



Revenue, Operating Expenses, and Profitability in Assessing Financial Performance in the Manufacturing Industry

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ABSTRACT

This study describes theories related to revenue, operating expenses, and profitability in assessing financial performance in manufacturing companies in Indonesia. Segment reports, which are prepared based on Financial Accounting Standards Statement (PSAK) No. 5, provide important information regarding the contribution of each business unit to financial performance. Segment revenue indicates market potential and competitiveness, while operating expenses play a role in operational efficiency. Profitability is measured through financial ratios such as Return on Assets (ROA) and Net Profit Margin (NPM). The research method used is Systematic Literature Review (SLR) by analyzing ten relevant scientific articles. The results of the study indicate that segment revenue affects financial performance, while high operating expenses have a negative impact. These results provide insight for company management in making strategic decisions and for investors in assessing business prospects based on available segmentation information.

INTRODUCTION

The manufacturing industry is a sector that has a significant contribution to economic growth, both nationally and globally. One important aspect in assessing the performance of a manufacturing company is the segment report, which provides information on revenue, operating expenses, and profitability based on a particular business unit or division within a company (Nurfadhilla et al., 2023)

Segment reports are prepared based on Financial Accounting Standards Statement (PSAK) No. 5, which requires companies to disclose information about operational segments to increase transparency and accountability for stakeholders. This segmentation information is crucial in making investment decisions because it provides a more detailed picture of the contribution of each segment to the company's financial performance (Aji & Panggiarti, 2022).

Revenue, operating expenses, and profitability are the main indicators in segment report analysis. Segment revenue shows the level of sales generated by each business unit, reflecting its market share and competitiveness. Operating expenses, which include production, distribution, and administration costs, are a determining factor in the company's operational efficiency (Widodo et al., 2020). Meanwhile, profitability is the main measure in assessing the effectiveness of management in optimizing resources to generate profits (Winarno et al., 2022).

Previous studies have shown that segment reporting is closely related to a company's business strategy and financial policy. A study conducted by Anggraeni & Arief (2022) found that profitability and operating costs have a direct impact on the financial performance of manufacturing companies listed on the Indonesia Stock Exchange (IDX). In addition, a study conducted on PT Kino Indonesia Tbk revealed that not all segments in the company meet the reporting criteria based on the 10% test set out in PSAK No. 5, so there are still challenges in implementing this standard (Nurfadhilla et al., 2023).

While there are a number of studies that address the relationship between segment reporting and financial performance, there are still some research gaps that need to be filled. First, many studies focus on large companies, while small and medium-sized enterprises (SMEs) in the manufacturing sector have not been studied much in this context. Second, existing studies tend not to consider external factors such as macroeconomic conditions and regulatory impacts that may affect segment performance. Third, there is a need to explore how differences in business strategies between segments can affect segment results and overall financial performance. Fourth, many studies use qualitative methodologies, so more in-depth quantitative analysis is lacking. Fifth, variations in PSAK Implementation where differences in the application of PSAK No. 5 across companies may affect the consistency and accuracy of segment reports.

Based on this background, this study aims to analyze how revenue, operating expenses, and profitability in segment reports affect the financial performance of manufacturing companies in Indonesia. The results of this study are expected to provide insight for companies in managing resources more

effectively, as well as for investors in assessing a company's business prospects based on available segmentation information.

LITERATURE REVIEW

Segment Reports in Manufacturing Industry

Segment reports are part of financial reports that present information related to business units or divisions within a company. According to PSAK 5, segment reports aim to increase transparency and provide a more detailed picture of the financial performance of each operating segment (Wulandari et al., 2024). In a study conducted on PT Kino Indonesia Tbk, it was found that not all segments in the company met the reporting criteria based on the 10% PSAK 5 test, which shows that the implementation of this standard still has challenges (Nurfadhilla et al., 2023). Disclosure of information in segment reports plays an important role in analyzing company performance. Previous studies have shown that larger companies with high public ownership tend to have a wider level of segment disclosure.

The Influence of Income on Financial Performance

Revenue is a key indicator in assessing the performance of a segment. Companies with higher segment revenue tend to have a greater contribution to overall profitability. A study conducted on PT Indofood and PT Unilever showed that segments with the highest revenue tend to have more stable profitability than segments with fluctuating revenue. In addition, segment reports can also help in identifying revenue growth patterns from each business unit.

Operating Expenses and Cost Efficiency in Segment Reports

Operating expenses are one of the most influential factors on the profitability of a segment. High operating expenses can reduce the company's net profit, so efficiency in cost management is important. A study conducted by Widodo et al. (2020) found that operating expenses have a positive and significant effect on profitability with a correlation of 0.886.

In another study, Anggraeni & Arief (2022) highlighted that high operating costs tend to reduce the tax burden, but in the long term can hinder profit growth. Therefore, analysis of segment reports allows companies to identify segments that have a higher level of operational efficiency than other segments.

Profitability as a Financial Performance Indicator

Profitability is one of the main measures in evaluating the success of a business segment in generating profits. Profitability in segment reports can be measured by various financial ratios, such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). Research conducted on PT Pertamina Geothermal Energy shows that segment reports can help in understanding the contribution of each business unit to the company's total profitability (Wulandari et al., 2024).

Relationship between Segment Reports and Managerial Decision Making

Segment reports not only serve as a financial reporting tool but also as a basis for strategic decision making. According to research conducted by Aji & Panggiarti (2022), segment reports can make it easier for management to allocate resources and determine more effective business strategies. In the manufacturing industry, segment information is very useful in determining production, distribution, and investment policies.

METHODOLOGY

In this study, the Systematic Literature Review (SLR) method is used to analyze the effect of revenue, operating expenses, and profitability on financial performance in the manufacturing industry. This SLR method is a research method used by identifying, analyzing, evaluating and interpreting all previous research results obtained by researchers. The findings from previous studies will be reviewed by researchers, by conducting systematic reviews and identification of selected research articles. According to Triandini et al., (2019) the use of the SLR method requires researchers to identify and review various journals that are carried out systematically and using steps in accordance with the use of the SLR method. Luluk Latifah and Iskandar Ritonga, in an article entitled "Systematic Literature Review (SLR): Human Resource Competence for the Development of Islamic Banking in Indonesia", explain that Systematic Literature Review (SLR) is a research method that involves a series of stages, starting from identification, assessment, analysis, to interpreting previous research findings. This method is used to obtain evidence-based answers to questions raised in a study.

In the data collection process, researchers used 10 scientific articles that specifically discussed segment reports and their relationship to revenue, operating expenses, and profitability on the financial performance of manufacturing companies. The articles used were obtained from various national and international journals indexed in reputable academic databases such as Google Scholar, Scopus, ScienceDirect, and DOAJ. The publication period used as a reference in this study was 2020 to 2024, with the aim of ensuring that the data analyzed came from the latest research that was relevant to current developments in the manufacturing industry.

Article selection is carried out through systematic stages. First, researchers conduct a literature search using relevant keywords, such as "Segment Reporting in the Manufacturing Industry", "The Effect of Revenue on Financial Performance", "Operating Expenses and Cost Efficiency", and "Profitability in Segment Reporting". Furthermore, the articles obtained are screened based on the abstract and content of the study to ensure compliance with the focus of the study. Articles that do not have strong relevance to the research variables or do not include clear research methods will be removed from the reference list.

Articles that have passed the selection are then analyzed in depth and tabulated in a table to facilitate mapping of the information obtained. Where the data is analyzed by covering several main components, namely:

1. Name of researcher and year of publication
2. Journal or proceedings sources
3. The research method used in the study

4. Variables studied
5. Key findings of the study

Data analysis was conducted using a narrative synthesis approach, which aims to identify patterns and relationships between variables based on findings from various reviewed studies. In addition, the comparative analysis method was also used to compare the results of each study in order to obtain a more holistic conclusion regarding the impact of segment reports on the financial performance of manufacturing companies.

The results of the literature study conducted in this study will be the basis for evaluating how revenue, operating expenses, and profitability reported in segment reports contribute to the financial performance of manufacturing companies. In addition, this study also aims to identify the extent to which transparency and accountability of segment reports can influence managerial decision making and investment policies. Thus, this study is expected to provide deeper insights for academics, business practitioners, and investors in understanding the importance of segment reporting as the main instrument in analyzing the financial performance of manufacturing companies.

RESEARCH RESULT AND DISCUSSION

Effect of Revenue on Financial Performance

In general, segment revenue has a positive correlation with improving the company's financial performance. The study by Darojah et al. (2022) which examines PT Astra International Tbk shows that a high and stable level of revenue is able to drive the company's profitability as reflected through an increase in ROA, ROE, and NPM ratios. This shows that segments with strong revenue volume can be a major contributor to the company's financial strength. Mike Tri Sukma and Yunilma (2022) also support these findings by stating that segment income has a significant effect on Return on Assets (ROA), indicating that an increase in sales activity from each business unit will have a direct impact on the efficient use of the company's assets.

Operating Expenses and Cost Efficiency

Operating expenses are found to be a variable that has a negative influence on the company's financial performance. Research by Dalawati Jamil et al. (2023) noted that an increase in operating expenses directly decreases ROA, emphasizing the importance of cost efficiency in maintaining the stability of corporate profits. This finding was reinforced by Mike Tri Sukma and Yunilma (2022), who mentioned that uncontrolled operating expenses can lead to cost overruns, which ultimately erode profitability.

Widodo et al. (2020) even found a very strong correlation of 0.886 between cost efficiency and profitability, which is quantitative evidence that control of operational expenses should be a strategic priority in the manufacturing industry.

The Role of Profitability in Financial Performance

Profitability acts as a key indicator in evaluating performance at both the segment and overall company level. Olifia Tala and Herman Karamoy (2017)

found that companies with high profitability tend to engage in earnings management to maintain their financial image. However, this result is contextual, because I Komang Eva Trisma Yasa et al. (2020) show that the effect of profitability on earnings management practices is not absolute and is also influenced by other factors such as leverage and company size.

Relevance of Segment Reports in Decision Making

In addition to looking at the direct influence of quantitative variables, several studies highlight the strategic function of segment reports. Elizabeth Sugiarto Dermawan et al. (2014) found that traceable segment earnings correlate with stock price movements, while untraceable earnings have no meaningful effect. This suggests that investors have more confidence in earnings information that is specific and relevant to a particular business unit.

Rahayu et al. (2016), through a study on Anandia Bakery, also showed that marketing areas with high profit contribution showed efficient performance, reflected by profit margins exceeding 40%. These findings provide evidence that segment reports are not only useful for internal management, but also provide important signals for external stakeholders such as investors.

Compliance with PSAK 5

The regulatory aspect is also an important concern in the results of this study. Research by Cindy Fredicia Putri et al. (2023) on PT Indofood Sukses Makmur Tbk revealed that not all segments of the company meet the 10% materiality threshold as required by PSAK 5, so they are not reported separately. This shows that although PSAK 5 aims to increase transparency, its application is still not consistent across companies.

CONCLUSIONS AND RECOMMENDATIONS

Based on the results of the analysis through the Systematic Literature Review approach to ten relevant journals, it can be concluded that segment reports have a strategic role in assessing and managing the financial performance of manufacturing companies. Segment revenue is proven to have a positive effect on profitability and Return on Assets (ROA), indicating that business units with stable revenues contribute greatly to the company's overall financial performance. Conversely, high operating expenses show a negative effect on financial performance, so that cost efficiency becomes a crucial aspect in maintaining profitability. Profitability itself is the main indicator in segment reports that not only reflects financial success, but also the effectiveness of resource use by each segment. This finding provides important implications for company management to further maximize segment reporting as a basis for strategic decision making, especially in resource allocation, cost planning, and business unit development. For investors, segment information can be used to assess the potential and risks of each business line in more detail, thus supporting more rational investment decision making. Meanwhile, for regulators and policy makers, these results emphasize the importance of strengthening the implementation of PSAK No. 5 consistently so that segment reports truly

represent the company's operational conditions and financial performance in a transparent and accountable manner.

ADVANCED RESEARCH

However, this study has several limitations. First, the number of journals analyzed is limited to ten articles, so the findings may not fully represent the entire existing literature. Second, this study only focuses on the manufacturing sector, which limits the generalizability of the results to other industry sectors. Third, differences in methodology and geographical context within each journal may also affect the consistency and comparability of the findings.

For future research, it is recommended that researchers expand the scope of literature with a larger number of articles and cover various industrial sectors so that the results are more comprehensive. In addition, a quantitative approach with a meta-analysis method can be considered to statistically measure the influence of the variables studied. The use of a wider database and temporal analysis can also provide insight into the development of segment reporting trends over time.

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