



“The interplay between corporate financial specification, macro-risk, and earnings information of large firms: Evidence from Indonesia”

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THE INTERPLAY BETWEEN CORPORATE FINANCIAL SPECIFICATION, MACRO-RISK, AND EARNINGS INFORMATION OF LARGE FIRMS: EVIDENCE FROM INDONESIA

Abstract

The purpose of this study is to investigate how corporate specification, ownership, and macro-risk affect earnings information, with firm size functioning as a moderator in one of the world's most dynamic economies. According to the research criteria, quantitative research is employed using secondary data with a supportive sample. The population of this study comprises the firms listed as members of the Kompas-100 index during the 2013–2023 period at IDX. This study employs panel data analysis to examine causal relationships and conduct in-depth hypothesis testing, thereby enhancing scientific credibility. The findings of this study indicate that the relationship between leverage and profitability yields two results: DAR and DER have positive and negative effects, respectively, at the 1% significance level. This finding is noteworthy because it reveals a difference in the impact of the two types of leverage. Other corporate specifications that significantly influence earnings information are the market ratio, firm size, and business prospects at the 10% level. However, tangibility and ownership do not affect substantially earnings information, which is primarily influenced by macroeconomic risk and the interaction with firm size. Further analysis reveals that, although certain corporate specifications have a short-term effect, the interaction of firm size as a moderating role confirms the impact of corporate specifications on earnings information, suggesting managerial opportunism in long-term decisions. Generally, this study demonstrates that the quality of corporate specification plays a critical role in discouraging ownership and macro-risk-manipulated management behavior on earnings information for the market.

Keywords

earnings information, market ratio, corporate specification, ownership, risk

JEL Classification

G30, G32, E44

INTRODUCTION

The reformation plays a crucial role in economic growth; however, factors such as the privatization of state-owned enterprises, the trading sector, and market-oriented trade preferences that promote foreign investment and employment persist. Currently, the private sector is often regarded as the primary driver of economic growth. As a result, one of the essential jobs for governments is to provide an institutional environment that allows businesses to maximize their growth potential. Access to a functional capital market and a well-developed, stable social and political system framework are two critical determinants of firm growth (Balsmeier & Czarnitzki, 2017; Bandiyono, 2020). Thus, especially in a weak institutional environment, the concentration of ownership and firm specification can significantly impact a firm's profitability economically. For decades, experts have been drawn to the research on business growth and profitability, as well as the relation-

ship between the two. It is not surprising, given that the binomial growth-profitability relationship is at the core of business practice (Santosa et al., 2023; Abaidoo & Kwenin, 2013; Myšková & Hájek, 2020).

The corporate specification of fundamental factors that influence profitability remains a topic of ongoing debate among researchers. This includes aspects related to debt policy, corporate characteristics, corporate governance – particularly ownership structure – and macro-risk indicators (Renati, 2020; Santosa, 2020a). Profitability serves as the primary objective of running a business and is crucial for determining a company's long-term sustainability. Management is tasked with maximizing shareholder wealth by consistently enhancing the company's profitability and increasing the value of shares held by investors over the long term (Quang et al., 2020; Dahmash, 2015). As a company's profit growth becomes more stable, investor confidence tends to rise, leading to increased interest in sustained investments. This, in turn, contributes to a higher stock price and overall firm value (Renati, 2020).

Management understands the importance of establishing a debt policy or leverage to meet working capital and capital expenditures, which impact profitability and value (Apan & İslamoğlu, 2018; Forte & Tavares, 2019). Secure a bank loan, issue bonds, or sell shares in the capital markets to meet operational and investment needs, thereby boosting profitability as the firm grows. A bad debt policy can lead to financial difficulties and bankruptcy (Yildirim et al., 2018; Psillaki & Daskalakis, 2009). Thus, leveraging debt through banks or capital markets can help a company develop and profit, but poor debt management can lead to interest payments that exceed operating earnings (Santosa et al., 2020).

This study contributes to the existing literature by examining the nuanced interplay between ownership structure, firm-specific characteristics, and debt policy in influencing corporate profitability within a weak institutional environment. This area remains underexplored in emerging market contexts. By integrating both micro-level (firm-specific) and macro-level (institutional) factors, the study offers a comprehensive approach to understanding profitability dynamics beyond traditional growth-profitability models.

1. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Several previous studies have demonstrated that debt policy or leverage has a persistent impact on profitability, particularly in the long term. In general, their findings state a negative relationship between the two due to the consideration of increased retained earnings, so that the need for external funds decreases along with the increased net income, with the assumption of a constant dividend payout (Le et al., 2020; Albart et al., 2020; Yoo & Wu, 2019). The next consideration is the increase in leverage with increasing interest-bearing assets, which will erode after-tax earnings (EAT). Stable profitability growth indicates better sales and increased management efficiency, resulting in improved cash flow, which in turn solidifies the company's internal capital (Quang et al., 2020; Santosa et al., 2021). However, the effects of DAR and DER can be different because the DAR ratio involves equity and debt as dividers of debt contained in assets.

Albart et al. (2020) state that the relationship between profitability and market ratios, as measured by the price-to-book value (PBV) proxy, is positive due to increased profitability that attracts investor interest and confidence in the company's management ability to manage its business. Thus, the issuer's share price will improve, which will increase its market capitalization. This finding is also supported by Santosa et al. (2020a), who state that market ratios affect company performance and value because they are essential for investors. Černius and Birškytė (2020) discovered that corporations with good earnings information had greater valuation and enhanced stock market performance. Albart et al. (2020) demonstrate that tangibility harms profitability, indicating that the higher a company's tangible assets, the lower its profits. In addition, Santosa (2020a) argues that the increase in the value of fixed assets compared to total assets will increase the cost of depreciation and decrease the company's return on assets. Therefore, with the increase in fixed assets, the profit potential will be smaller unless manage-

ment can improve the efficiency of its operations (Dao & Ngo, 2020; Kotey et al., 2020).

The relationship between firm size and profitability has been extensively studied in previous research, and most studies have found a negative relationship between the two. The larger the company size, the greater the potential for reduced management efficiency in asset management (Quang et al., 2020). In addition, the increase in assets, both current and fixed, will reduce a company's business risk, which can, in turn, reduce yields (Santosa, 2020b). However, several previous studies have concluded that company size positively impacts profitability due to qualitative considerations such as product diversification, a good reputation, and business sustainability (Dao & Ngo, 2020; Kotey et al., 2020). Endri & Fathony (2020) find that growth has a significant impact on firm value. These results suggest that a company's high growth rate does not necessarily indicate that it will continue to grow well in the future. Therefore, information about company growth does not necessarily imply that high company growth will result in high stock returns for investors (Kasmiasi & Santosa, 2019). Albart et al. (2020) also demonstrate that sales growth, as a proxy for business prospects, has a positive relationship with profitability.

As a control variable, the impact of blockholder concentration on company performance is examined, specifically in the context of profitability in emerging markets, such as Indonesia. The concentration of ownership used as a proxy is managerial and institutional ownership, as employed by Chen et al. (2021) to demonstrate a positive relationship with profitability. Tran and Le (2020) and Santosa et al. (2023) explained that an increase in concentrated ownership initially led to a decrease in the firm's value in the market. The growing awareness of the risk of takeover by large shareholders dominated external investors. When the concentration of ownership reaches a certain level, the trade-off has a positive impact on firm value. It is understood that the convergence of blockholder interests and the maximization of firm value is considered higher by the market, depending on the company's size (Santosa et al., 2020a).

Macroeconomic indicators, as macro-risk variables, affect company profitability both directly and indirectly. The BI reference interest rate, as well as the

foreign exchange rate (USD-IDR) and inflation rate (Quang et al., 2020), negatively affect profitability. However, other macroeconomic risk indicators, such as the market index (JCI) and GDP, have a positive impact on company profitability (Albart et al., 2020; Quang et al., 2020).

The purpose of this study is to analyze the relationship between essential corporate financial variables, such as debt policy, corporate-specific factors, and ownership, and how firm size moderates these relationships. The paper examines the moderating role of firm size and macro-risk control in the earnings information model related to corporate-specific affiliated corporations, aiming to increase symmetric information in large Indonesian firms. Investors need to know a stock's earnings information for sure to make smarter investment decisions.

Thus, the hypotheses for the macro-risk indicators of profitability are as follows:

- H1: Debt-assets ratio has a positive/negative effect on profitability.*
- H2: Debt-equity ratio has a positive/negative effect on profitability.*
- H3: Market ratio (PBV) has a positive effect on profitability.*
- H4: Tangibility has a positive effect on profitability.*
- H5: Firm size has a positive/negative effect on profitability.*
- H6: Sales growth has a positive effect on profitability.*
- H7: Institutional ownership has a positive effect on profitability.*
- H8: Managerial ownership has a positive effect on profitability.*
- H9: BI rate, Forex, and inflation rate affect profitability negatively.*
- H10: JCI and GDP have a positive effect on profitability.*

2. METHOD

The type of data used in this study is secondary, in the form of financial statements of companies listed on the Indonesia Stock Exchange (BEI), particularly members of the Kompas-100 index. The financial statements used as data sources include income statements, financial position reports (also known as balance sheets), cash flow statements, statements of changes in equity, and notes to the financial statements. The population in this study is all publicly traded companies that are members of the Kompas-100 index on the Indonesia Stock Exchange. The sampling technique employed was non-probability sampling, specifically the purposive sampling method. Purposive sampling (conditional sampling), namely, sampling with specific criteria tailored to the needs of this study. In this sampling, the selection of the sampling unit is based on expert considerations. The study sampling method includes the following criteria: (1) the firm must issue an annual report (audited); (2) it must not be part of the financial industry; (3) its accounting cycle must end on December 31; (4) it must not have a negative book value of equity; (5) it must engage in IDX; and (6) it must disclose ownership structure. The criteria proposed for sampling in this study involve three stages of sample selection. A total of 64 non-financial companies (issuers) were selected from the Kompas-100 index, which has quarterly financial reports for seven consecutive years from 2013 to 2023.

In this study, a panel data model is separated into Model 1 and Model 2. Model 1 is a panel model with independent variables for corporate characteristics and ownership as controlling variables. Model 2 is a modification of Model 1 with the addition of macro-risk as a controlling variable to obtain a more comprehensive model (Santosa, 2020a; Santosa, 2020b; Dahmash, 2015; Dao & Ngo, 2020; Kotey et al., 2020; Quang et al., 2020; Ruggiero et al., 2022). The subsequent baseline panel regression model can capture the determinants of profitability for the firms at IDX:

Model 1. The first model is constructed to assess the corporate specification of the firms in the linear relationship with firm value:

$$ROA_{it} = \alpha_{0it} + \alpha_1 DAR_{it} + \alpha_2 DER_{it} + \alpha_3 PBV_{it} + \alpha_4 TANG_{it} + \alpha_5 Size_{it} + \alpha_6 MO_{it} + \alpha_7 IO_{it} + \varepsilon_{it} \quad (1)$$

Model 2. Model 1 is re-estimated, controlling for macro-risk effects such as BI rate, foreign exchange, market index, GDP, and inflation rate:

$$ROA_{it} = \beta_0 + \beta_1 DAR_{it} + \beta_2 DER_{it} + \beta_3 PBV_{it} + \beta_4 TANG_{it} + \beta_5 Size_{it} + \beta_6 MO_{it} + \beta_7 IO_{it} + \beta_8 BIR_{it} + \beta_9 Forex_{it} + \beta_{10} JCI_{it} + \beta_{11} GDP_{it} + \beta_{12} INF_{it} + \varepsilon_{it} \quad (2)$$

Model 3. Model 3 is constructed to capture the moderating impact of firm size on corporate spec-

Table 1. Variables and measurement

Variables	Notation	Measurement
Dependent		
Profitability	ROA	EBITDA/Total Assets
Independent (Corporate specification)		
Leverage 1	DER	Total Debt/Equity
Leverage 2	DAR	Total Debt/Assets
Market-to-book value	MBV	P/BV
Tangibility	TANG	FA/TA
Firm Size	SIZE	Ln TA
Sales growth	SG	$(S_t - S_{t-1}) / S_{t-1}$
Ownership		
Managerial ownership	MO	Managerial shares/ Outstanding shares
Institutional ownership	IO	Institutional shares/ Outstanding shares
Macro-risk (Controlling)		
BI rate	BIR	BI 7-day repo rate
Forex	FX	Ln Forex (USD-IDR)
Market Index	JCI	Ln Jakarta Composite Index
Gross Domestic Product	GDP	Ln GDP
Inflation	INF	Inflation rate

ification and firm value controlled by the macro-risk variables relationship:

$$\begin{aligned}
 ROA_{it} = & \delta_0 + \delta_1 DAR_{it} + \delta_2 DER_{it} + \delta_3 PBV_{it} \\
 & + \delta_4 TANG_{it} + \delta_5 Size_{it} + \delta_6 MO_{it} + \delta_7 IO_{it} \\
 & + \delta_8 BIR_{it} + \delta_9 Forex_{it} + \delta_{10} JCI_{it} + \delta_{11} GDP_{it} \\
 & + \delta_{12} INF_{it} + \delta_{13} (DAR \cdot Size)_{it} \\
 & + \delta_{14} (DER \cdot Size)_{it} + \delta_{15} (PBV \cdot Size)_{it} + \varepsilon_{it},
 \end{aligned} \tag{3}$$

where Firm value: Profitability (*ROA*); α : intercept; $\alpha_1, \dots, \alpha_6; \beta, \dots, \beta_8; \delta_1, \dots, \delta_3$ = coefficient; Solvency: debt to assets ratio (*DAR*) and debt to equity ratio (*DER*); *PBV*: price-to-book value (market ratio); *TANG*: tangibility; *Size*: Firm size; *SG*: sales growth; *MO*: Managerial ownership; *IO*: Institutional ownership; *BIR*: BI rate; *Forex*: Foreign exchange; *JCI*: Market composite index; *GDP*: Gross Domestic Product; *INF*: Inflation rate; *i* = firm-*i*; *t* = period, and ε = Error term, where the notation of these variables in Model 1, Model 2 and Model 3 is shown in Table 1.

3. RESULT

The descriptive statistical characteristics of the sample of issuers used in this study are presented in Table 3, which includes the highest value (maximum), the lowest value (minimum), the average (mean), the median, and the standard deviation for each variable across 3,842 observations. Table 2 shows that the lowest (minimum) sample capi-

tal structure ratio is 0.0010 (*DAR*) and -49.0880 (*DER*), and the highest (maximum) capital structure ratio is 16.440 (*DAR*) and 38,783 (*DER*). In addition, the average value (mean) leverage of 0.5394 (*DAR*) and 1.1438 (*DER*). These results indicate that, during the 2013–2023 period, the non-financial sector structure ratio was generally under control.

The lowest *PBV* value is -49.0880, and the highest value (maximum) is 38.7831. *PBV* shows an average value (mean) of 2.5735 with a standard deviation of 3.7013. Because the standard deviation is greater than the mean value, this indicates that the *PBV* variable has a relatively high level of fluctuation.

The minimum *TANG* value is 0.0000, and the maximum value is 17.6850. Furthermore, the mean *TANG* value is 0.3957, with a considerably larger standard deviation value of 0.7164. Because the standard deviation is slightly larger than the mean, this indicates that the data fluctuation of the *TANG* variable is relatively large.

The lowest *SIZE* value is 0.8205. The highest value is 29,770, with a coefficient of variation of 0.2419, indicating that the variation in the *SIZE* data is relatively low, as it is below 1.00. In addition, the average *SG* value is 0.2419, with a standard deviation of 0.3192, which is greater than the mean value, indicating that the *SG* variable data fluctuation is relatively higher than that of *SIZE*. The lowest *IO* value is 0.0000, and the highest is 0.8380, with

Table 2. Descriptive statistics

	Mean	Median	Maximum	Minimum	Std. Dev.
Corporate characteristic					
DAR	0.5394	0.4610	16.440	0.0010	2.7294
DER	1.1438	0.8690	38.783	-19.088	1.6301
PBV	2.5735	1.6900	42.250	-10.178	3.7013
TANG	0.3957	0.2710	17.685	0.0000	0.7164
SIZE	18.804	17.165	29.770	0.8205	4.5497
SG	0.2419	0.2070	3.6460	-0.912	0.3192
IO	0.6448	0.6500	0.8380	0.0000	0.2011
MO	0.0354	0.0000	0.3108	0.0000	0.1155
Macro-risk					
JCI	8.3231	8.3701	8.7571	7.2682	0.3140
BIR	6.4097	6.5000	7.7500	4.2500	1.0107
FX	9.3078	9.3401	9.5747	9.0553	0.1699
GDP	8.4261	8.2584	9.9487	7.7698	0.5377
INF	0.0513	0.0453	0.0840	0.0278	0.0172

a coefficient of variation of 0.3118, indicating that the data fluctuation is relatively low, as it is below 1.00. The last variable, MO, has the lowest value of 0.0000 and the highest at 0.3108, with a coefficient of variation of 3.2627. These findings show that OM data fluctuations are relatively higher than IO.

3.1. Panel data model estimation

This study tested several hypotheses by using three data panel regression models to explain the effect of corporate specification and ownership on the earnings information of large firms. The results of each model analysis reveal three methods, namely, CEM, FEM, and REM, which exhibit interesting effects and require further testing to determine

the most effective model among the three. Finally, a regression model that looked the most sensible from theoretical and statistical viewpoints is FEM. Table 3 presents the results of Model 1, in which nearly all variables conform to the hypothesis. Three variables – tangibility, institutional ownership, and managerial ownership – have an insignificant effect on earnings information among the eight independent variables. In comparison, the other five variables – leverage (DAR +, DER-), market ratio (+), firm size (-), and sales growth (+) – have a significant effect at $\alpha = 5\%$ and $\alpha = 10\%$. According to Model 1, we can explain approximately 48.88% of the variation in earnings information, while the remaining 51.12% could not be explained (see Table 3).

Table 3. Panel data estimation

Variables	Predicted	Model 1		Model 2		Model 3	
		Coeff.	Prob.	Coeff.	Prob.	Coeff.	Prob.
DAR	+/-	0.1272	0.0003	0.1572	0.0000	0.1552	0.0000
DER	+/-	-0.0129	0.0108	-0.0115	0.0121	-0.0122	0.0108
PBV	+	0.0034	0.0704*	0.0019	0.0654*	0.0024	0.0684*
TANG	+	-0.0172	0.2234	-0.0272	0.1834	-0.0172	0.3914
SIZE	+/-	-0.0056	0.0727*	-0.0088	0.0837*	-0.0056	0.0657*
SG	+	0.0314	0.0701*	0.0658	0.0605*	1.2658	0.0556*
IO	+	1.2658	0.0000	0.1727	0.1556	0.1427	0.1626
MO	+	0.4270	0.1736	0.0484	0.1421	0.0314	0.16601
Controlling							
BIR	-			-0.0014	0.8461	-0.0085	0.5363
FX	-			-0.0948	0.0101	-0.0780	0.0238
JCI	+			0.0188	0.0898*	0.0023	0.0116
GDP	+			0.0111	0.0627*	0.0116	0.0559*
INF	-			-0.2938	0.4694	-0.2865	0.3996
Moderating							
DAR*Size	+/-					0.1892	0.0003
DER*Size	+/-					-0.0209	0.0006
PBV*Size	+					0.0085	0.0630*
TANG*Size	+					-0.0225	0.0628*
SG*Size	+					0.0662	0.0467
IO*Size	+					0.2086	0.0836*
MO*Size	+					0.0598	0.1072
C		1.8729	0.0000	1.8729	0.0000	0.7882	0.0291
R ²		0.4881		0.6682		0.6339	
R ² adj.		0.5835		0.5798		0.5422	
F-Statistic		331.430		367.27		373.63	
Prob F-Stat		0.0000		0.0000		0.0000	
Durbin-Watson statistic		1.9537		2.2216		2.3687	

Note: Table 3 covers the period from 2013 to 2023 on a quarterly basis and includes the Kompas-100 index in IDX. The missing data of financial statements or not applicable observations were excluded. ROA is the dependent variable (proxy: profitability); DAR is the debt-to-asset ratio; DER is the debt-to-equity ratio; PBV is the price-to-book value (proxy: market ratio); TANG is the tangibility; SIZE is firm size (in log natural); SG is the sales growth (proxy: business prospect), ownership variables are IO and MO (institutional and managerial ownership, respectively). This model included macroeconomic risk variables, such as the BI rate, Foreign Exchange (USD-IDR), Stock market index, GDP, and inflation rate (control variables), and was re-estimated with the moderating role of firm size on corporate specification and ownership.

Table 3 presents the Model 2 regression results, which control for macro-risk variables, including the BI rate, foreign exchange, market performance, economic growth, and inflation rate. These control variables, especially some macroeconomic indicators, are commonly found in the previous literature. In general, the results are not significantly different from those of Model 1, but controlling for macro-risk weakens the influence of corporate specifications on profitability. Moving on to the macroeconomic indicators, the following variables were key in determining profitability. First, forex (-), market performance (+), and economic growth (+) significantly influence earnings information ($p < 0.05$, $p < 0.10$, $p < 0.10$, respectively). Other macroeconomic risk variables, including the BI rate and inflation, have an insignificant impact.

Panel Model 3 includes the moderating role of the interaction between firm size and leverage, as well as the market ratio. Table 3 presents the analysis of the influence of corporate specification, macro-risk indicators as controlling variables, and the moderating role of firm size on profitability. The results show that the leverage hypothesis, which states that leverage has a positive or negative influence on profitability, is supported ($p < .01$ and $p < .01$, respectively). Furthermore, PBV (+), firm size (-), and sales growth (+) are consistent with the significant result ($p < 0.10$). On the other hand, tangibility and ownership (IO and MO) are not supported because their coefficients are not significant in either model. Finally, the controlling variables yield the same result as Model 2, indicating that Forex, JCI, and GDP significantly affect profitability; however, BI and inflation are insignificant. These findings align with the influence of some of the macro-risk determinants identified in the results, as discussed earlier. In short, the interaction between corporate specification and firm size shows a significant strengthening where all moderated variables are substantial, including tangibility, institutional ownership, and managerial ownership.

According to the Likelihood test, the Chow test, and the Hausman test, the FEM model is found to be better than CEM and REM.

4. DISCUSSION

The results show that the first and second hypotheses (H1 and H2) state that the capital structure, using DAR and DER proxies, affects profitability positively and negatively, respectively, in Model 1 (see Table 3; $p < 0.01$ and $p < 0.01$). Contrary to expectation, Hypothesis 2 predicts a positive influence of earning information. Based on the research results of Model 2, which included macro-risk as a controlling variable in the panel analysis, the obtained data panel coefficient values for the DAR and DER variables had a significance value of $\alpha = 1\%$ (see Table 3). Thus, DAR has a coefficient value that is more economically influential than DER; additionally, the two coefficients show opposite directions. Thus, DAR has a positive effect on profitability, whereas DER has a negative one. Model 3, which added a moderating firm size interaction with DAR and DER, presents a strengthened result. Refer to several previous studies that have shown a negative correlation between leverage and profitability (Santosa, 2020a). However, Albart et al. (2020) and Bui et al. (2020) demonstrate that DAR is positively correlated with profitability. These findings are consistent with studies suggesting that the relationship between leverage and profitability may negatively or positively depend on the target of optimal leverage, tax position, financial flexibility, and business risk.

The third hypothesis states that the market ratio, as a proxy for price-to-book value, positively affects profitability with a significance level of $\alpha = 1\%$ in Model 1 and Model 2, respectively (see Table 3): FEM. Then, the third hypothesis, which states that PBV has a positive and significant effect on profitability, regardless of whether macro-risk is controlled or not, is accepted. Model 1 and Model 2 align with Model 3, which shows the interaction between firm size, leverage, and market ratio. These findings are supported by studies suggesting that the market ratio has a positive relationship with earnings information (Ross et al., 2017). These results are consistent with the conclusions of Albart et al. (2020), stating that the relationship between PBV and profitability is positive and significant. This finding is also supported by Santosa (2020b), who states that market ratios are positively related to profitability and firm value, as they are important considerations for investors.

This result suggests that the market perceives corporate financial figures as more credible, but such ratios are opportunistic; therefore, the market responds positively to corporate earnings information (Fuertes-Callén & Cuellar-Fernández, 2019).

The fourth hypothesis states that tangibility has a positive effect on profitability, but the results show the opposite. That hypothesis is not supported, as there is no statistically significant association between tangibility and profitability ($p > 0.05$; $p > 0.10$). Its three models suggest that the market does not discount firms with high fixed assets. This finding is not in line with the conclusion of Santosa, (2020b), which states that an increase in firm assets has a positive influence on profitability. Muktadir-Al-Mukit & Keyamoni (2019) do not support our finding because it was conducted during a period of economic crisis in Bangladesh. This finding may be due to the nature of tangibility, which encompasses all types of assets, including current assets and intangible assets that may be perceived negatively, as well as receivables that signify an increase in earning information and market confidence in the collection. Conversely, firms whose current assets are primarily in accounts receivable and inventories, whose value depends on the sustainability of corporate profitability, are less dependent on long-term financing and more dependent on short-term financing (Yoo & Wu, 2019; Santosa, 2020b).

The fifth hypothesis states that firm size has a positive or negative impact on company profitability, depending on the firm's business risk and activity. These results indicate that firm size harms profitability and is statistically significant ($p < 0.10$). The results of this study are not in line with those of Muktadir-Al-Mukit and Keyamoni (2019) and Dao and Ngo (2020), which suggest that firm size is positively related to profitability in the context of earnings management. The increasing firm size has the potential to enhance revenue through business opportunities, improved firm reputation, increased brand equity, diversification, and enhanced investor trust. However, if a firm does not operate efficiently and manage its assets effectively to generate revenue, it will negatively impact its profitability. These results suggest that the firm size used to generate sales is not optimal for enhancing the profitability of listed firms due to lower asset turnover (Santosa, 2020b).

The sixth hypothesis states that business prospects affect profitability positively, and the results show that this hypothesis is supported, as there is a statistically significant association between sales growth (as a proxy for business prospects) and profitability ($p < 0.01$) in its three models. Business prospects have a positive effect on company profitability. These findings align with some conclusions from previous studies, such as those by Santosa (2020c) and Reniati (2020). The increase in sales growth will enhance a company's potential net profit and EPS, provided it can effectively manage operational efficiency. According to Santosa (2020a), sales growth and increased receivables represent the reallocated resources of a firm, namely operating and non-operating resources that have been allocated from operational activities. For example, non-operational receivables may arise from non-operating activities, such as loans or the sale of goods and services.

Consequently, receivables generated from the sale of goods and services are viewed as part of a firm's normal operating activities. In contrast, other receivables are non-operational and are often used opportunistically. Therefore, the efficiency and operational effects of business prospects may complement each other, leading to significant results.

The seventh and eighth hypotheses state that institutional ownership and managerial ownership have a positive effect on profitability. Based on the results of Model 1, the regression coefficient for institutional ownership (IO) is significant at $\alpha = 1\%$ and for managerial ownership (MO) at $\alpha = 10\%$. Model 2 yields different results, where IO is statistically significant at $\alpha = 10\%$, and MO is insignificant after controlling for macro-risk indicators. The two kinds of block-holder proxies show results under the hypothesis. Still, they have a different significance level, where the effect of IO is stronger than MO, and perhaps IO exerts an influence on management to implement corporate governance effectively and adequately address its investment interests (Alanazi, 2019). On the other hand, MO impacts increasing efficiency, resulting in higher net profit and EPS expectations for the future. This finding follows some previous research that states that block-holder ownership tends to be optimistic for the company's financial performance (Kotey et al., 2020; Reniati, 2020).

The results show that the last hypothesis is supported, as there is a statistically significant correlation between foreign exchange (Forex), market index (JCI), and GDP with profitability ($p < 0.01$; $p < 0.10$; $p < 0.10$), suggesting that the macro-risk indicators do influence the fundamentals of firms. On the other hand, some variables, such as the BI rate and inflation, are insignificant. Increases in foreign exchange rates will hurt company profits because they increase the interest-bearing costs for foreign debt and the prices of imported raw mate-

rials and goods on a U.S. dollar basis. Meanwhile, the increase in the market index (JCI) and GDP positively correlates with company profitability. An increase in net profit will lead to higher EPS, a higher stock price, and a higher market index. Likewise, improved economic growth will positively impact sales and overall company profitability. Panel analysis indicates that all predictions and hypotheses align with several previous studies, including those by Albart et al. (2020) and Santosa et al. (2022).

CONCLUSION

Iterative research yielded the best models for corporate specifications, including regulating and moderating variables. Our best model was statistically and theoretically sound. The study examined how debt policy, firm characteristics, and the ownership of institutional and management shares affect the profitability of IDX Kompas-100 firms, which have experienced sustained economic growth in Indonesia. One of many intriguing discoveries from research and discussion is the negative correlation between debt policy and the DER proxy. It positively corresponds with DAR. Although they are used similarly, DAR and DER proxies are distinct. This study found that market ratios, reliability, firm size, and business prospects affect profitability. The market ratio has a small but significant positive correlation. Market ratios have a significant impact on profitability, according to the data. Fixed asset modifications do not significantly affect firm earnings since tangibility has a small and negative relationship with profitability. Firm size and profitability are negatively connected and inconsequential, like tangibility.

The relationship between business prospects, sales growth proxies, and profitability was strong, indicating that sales growth is a key driver of profitability. Investors and managers focus on market ratios and business prospects. Another noteworthy relationship is institutional ownership of management. Both aspects boost profitability to differing degrees. Management ownership is less important than institutional ownership. Shareholders and management gain from ownership as a control variable, which affects firm profits. Future profitability in emerging capital markets, such as Indonesia, depends on these two factors. After controlling for variables, the BI rate and inflation have a minimal impact on firm profitability. Forex and GDP growth can boost or hurt corporate profits. GDP growth and Forex rises will enhance USD CPI and import prices. Business sales and earnings increase with economic growth. Macro-risk on profitability mitigates corporate specification and ownership, especially management ownership. We recognize that macroeconomic indicators enable firms to make informed decisions. Robustness experiments reveal that firm size moderates debt, market ratio, and profitability (positive and negative). These results suggest that additional firm-specific features may explain the dependent variables rather than being the primary influence. Firm-specific issues, such as audit quality and political connections, may be studied.

RESEARCH LIMITATIONS

This study has several limitations, namely, using samples only for the Kompas-100 index listed on the IDX and not considering the results. Secondly, the data set used is limited in terms of both the number of samples and the study period, and third, the use of limited variables. Furthermore, this study can be developed using both the sample and the dataset, as well as analytical methods such as the GMM panel data. It could consider other firm-specific factors, such as audit quality and political connections.

AVENUE FOR FUTURE RESEARCH

Furthermore, this study can be developed using both the sample and dataset, as well as analytical methods such as the GMM panel data. It could also consider other firm-specific factors, such as intellectual capital, audit quality, and political connections.

AUTHOR CONTRIBUTIONS

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