



Factors Influencing Profit Growth in Basic and Chemical Industry Companies

Lucyanna Yosephine Simangunsong^{1*}, Dinita Hemalli Premasari Purba^{2*}, Duma Rahel Situmorang³

^{1,2,3}Accounting Study Program, Faculty of Economics, Indonesia Methodist University

*lucyannayosephine46@gmail.com

Abstract

This research examines and analyzes the influence of Net Profit Margin (NPM), Total Asset Turnover (TATO), and Current Ratio (CR) on profit growth among companies in the basic materials and chemical sectors listed on the Indonesia Stock Exchange. The sample selection employed purposive sampling from 74 companies, resulting in 32 samples that satisfied the research criteria. The independent variables comprise NPM, TATO, and CR, while the dependent variable is profit growth. Partial testing results (t-test) reveal that NPM exerts a positive and significant influence on profit growth, whereas TATO and CR demonstrate positive but insignificant effects. Simultaneous testing results (F-test) indicate that NPM, TATO, and CR collectively exert a significant influence on profit growth. The Coefficient of Determination Test (R^2) yields a value of 0.103, or 10.3%, signifying that NPM, TATO, and CR explain 10.3% of the variance in profit growth, while the remaining 89.7% is attributable to other variables outside the research model.

Keywords: *Net Profit Margin, Total Asset Turnover, Current Ratio, Profit Growth*

Introduction

Indonesia's rapidly evolving business landscape has intensified competitive pressures, compelling enterprises to achieve operational efficiencies to ensure long-term profitability. Within such a volatile economic environment, organizations that demonstrate adaptability to shifts in demand, cost structures, and competitive dynamics are more likely to survive and flourish. Among the most critical indicators of corporate success is profit growth—the firm's capability to enhance its net income progressively over time. Sustainable profit growth not only reinforces a company's financial foundation but also enhances investor confidence in its long-term prospects (Suherman & Sofiani, 2024).

When evaluating financial performance, researchers commonly examine three fundamental ratios: Net Profit Margin (NPM), Total Asset Turnover (TATO), and Current Ratio (CR). First, Net Profit Margin—representing the ratio of net income to revenue—measures how effectively an organization converts sales into bottom-line earnings after accounting for interest and taxes. A higher margin typically indicates efficient cost management and robust revenue conversion, enabling firms to reinvest profits into expansion or innovation (Rahman et al., 2023; Suherman & Sofiani, 2024). Empirical evidence further supports the positive relationship between NPM and corporate growth among Indonesian publicly listed companies.

Second, Total Asset Turnover assesses how efficiently a company utilizes its total assets to generate sales, expressed as the sales-to-asset ratio. A higher TATO suggests that the organization is deploying its asset base productively, which translates into enhanced profitability and greater profit growth potential (Nguyen & Tran, 2022; Lero et al., 2024). Recent Indonesian studies demonstrate that TATO correlates positively with financial performance, although its impact on profit growth may vary depending on contextual and sector-specific factors (Yantri & Merliana, 2024; Layli & Firmansyah, 2025).

Third, the Current Ratio evaluates short-term liquidity—the firm's capacity to utilize current assets to settle current liabilities. Adequate liquidity facilitates operational continuity, enabling firms to fulfill payment obligations, sustain production, and mitigate insolvency risks, thereby indirectly supporting profitability growth.



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(Alfiandi & Supadmi, 2024; Khalid & Akhtar, 2023). Empirical findings suggest that while robust liquidity is essential, its impact on profit growth may be less consistent compared to profitability or asset utilization metrics (Yantri & Merliana, 2024; Hidayah & Santosa, 2022).

Collectively, NPM, TATO, and CR provide an integrated perspective on a firm's financial health encompassing profitability, asset efficiency, and liquidity. Organizations that maintain high margins (NPM), efficiently deploy their asset base (TATO), and retain sufficient liquidity (CR) are better positioned to generate and sustain profit growth—a critical success factor in Indonesia's increasingly dynamic market environment.

By examining these ratios collectively and linking them to profit growth, managers and investors obtain deeper insights into which companies are likely to thrive rather than merely survive in an increasingly dynamic economic landscape.

Literature Review

Signal Theory

Signal Theory underscores the strategic significance of corporate information disclosure, as information asymmetry between management and investors can substantially influence market perceptions and decision-making processes. Firms transmit various signals—including profitability ratios, liquidity levels, and growth performance metrics—to communicate their financial health and managerial competence. According to Friske, Hoelscher, and Nikolov (2022), voluntary disclosure, encompassing sustainability or ESG reports, functions as a credible signal that reduces information asymmetry and strengthens investor trust. Similarly, transparent and visually accessible non-financial reports serve as powerful legitimacy signals that mitigate stakeholder uncertainty and enhance corporate reputation (Zhang & Kim, 2024). When a company demonstrates improved performance—reflected through profitability, liquidity, or asset efficiency—it transmits a positive market signal, attracting investors, enhancing market valuation, and supporting sustainable profit growth (Rahman et al., 2023).

Profit Growth

Profit growth represents a firm's capacity to increase its net income over time and serves as a fundamental indicator of managerial effectiveness and financial sustainability. Consistent profit growth signals that the organization can adapt effectively to market dynamics and maintain competitive advantage (Suherman & Sofiani, 2024). A positive and stable profit trajectory not only increases investor confidence but also strengthens firm valuation and long-term viability (Lero et al., 2024). Empirical research confirms that firms demonstrating steady profit growth tend to attract greater capital inflows and exhibit enhanced resilience to market volatility (Ahmed & Mahmud, 2023).

Net Profit Margin (NPM)

Net Profit Margin quantifies how efficiently a company transforms revenue into net profit after deducting taxes and interest expenses. A higher NPM reflects effective cost management, operational efficiency, and improved financial health—factors that collectively enhance investor confidence and corporate valuation. Fazria et al. (2023) documented that NPM significantly influences firm performance, particularly within consumer goods industries, as it directly reflects managerial effectiveness in profit generation. Similarly, research by Abidin and Hossain (2022) revealed that firms with higher NPM possess greater capacity to reinvest earnings into productive ventures, driving consistent profit growth and long-term sustainability. Consequently, maintaining a robust NPM is crucial for ensuring financial flexibility and competitive advantage.

Total Asset Turnover (TATO)

Total Asset Turnover evaluates how effectively a company leverages its assets to generate sales revenue. A higher TATO indicates optimal asset utilization and efficient resource management, resulting in stronger profitability and sustainable profit expansion. Nguyen and Tran (2022) emphasized that firms demonstrating efficient asset management are better positioned to achieve superior financial outcomes, as each unit of asset



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contributes proportionally to revenue growth. Conversely, low TATO values often signal asset underutilization or suboptimal operational coordination, which may constrain profit generation. Recent studies, including those by Lero et al. (2024), highlight that TATO, when aligned with cost leadership and innovation strategies, serves as a vital driver of corporate growth and shareholder value creation.

Current Ratio (CR)

The Current Ratio measures a company's short-term liquidity and its capability to meet current liabilities using current assets. Adequate liquidity ensures operational stability, enabling firms to maintain production, fulfill obligations punctually, and preserve investor confidence. However, excessively high liquidity may indicate inefficient capital allocation or underutilized resources (Khalid & Akhtar, 2023). According to Alfandi and Supadmi (2024), maintaining an optimal liquidity level is essential for supporting business continuity and profitability without compromising investment efficiency. Hapsari et al. (2024) also determined that balanced liquidity enhances organizational resilience and positively moderates the relationship between profitability and firm performance, ultimately fostering long-term profit growth.

Hypothesis Development

The Effect of Net Profit Margin (NPM) on Profit Growth

Net Profit Margin (NPM) represents a firm's ability to convert revenue into net profit after accounting for all operational expenses, interest, and taxes. A higher NPM signifies superior cost management, operational efficiency, and stronger financial performance. Firms with high profitability can finance operations internally, reducing dependence on external debt and fostering long-term growth (Rahman et al., 2023). According to Suherman and Sofiani (2024), profitability ratios such as NPM serve as critical determinants of profit growth, particularly in manufacturing firms where operational efficiency directly influences earnings performance. Furthermore, Abidin and Hossain (2022) demonstrated that companies maintaining elevated NPM values tend to exhibit sustainable profit expansion, as retained earnings are reinvested into productive projects that enhance competitiveness. Likewise, Fazria et al. (2023) confirmed that NPM significantly drives performance improvement in consumer goods industries, reinforcing the positive association between profit margin and growth outcomes.

Therefore, it can be hypothesized that companies with higher NPM will achieve stronger profit growth, as effective cost management and revenue efficiency enhance profitability and sustainability.

H₁: Net Profit Margin (NPM) has a positive and significant effect on Profit Growth.

The Effect of Total Asset Turnover (TATO) on Profit Growth

Total Asset Turnover (TATO) quantifies how efficiently a company utilizes its assets to generate revenue. A high TATO indicates effective deployment of company resources and asset management, leading to enhanced operational productivity and profitability. Nguyen and Tran (2022) emphasized that efficient asset utilization constitutes a key factor in improving profitability and sustaining financial performance among ASEAN firms. Similarly, Lero et al. (2024) discovered that higher asset turnover ratios correlate positively with profit growth, as efficient asset cycles enhance cash flow generation, shorten payback periods, and increase earnings stability. Moreover, Rahman et al. (2023) highlighted that firms demonstrating superior resource efficiency are better equipped to transform operational inputs into financial outcomes, which ultimately accelerates profit growth. In contrast, low TATO values frequently indicate idle or underutilized assets, which can diminish profitability potential.

Therefore, firms with optimal asset utilization are expected to experience higher profit growth attributable to enhanced operational efficiency and revenue generation capacity.

H₂: Total Asset Turnover (TATO) has a positive and significant effect on Profit Growth.

The Effect of Current Ratio (CR) on Profit Growth

The Current Ratio (CR) represents a firm's liquidity position and its ability to satisfy short-term liabilities using current assets. Maintaining adequate liquidity ensures uninterrupted operations, minimizes financial distress, and supports sustainable profitability. Khalid and Akhtar (2023) revealed that optimal liquidity management positively influences profitability and reduces risk exposure in manufacturing enterprises. Similarly, Alfiandi and Supadmi (2024) found that a well-balanced CR contributes significantly to firm performance by ensuring sufficient working capital for operational activities.

Hapsari et al. (2024) further demonstrated that liquidity moderates the relationship between profitability and firm value, indicating that firms maintaining balanced liquidity ratios exhibit greater resilience to external shocks. However, both extremes—excessively high or low CR—can prove detrimental: excessive liquidity may signal inefficient asset deployment, while insufficient liquidity can disrupt daily operations and impede profit generation.

Thus, maintaining a balanced liquidity level supports continuous operations, enhances financial stability, and fosters consistent profit growth.

H₃: Current Ratio (CR) has a positive and significant effect on Profit Growth.

The Simultaneous Effect of NPM, TATO, and CR on Profit Growth

Financial performance represents a multidimensional concept that depends upon the interplay among profitability, efficiency, and liquidity. When these three indicators—NPM, TATO, and CR—are managed effectively, they collectively reflect robust financial health and operational excellence. Rahman et al. (2023) and Suherman and Sofiani (2024) noted that strong profitability (NPM), efficient asset utilization (TATO), and adequate liquidity (CR) jointly enhance firm competitiveness, financial resilience, and profit sustainability.

Empirical studies by Lero et al. (2024) and Hapsari et al. (2024) further support the premise that the integration of profitability, efficiency, and liquidity indicators explains a substantial portion of variance in profit growth, as firms benefit from both operational synergy and financial flexibility.

Consequently, the combined effect of NPM, TATO, and CR is expected to produce a stronger and more stable impact on profit growth than any single financial ratio in isolation.

H₄: Net Profit Margin (NPM), Total Asset Turnover (TATO), and Current Ratio (CR) simultaneously have a positive and significant effect on Profit Growth.

Methods

This study employs a quantitative approach utilizing secondary data obtained from the Indonesia Stock Exchange (IDX) website, examining companies in the basic materials and chemical industry sector throughout the 2019-2023 period. The research population comprised 74 companies spanning eight sub-sectors, from which a purposive sample of 32 firms was selected, yielding 160 firm-year observations. Analysis was conducted using multiple linear regression, expressed by the model:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

where Y represents Profit Growth and X_1 , X_2 , X_3 denote Net Profit Margin, Total Asset Turnover, and Current Ratio respectively. The statistical tests employed include the t-test for assessing individual variable effects, the F-test for evaluating joint significance, and the coefficient of determination (R^2) to measure the explanatory power of the model (Hung & Viriany, 2023).

Results and Discussion

Multiple Linear Regression Analysis

Table 1. Results of Multiple Linear Regression Analysis

		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	-33.183	11.598		-2.861	.005
	NPM	2.615	.715	.322	3.658	.000
	TATO	.105	.094	.097	1.111	.269
	CR	.000	.012	-.004	-.041	.968

Source: Processed SPSS Data (2025)

The regression equation obtained is as follows:

$$\text{Profit Growth} = -33.183 + 2.615(\text{NPM}) + 0.105(\text{TATO}) + 0.000(\text{CR}) + \varepsilon$$

Based on the regression model, the influence of each variable on profit growth can be interpreted as follows:

1. The constant value of -33.183 indicates that if all independent variables (NPM, TATO, and CR) are assumed to be zero, the company's profit growth would decrease by 33.183 units.
2. The Net Profit Margin ($\beta_1 = 2.615$) has a positive relationship with profit growth. This implies that for every 1% increase in NPM, the company's profit growth rises by 2.615%, whereas a 1% decrease in NPM would lead to a 2.615% decline in profit growth.
3. The Total Asset Turnover ($\beta_2 = 0.105$) also shows a positive influence on profit growth. Thus, a 1% increase in TATO contributes to a 0.105% rise in profit growth, while a 1% decline in TATO results in a 0.105% decrease in profit growth.
4. The Current Ratio ($\beta_3 = 0.000$) has a very small positive effect on profit growth. This means that changes in CR produce negligible variations in profit growth, indicating that liquidity, as measured by the Current Ratio, does not substantially influence profit growth within the observed firms.

Hypothesis Testing

Partial Significance Test (t-test)

Table 2. Results of the Partial Significance Test

		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	-33.183	11.598		-2.861	.005
	NPM	2.615	.715	.322	3.658	.000
	TATO	.105	.094	.097	1.111	.269
	CR	.000	.012	-.004	-.041	.968

Source: Processed SPSS Data (2025)

1. Based on the *t*-test results for Net Profit Margin (NPM), the *t*-value of 3.658 exceeds the *t*-table value of 1.97976, with a significance level of $0.000 < 0.05$. This indicates that Net Profit Margin has a positive and significant effect on Profit Growth.
2. The *t*-test results for Total Asset Turnover (TATO) show a *t*-value of 1.111, which is lower than the *t*-table value of 1.97976, and a significance level of $0.269 > 0.05$. Therefore, it can be concluded that Total Asset Turnover does not have a significant effect on Profit Growth.

3. The t -test results for the Current Ratio (CR) reveal a t -value of -0.041 , which is smaller than the t -table value of 1.97976 , and a significance level of $0.968 > 0.05$. Consequently, the Current Ratio has no significant effect on Profit Growth.

Simultaneous Significance Test (F-Test)

Table 3. Results of the Simultaneous Significance Test

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	29408.903	3	9802.968	4.629	.004 ^b
	Residual	256224.494	121	2117.558		
	Total	285633.398	124			

Source: Processed SPSS Data (2025)

The results indicate that the calculated F-value is 4.629 with a significance level of 0.004 . Since the significance value (0.004) is lower than the 0.05 threshold, it can be concluded that the independent variables — Net Profit Margin (NPM), Total Asset Turnover (TATO), and Current Ratio (CR) — collectively have a significant influence on Profit Growth. This finding suggests that the model is statistically valid and that the combined effect of these variables contributes meaningfully to variations in profit growth.

Coefficient of Determination Test (R^2)

Table 4. Results of the Coefficient of Determination Test

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.321 ^a	.103	.081	46.01693	1.939

Source: Processed SPSS Data (2025)

The results show that the adjusted R-square value is 0.081 , indicating that 8.1% of the variation in Profit Growth can be explained by the independent variables NPM, TATO, and CR. Meanwhile, the remaining 91.9% of the variation is influenced by other factors not included in this model. This relatively low R^2 value implies that, although the tested variables have a simultaneous effect, other external or internal factors may play a more dominant role in determining profit growth within the observed firms.

The Effect of Net Profit Margin on Profit Growth

The empirical results reveal that an elevated Net Profit Margin (NPM) is significantly associated with higher profit growth. This suggests that a firm's capacity to convert revenue into net income—after accounting for costs, taxes, and interest—is a fundamental driver of profit expansion. A robust NPM indicates operational excellence and effective cost controls, which increase internal funds available for reinvestment, thereby enabling sustained growth. Moreover, a high margin sends a positive signal to the market and to investors about the firm's efficiency and financial health, which may lead to increased capital inflows and further support profit growth (Rahman et al., 2023).

The significance of this relationship aligns with prior findings that link profitability ratios directly with firm growth. For instance, studies in emerging markets have shown that firms achieving higher NPM values tend to exhibit stronger growth trajectories, as they are less reliant on external financing and more capable of self-funded expansion (Abidin & Hossain, 2022; Fazria et al., 2023). These findings resonate with signal-theory



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logic: when a firm reports strong margins, it sends a credible signal of managerial competence and stability, reducing information asymmetry (Friske, Hoelscher & Nikolov, 2022).

However, while the positive effect is evident, one must consider that margin alone may not fully capture all growth dynamics. External conditions (market demand, competitive pressure), investment opportunities, and cost structure also mediate how NPM translates into growth. Thus, although our result for NPM is compelling, it suggests under the surface that margin must be complemented by strategic reinvestment and favourable external context to yield sustained profit growth.

The Effect of Total Asset Turnover on Profit Growth

The analysis shows that while the coefficient on Total Asset Turnover (TATO) is positive (0.105), it is not statistically significant ($\text{sig} = 0.269$). In practical terms, this indicates that although firms with higher asset turnover appear to generate somewhat greater sales per unit of assets, this does not convincingly translate into statistically meaningful profit growth. The result implies that efficient asset turnover alone may not be sufficient to drive profit growth unless the sales generated translate into net income after cost, tax, and interest burdens.

This outcome aligns with literature showing mixed findings for asset turnover's impact on profit growth. Some researchers observe a positive but weak or insignificant relationship, particularly in contexts where high turnover is paired with high operating costs or under-utilized assets (Sisharini, 2024; Hung & Viriany, 2023). For example, if assets generate revenue but the cost structure is inefficient or margins are compressed, the benefit of asset turnover on profit growth may not materialize fully.

Therefore, while TATO represents an important efficiency measure, its power to drive profit growth depends on complementary factors — such as cost management, product mix, asset quality, and investment in productive capacity. In this way, our result underscores that optimizing asset utilization is necessary but not sufficient; firms must also ensure that asset-driven sales convert into profit.

The Effect of Current Ratio on Profit Growth

The Current Ratio (CR) in our model shows a positive but statistically insignificant coefficient (0.000; $\text{sig} = 0.968$). This suggests that maintaining adequate short-term liquidity does not automatically lead to increased profit growth in the sample context. Operationally, while a firm's ability to meet short-term obligations is important for ensuring business continuity, liquidity per se does not guarantee that the extra assets or working capital are employed in revenue-generating or profit-enhancing ways.

Several studies corroborate this finding—that liquidity in isolation may not significantly drive profit growth. For instance, research in automotive and manufacturing sectors found that while current ratio maintained stability, its direct effect on growth was limited or insignificant (Sisharini, 2024; Hung & Viriany, 2023). This suggests that high liquidity may even signal idle resources or conservative management, which might limit growth potential if funds are not actively deployed.

In practical terms, this implies that firms should not focus solely on strengthening liquidity but should balance it with productive investment and return-oriented asset deployment. Liquidity is a foundational support but must be paired with efficiency, innovation, and strategic growth initiatives to translate into profit growth.

The Combined Effect of NPM, TATO and CR on Profit Growth

The simultaneous (F-test) results confirm that the three variables—NPM, TATO, and CR—jointly have a statistically significant effect on profit growth ($\text{sig} = 0.004 < 0.05$). This indicates that the combination of profitability, efficiency, and liquidity measures contributes meaningfully to explaining variations in profit growth. However, the adjusted R^2 of only 0.081 (8.1%) shows that while the model is statistically valid, the collective explanatory power of these three variables is quite limited; roughly 91.9% of the variation in profit growth remains attributable to factors outside the model.

This dual finding has important implications: first, it supports the notion that firm performance is multidimensional and that relying on a single financial ratio is insufficient for capturing the complexity of profit growth dynamics. Similar multi-ratio studies (Hung & Viriany, 2023; Sugiarta et al., 2025) emphasize the

interplay of profitability, asset efficiency, liquidity and additional variables (such as innovation, market growth, managerial capability).

Second, the low explanatory power suggests that other determinants—such as macroeconomic conditions, industry competition, managerial decisions, technological innovation, market diversification, ESG integration, and external shocks—play major roles in driving profit growth. Future research and practitioners should thus adopt broader models that include internal and external variables beyond traditional financial ratios to capture the full picture of growth drivers.

Conclusions and Suggestions

Conclusions

1. The Net Profit Margin (NPM) variable has been empirically proven to exert a positive and statistically significant influence on the company's profit growth. This result confirms that higher profitability ratios, which reflect a firm's efficiency in converting sales into net income, contribute meaningfully to profit expansion. Consequently, Hypothesis 1 (H1) is accepted.
2. The Total Asset Turnover (TATO) variable exhibits a positive but statistically insignificant relationship with profit growth. Although the direction of the effect aligns with theoretical expectations—implying that better asset utilization may enhance profitability—the lack of statistical significance indicates that, within the observed period, asset efficiency did not meaningfully influence profit growth. Therefore, Hypothesis 2 (H2) is rejected.
3. The Current Ratio (CR) also shows a positive yet insignificant effect on profit growth. This finding suggests that while higher liquidity levels may provide firms with the ability to meet short-term obligations, they do not necessarily translate into improved profit performance during the analyzed period. Hence, Hypothesis 3 (H3) is also rejected.
4. Collectively, the three independent variables NPM, TATO, and CR account for only 8.1% of the variation in profit growth, while the remaining 91.9% is attributed to other factors not included in the research model. This indicates that profit growth is influenced by a more complex interplay of financial and non-financial determinants beyond those examined in this study.

Suggestions

1. Future researchers are advised to extend the observation period or select a longer timeframe for example, a study period exceeding five years to strengthen the statistical reliability and enhance the generalizability of the findings. A broader temporal scope would help capture business cycle fluctuations and long-term financial performance trends more accurately.
2. It is recommended that subsequent studies explore different research objects, such as companies from various sectors listed on the Indonesia Stock Exchange (IDX). Conducting cross-sectoral comparisons would allow for a deeper understanding of how industry-specific characteristics influence the determinants of profit growth.
3. Future research should also consider including additional financial indicators as independent variables to obtain a more comprehensive explanation of profit growth. Variables such as Return on Assets (ROA), Working Capital Turnover (WCT), and Cash Ratio (CR) could provide valuable insights into the multidimensional nature of profitability and operational efficiency. Moreover, incorporating macroeconomic or managerial factors such as interest rates, inflation, or corporate governance practices—could further enrich the analysis and offer a more holistic understanding of what drives profit growth in dynamic business environments.



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