for the company. Consequently, a company's capacity to generate profits increases with its ability to settle short-term debt (Afrianti and Purwaningsih, 2022). Profitability will decrease if the company does not optimally use the assets it owns (Current Ratio).

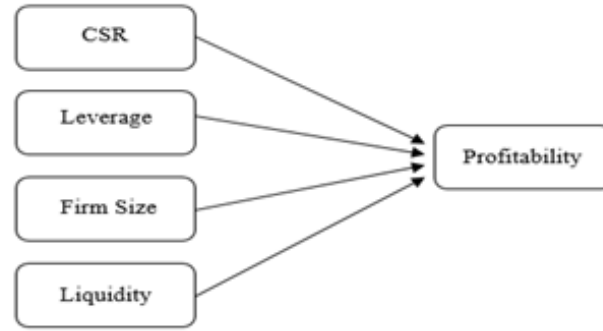


Figure 2: Conceptual Framework

G) Formulation of the Hypothesis

- H1: Corporate Social Responsibility has a positive and significant effect on Profitability
 H2: Leverage has a positive and significant effect on Profitability
 H3: Firm Size has a positive and significant effect on profitability
 H4: Liquidity has a positive and significant effect on profitability

H) Research Methods

This research is quantitative. Companies in the energy and basic materials sectors listed on the BEI between 2019 and 2022 are the research's population. The study's secondary data sources include financial reports, annual reports, and sustainability reports that were listed on the Indonesian Stock Exchange between. These reports were retrieved from the companies' websites, as well as from the Indonesia Stock Exchange's website. Meanwhile, the sample in this study was from 14 companies in the energy sector and 13 companies in the basic materials sector—observation of 90 company data. Using certain criteria to obtain the sample, the purposive sampling technique was employed. The release of the business's financial accounts for the 2019–2022 period was one of the selection criteria. The company that disclosed CSR on the GRI index in the continuing report, then the company which did not suffer losses because it could cause negative profitability values. Researchers use the rupiah currency when taking annual reports because this currency is the Indonesian currency used by the public every day and is included in the financial reports of every company in Indonesia. The dependent variable in this research is profitability through measuring Return on Assets (ROA) for the independent variable; the CSR variable is measured using the 2016 GRI index with 136 items, and the Firm Size variable is calculated by taking the company's total assets and converting them to natural logarithm form, the leverage variable uses the Debt to Equity Ratio (DER) measurement, the liquidity variable uses the Current Ratio (CR) measurement.

Table 1: Operational Variables

Variables	Operational definition	Measurement
Profitability	This ratio shows how well the company can run its operations to turn a profit over a given time frame.	$ROA = \frac{Net\ Profit}{Total\ Assets}$ (Solikha et al, 2019)
CSR	Businesses are socially responsible to all stakeholders through CSR activities.	$CSR_{ij} = \frac{\sum X_{ij}}{N_i}$ (Mulana, 2023)
Leverage	It is a measure to measure how much debt is used in company expenses.	$\text{Debt to Equity Ratio (DER)} = \frac{Total\ Liabilities}{Total\ Equity}$ (Widhi and Suarmanayasa, 2021)
Firm Size	It is the size of the business as determined by total assets at the end of the year.	$Size = \ln(Total\ Company\ Assets)$ (Adria and Susanto, 2020)
Liquidity	The capacity of an organization or business to meet its short-term debt payments and obligations.	$\text{Current Ratio} = \frac{Total\ Current\ Assets}{Total\ Liabilities}$ (Wulandari and Damayanti, 2022)

III. RESULTS AND DISCUSSION

A) Results

a. Descriptive Statistics Test

Table 2: Descriptive Statistic

Descriptive Statistic					
	N	Minimum	Maximum	Mean	Std. Deviation
CSR	90	0.0368	0.8382	0.415114	0.1692098
DER	90	0.0505	6.2613	1.125612	1.0609664
SIZE	90	28.5611	32.7578	30.746872	1.0273406
Likuiditas	90	0.2696	7.4195	1.954848	1.2582200
Profitabilitas	90	0.0007	0.4543	0.053859	0.0665686
Valid N (listwise)	90				

Source: spss 26 data processing results

Table 1 above indicates that 90 data points were used. The CSR variable's data may be seen in Table 1, where the flat value is 0.415114, the highest value is 0.8382, and the standard deviation (or data distribution level) is 0.1692098. The DER variable has a standard deviation level of 1.0609664, a minimum value of 0.0505, a maximum value of 6.2613, and an average value of 1.125612. The SIZE variable has a standard of 1.0273406, a fair value of 30.746872, a minimum amount of 28.5611, and a maximum value of 32.7578. The liquidity variable has an average value of 1.954848, a minimum value of 0.2696, a maximum value of 7.4195, and a value of 1.954848 with a data spread level (standard deviation) of 1.2582200. The profitability variable has an average value of 0.053859, a standard deviation (data spread level) of 0.0665686, and a maximum value of 0.4543.

b. Classical Assumption Test

According to Ghozali (2018:161) states that the normality test aims to test whether, in the regression model, the disturbing or residual variable has a normal distribution with the decision rules; if the significance is more than $\alpha=0.05$, then the distribution of the data can be considered normal. Analysis results of the kolmogrov-smirnov normality test showed a significance of 0,000 less than 0.05. Thus, it may be said that the data is not normally distributed based on the rationale used to make decisions during the Kolmogrov-Smirnov normality test. During the initial normality test, 90 samples were used, and in the casewise diagnostic, some extreme values were removed. As a result, the sample in this study was 82 samples, using a standard deviation of 3.0 to 2.6. Further, kolmogrov-smirnov was used to test the normality of the data. Given that the test significance value is 0.064, larger than 0.05, this suggests that the data distribution is normal.

According to Ghozali (2018:107) states, the multicollinearity test aims to test whether regression models are found to be correlated between free (independent) variables. A good regression model should not be correlated among independent variables. The multicollinearity test showed that there was no problem with multicollinearity in this study. The findings indicate that the variable inflation factor (VIF) value is less than 10, and the tolerance value for each independent variable is greater than 0.1. The regressive model is deemed effective if there is no association between the independent variables. The autocorrelation test between the data from the current year and the prior year was then demonstrated using the Durbin-Watson test. The autocorrelation test results with K = 4 and N = 82 showed a dL value of 1.540, a dU value of 1.744, and a 4-dU worth of 2.256. The next d value was 1.770, which indicates that the d value is between dU and 4dU. Therefore, it can be concluded that there are no symptoms of autocorrelation. Then, a heteroscedasticity test. The results showed that there were no symptoms of heterocedasthesis in this study because the sig. The value was greater than 0.05. The Sig value for CSR variables is 0.289, the leverage variable is 0.449, the corporate size variables are 0.214, and the sig. value for the liquidity variable is 0.397.

The determination coefficient test aims to measure how far the model's ability to explain dependent variables (Ghozali, 2018). A determination coefficient test must be carried out in order to ascertain the strength of the link between the independent variables and to establish that the independent variable (CSR, leverage, corporate size, and liquidity) has a strong or strong relationship. The determination factor or R square value can also be used to measure how much influence an independent variable has on a dependent variable. A square R-value of 0.145 is shown, which means that the independent variable only has an influence on the dependent variable of about 14.5%, and the rest is influenced by another variable.

The F statistical test also shows whether all independent variables are included in models that affect together – the dependent variables together. Statistical Test F has a significant 0.05 (Ghozali, 2018:97). The results showed the value of F count of 3,267 and the value of F of 0.016, which indicates that the estimated regression model is worth or suitable for use.

c. T Test

Table 3: T-Test Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1	CSR	-0.007	0.019	-0.040	0.710
	DER	-0.004	0.003	-1.210	0.230
	SIZE	0.002	0.003	0.075	0.501
	Liquidity	0.006	0.003	0.292	0.015

Source: spss 26 data processing results

The results of the analysis in Table 2 show that the CSR variable has a t -0.374 value with a significance value of 0.710 or greater than 0.05; this indicates that X1 (CSR) does not influence the profitability of the company. So, in this study, H1 is rejected, in the variable leverage (DER) has a value of t -1.210 with a signifying value of 0,230 or larger than 0,05; this suggests that X2 (Leverage) does not affect the corporate profitability. Then on, the corporate size variable (SIZE) has a value t of 0.675 with a significance value of 0.501 or greater than 0.05 this indicates that X3 (Firm Size) does not influence the profitability of the company. So, in this study, H3 is rejected. Moreover, on the liquidity variable, the value t is 2.497 with a significant value of 0.015 or more than 0.05; this suggests that X4 (Liquidity) has a significant impact on profitability.

B) Discussion

a. The Effect of Corporate Social Responsibility on Profitability

Based on the test results, it shows that the variables of corporate social responsibility do not affect profitability. This means that CSR disclosure to a company will not affect profitability for the company, where some CSR activities may not be directly linked to the core operations of the company. In the acquisition of this CSR program, the corporation requires a large enough allocation of funds to produce a varied CSR. However, this large amount of allocation does not guarantee the quality of CSR activities. (Adilla et al, 2023). According to Wakhidati and Idayati (2022), The company's financial performance may be negatively impacted by its CSR program because it cannot grow its profitability due to the significant costs associated with such programs. Although it can improve a company's reputation, the direct impact on profitability may be limited if the activities are not related to the products or services offered by the enterprise, and some companies prioritize social impact over profitability. The presence of CSR activities cannot provide signals that can attract stakeholders due to the magnitude of allocation and the difficulty of gaining profits. The results of this study are in line with research carried out by Maulana (2023), Pratiwi et al. (2020), and Setyowati et al. (2022), that CSR does not significantly affect profitability, and the 1st hypothesis is rejected.

b. The Effect of Leverage on Profitability

The results showed that leverage variables did not affect profitability. Leverage in the financial context of a company is the use of loan funds to add capital used for investment or operations activities. Although leverage provides certain benefits, it does not necessarily affect profitability. Excessive debt in corporate financing will be able to lower profitability (Susilawati and Purnomo, 2023). Today, many companies use leverage because leverage is multifunctional and very profitable. Leverage is useful for evaluating the company's position in relation to its obligations to third parties and to analyze the impact of the management of debt and resources of the company. Without influence, the company cannot provide signals that can attract investors because the loans they get are not used effectively. Higher loans cannot provide good signals because of the unstable profit that a business has earned. Moreover, it shows that the 2nd hypothesis is not accepted, based on which this research fits the study by Rizki and Ridha (2022) and Nurhayati and Wijayanti (2022) that reveals that leverage does not affect profitability.

c. The Effect of Firm Size on Profitability

The measurement result shows that the variable firm size does not affect the company's profitability. According to Pangestu et al. (2023), a large total of assets cannot guarantee that the company can increase profits. However, it is evident how a business can effectively manage its assets to produce profits for the enterprise. Large companies may have higher cost structures, especially in terms of administration. In addition, the profitability of a company is not always driven by a high sales rate because the high sales rate also results in higher business storage costs. Although the size of a company may be profitable in terms of resources and production capacity, poor decision-making and ineffective management of the company in managing the capital it earns can hinder the company's potential to earn maximum profit, meaning that the size of a company will not affect its profitability. In the absence of signals in the form of instructions that the company can give to investors, the size of the company and profitability have no effect. It can be said that the 3rd hypothesis is rejected, and the results of this study are in line with the research carried out by Veronica and Saputra (2021) and Fransisca and Widjaja

(2019) that reveals that corporate size significantly no affects profitability.

d. The Effect of Liquidity on Profitability

Based on the testing results, the data shows that the variables of liquidity effect on profitability. The company is said to be liquid if it can meet its short-term obligations. (Adilla et al, 2023). A company that has a lot of good assets then its profitability is higher. When liquidity (CR) increases, profitability also increases. (Nurhayati dan Wijayanti, 2022). For example, a company can repay its debt at maturity. A steady increase in assets indicates that the company is able to repay the debt on time. Creditors will see the company's financial status as improved as a result. The more liquid assets a company owns, the higher the chances of making a profit (Matondang and Wuryani, 2020). If the liquid asset that it owns is high, it can be an investment opportunity that can increase profitability and make the company profitable. Thus, the company can provide good signals to investors because it is able to meet its short-term obligations, so that the company is seen both in the creditor's eyes and can affect the company's profitability and increase profitability. The existence of good liquidity is a signal and informant for shareholders to make decisions in making investment decisions. It is a sign that is both theoretically a signal and shows that the 4th hypothesis is accepted. The results of this study with the same research were Maria et al. (2019), Ristiani et al. (2020), Adria and Susanto (2020) and Setiyowati et al. (2022).

IV. CONCLUSION

Conclusions that can be drawn from the study's findings are: (1) CSR has no effect on profitability in the energy and basic materials sectors. (2) Leverage has no effect on profitability in the energy and basic materials sector. (3) The size of the Corporate has no effect on the profitability of the energy sector and basic material sector. (4) Liquidity affects the profitability of the energy sector and basic material sector. These findings suggest that the company is not effectively optimizing the debt used as additional capital to run its operations. It can be concluded that some companies only prioritize the social impact over the profitability of the company. The increase in capital cannot affect the company's profits due to the size of the debt and operating costs to be issued. Moreover, the company's inability to raise profits is hampered by inefficient decision-making by the management of the company. Companies with high debt show better corporate size and can give a negative signal. If profitability goes up, it can give a good signal to investors. And companies must also be efficient in using debt and fulfilling their short-term obligations. So, it can be judged how the condition of a company deserves to be a place to invest. Signal theory can give a clue to investors or the management of the company as to whether the company is worthy or not. In addition, the variable CSR cannot give a signal to the investor because of the large allocation of funds, so a company has difficulty increasing its profit. On the variables, leverage can also not provide a good signal due to the high loan of a company thus giving a bad signal for the investors. Besides, the variable size of the company cannot give a signal to the investor if the company has high debt. Where such a signal shows a negative outcome, if the debt is high, then profitability will decrease. Whereas on the variable liquidity can give a signal to investors because the company is in good condition and has fulfilled its short-term obligations so that profitability can increase. The signals from the company give an indication to the investor to invest in the company because of the good signals that it can get huge profits and the company will be profitable.

The limitations of this research are limited to the energy sector and the basic material sector is limited to four years. The variables studied only cover CSR, leverage, firm size, liquidity, and profitability. The researchers propose that additional research can multiply varieties of research data objects based on these findings and limits, such as adding corporate sectors or extending the period of research data. They can also add variables that are tied to profitability. So it's possible to obtain better research results

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