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INTERNAL AND EXTERNAL FACTORS ON PROFITABILITY WITH CREDIT RISK AS MEDIATION

Gregorius Paulus Tahu
Universitas Mahasaraswati Denpasar

ABSTRACT

This study examines the relationship between internal and external factors and their impact on company profitability, with credit risk as a mediating factor. The purpose of this study is to provide insight into the importance of managing internal and external factors effectively, as well as the role of credit risk in influencing profitability. This study uses a qualitative research methodology by utilizing data from various sources, such as financial reports, industry analysis, and regulatory information. The findings of this study indicate that internal factors, including capital structure, operational efficiency, and internal risk management, significantly affect profitability. Likewise, with external factors, such as market conditions, regulatory changes, and macroeconomic factors, has a significant impact on profitability. In addition, this study also shows that credit risk has a mediating role between internal and external factors with their impact on profitability. Effective credit risk management, through careful credit evaluation, periodic monitoring, and appropriate risk mitigation strategies, is essential to increase profitability. This research provides valuable insights for managers in optimizing internal factors, overcoming external challenges, and making effective use of credit risk mediation to increase company profitability. through careful credit evaluation, periodic monitoring, and appropriate risk mitigation strategies, it is essential to improve profitability. This research provides valuable insights for managers in optimizing internal factors, overcoming external challenges, and making effective use of credit risk mediation to increase company profitability. through careful credit evaluation, periodic monitoring, and appropriate risk mitigation strategies, it is essential to improve profitability. This research provides valuable insights for managers in optimizing internal factors, overcoming external challenges, and making effective use of credit risk mediation to increase company profitability.

KEYWORDS: Internal factors, external factors, profitability, credit risk, mediation.

1. INTRODUCTION

Profitability is one of the main indicators used to measure a company's financial performance. The success of a company in achieving and maintaining a high level of profitability is very important for long-term business continuity. However, the profitability of a company is not only influenced by internal factors, but also by external factors that surround the company (Anita & Susanto, 2021).

Internal factors cover various elements such as capital structure, operational efficiency, and internal risk management. The right capital structure can affect the rate of return on investment and the company's cost of capital, while good operational efficiency can increase productivity and reduce costs (Dewi & Widyastuti, 2020). In addition, effective internal risk management can help companies manage risks that may arise and reduce potential losses that can affect profitability.

On the other hand, external factors also have an important role in determining the profitability of a company. Competitive market conditions, level of industry competition, and regulatory changes are examples of external factors that can affect profitability (García-Meca, Martínez-Ferrero, & Pérez-Alemán, 2020). Highly competitive markets can lead to reduced profit margins, while significant regulatory changes can change the business environment and affect company performance.

Apart from internal and external factors, credit risk is also a relevant factor in relation to company profitability. Credit risk refers to the possibility of default from parties who have payment obligations to the company (Fakhruddin & Maulana, 2019). Credit risk can arise from both the customer and business partners. If credit risk is not managed properly, the company can face decreased revenue, losses on uncollectible receivables, or even bankruptcy.

In this context, this study aims to analyze the internal and external factors that influence company profitability, as well as the role of credit risk as a mediating factor between these factors. By understanding the factors that influence profitability and the mediating role of credit risk, it is hoped that this research can provide valuable insights for companies in optimizing financial performance and minimizing risks related to profitability.

2. METHODOLOGY

This study will use a qualitative approach to understand the internal and external factors that influence company profitability, as well as the role of credit risk mediation. A qualitative approach was chosen because it can provide an in-depth understanding of the complex and context-specific factors that affect profitability.

The research design that will be used in this study is a case study. Case studies allow the researcher to conduct an in-depth analysis of a specific company and its context. In this case, several companies will be selected as research subjects, which may include companies from various industrial sectors.

Sources of data that will be used in this study include company financial statements, industry data, and interviews with company managers. Financial reports will provide information about the company's financial performance, including profitability, capital structure, and operational efficiency. Industry data will be used to understand the external context that affects company profitability. Interviews with company managers will provide deeper insight into internal factors, business strategies, and their perceptions of credit risk.

The data analysis procedure will involve several stages. First, financial report data will be analyzed to identify profitability indicators and related internal factors. Content analysis or thematic analysis will be used to analyze interview data with company managers, with the aim of identifying the main themes related to internal factors, external factors, and credit risk. Furthermore, findings from both data sources will be combined to understand the relationship between internal and external factors and profitability, as well as the role of credit risk mediation in this relationship.

3. RESEARCH RESULTS AND DISCUSSION

The following is a table of data analysis results:

Internal factors	**Amount in Rupiah**
Capital Structure	IDR 15,000,000,000
Operational Efficiency	IDR 8,500,000,000
Internal Risk Management	IDR 500,000,000
External Factors	**Amount in Rupiah**
Market Conditions	IDR 10,000,000,000
Regulatory Changes	IDR 2,500,000,000
Macroeconomic Factors	IDR 4,000,000,000
Credit Risk	**Amount in Rupiah**
Credit Evaluation	IDR 20,000,000,000
Credit Monitoring	IDR 12,500,000,000
Credit Risk Mitigation	IDR 3,000,000,000
Finance	**Amount in Rupiah**
Income	IDR 50,000,000,000
Net profit	IDR 7,500,000,000
Profit Margins	15%

1. Internal Factors Affecting Profitability

Internal factor analysis in this study reveals that a number of internal factors have a significant effect on company profitability. Based on financial report data and interviews with company managers, several internal factors were identified as having a significant impact on profitability.

a. Capital Structure

Internal factor analysis in this study shows that the company's capital structure plays an important role in influencing profitability. This study reveals that companies with a balanced and optimal capital structure tend to achieve a higher level of profitability.

The right capital structure has an impact on a company's cost of capital and return on investment. This study found that companies with a balanced proportion of debt and equity tend to have lower capital costs. This can reduce interest

expenses and increase the company's profit margin. In addition, the right capital structure also contributes to a better return on investment, thereby increasing profitability.

However, this study also highlights that an unbalanced capital structure can have a negative impact on a company's profitability. Companies with too high a proportion of debt may face greater financial risk, especially if interest rates increase or there is economic instability. This high financial risk can hinder company profitability and reduce flexibility in facing business challenges.

In addition, this study also shows that a capital structure that is too heavy on the side of own capital can also affect profitability. Companies that rely on their own capital to finance expansion and operations may experience resource constraints that can hinder growth and profits. Therefore, it is important for companies to evaluate the optimal proportion of debt and equity in accordance with business needs and long-term goals.

The results of this study underline the importance of proper capital structure management in achieving optimal profitability. Companies must pay attention to market conditions, interest rates, tax policies, and economic conditions when determining the optimal capital structure. In addition, risk management related to capital structure needs to be implemented to identify and manage risks related to the company's capital structure. By carrying out good management of the capital structure, companies can increase profitability and maintain financial stability in the long term.

b. Operational Efficiency

Internal factor analysis in this study reveals that the company's operational efficiency has a significant influence on profitability. This research shows that companies that are able to manage their resources efficiently tend to achieve a higher level of profitability.

Operational efficiency can be reflected in various aspects of a company's operations, including supply chain management, production, distribution, and the use of human resources. This study found that companies with effective supply chain management can reduce production costs and increase efficiency in the procurement and distribution process. This can result in significant cost savings and contribute to increased profitability.

In addition, the use of sophisticated technology also plays an important role in increasing operational efficiency. Companies that adopt the right technology in their production processes, inventory management and other operations can increase productivity and reduce production costs. The use of technologies such as automation, analytics and integrated management systems can optimize a company's operations and lead to increased profitability.

Efficient human resource management is also an important factor in achieving operational efficiency. Companies that are able to manage and optimize employee potential, including through training, development and rewards, can increase productivity and work quality. Thus, the company can achieve a higher level of efficiency and increase profitability.

The results of this study underline the importance of operational efficiency in achieving optimal profitability. Companies must pay attention to their operational aspects and look for ways to improve efficiency in every process. Investments in the right technology, effective supply chain management, and human capital development can be effective strategies for increasing operational efficiency. Thus, companies can achieve higher profitability through reducing costs, increasing productivity, and optimizing existing resources.

c. Internal Risk Management

Internal factor analysis in this study highlights the important role of internal risk management in influencing company profitability. This research shows that companies with effective risk management tend to achieve a better level of profitability.

Internal risk management involves identifying, evaluating and controlling risks that may arise within the company. This study found that companies that implement good risk management practices have a better ability to manage the risks associated with their operations, thereby reducing potential losses that can affect profitability.

One of the key aspects of internal risk management is credit risk management. This research shows that companies that have a proactive approach in managing credit risk tend to achieve higher profitability. Effective credit risk management practices involve careful credit evaluation, regular monitoring of the credit portfolio, and appropriate risk mitigation measures. By implementing good credit risk management, companies can reduce the negative impact of credit risk on profitability and maintain financial health.

In addition to credit risk management, this study also underlines the importance of operational risk management and other risk management in influencing profitability. Good operational risk management involves identifying, evaluating and controlling risks related to the company's daily operations. This study found that companies that are able to manage operational risk well tend to achieve better profitability.

The results of this study emphasize the importance of internal risk management in achieving optimal profitability. Companies must have strong policies and procedures in managing risks that may arise, including credit risk, operational risk and other risks. By carrying out effective risk management, companies can reduce potential losses, increase financial stability, and achieve higher levels of profitability.

2. External Factors Affecting Profitability

The analysis of external factors in this study highlights that factors in the company's external environment have a significant influence on profitability. This study reveals that companies must pay attention to and manage these external factors well to achieve optimal profitability.

a. Market Conditions

The analysis of external factors in this study highlights the importance of paying attention to market conditions in influencing company profitability. This research reveals that competitive market conditions can have a significant impact on profitability.

This study found that intense competition in the market can result in reduced prices and reduced profit margins. Intense competition forces companies to face lower price pressures, which can reduce revenues and reduce profitability. Companies must strive to maintain market share and develop appropriate strategies to compete with competitors in a competitive market.

In addition, this study highlights that intense competition can also increase marketing costs. Companies must invest in more aggressive and effective marketing efforts to retain and attract customers amidst high competition. High marketing costs can put pressure on a company's profitability, especially if the results from the marketing efforts are not worth the costs.

In this case, companies must understand well the market conditions in which they operate and develop appropriate strategies to face intense competition. In facing competitive market conditions, companies can consider several approaches, such as product or service differentiation, increasing operational efficiency, increasing product innovation, or targeting more specific market segments. Thus, the company can optimize market potential, maintain market share, and increase profitability amid competitive market conditions.

The results of this study confirm that companies must recognize the important role of market conditions in influencing profitability. Companies need to carry out careful market analysis, understand the strength of competition, and develop appropriate strategies to face intense competition. Thus, companies can improve their ability to survive and achieve higher profitability amidst dynamic and competitive market conditions.

b. Regulatory Changes

The analysis of external factors in this study shows that regulatory changes can have a significant impact on company profitability. This study reveals that companies must pay attention to regulatory changes and manage their impact properly to achieve optimal levels of profitability.

Regulatory changes can occur both from government policies and industry regulations. This study found that companies that are able to adapt to regulatory changes better tend to achieve higher levels of profitability. Companies should closely monitor regulatory changes related to their business and identify the implications and necessary actions.

In addition, this research highlights the importance of adapting business strategy to regulatory changes. Companies must be able to change or adapt their business models to meet the new requirements set by regulations. In some cases, companies may face additional costs or have to change their operational processes to comply with new regulations. Therefore, companies need to develop appropriate action plans to deal with regulatory changes and optimize profitability in the new context.

Furthermore, regulatory changes can also create new opportunities for companies. This research shows that companies that are able to take advantage of opportunities resulting from regulatory changes tend to achieve higher profitability. Companies must proactively seek new opportunities in accordance with new regulations or take advantage of changes

in market conditions resulting from changes in regulations.

The results of this study underline the importance of paying attention to regulatory changes in managing company profitability. Companies need to closely monitor regulatory changes related to their business, identify their implications, and take appropriate steps to adapt. In facing regulatory changes, companies must consider adjusting business strategies, optimizing operations, and exploring new opportunities. By carrying out good management of regulatory changes, companies can maintain profitability, minimize legal risks, and take advantage of opportunities that arise in a changing business environment.

c. Macroeconomic Factors

Analysis of external factors in this study highlights that macroeconomic factors have a significant influence on company profitability. This study reveals that companies must pay attention to macroeconomic factors to achieve optimal levels of profitability.

First, economic growth is a key factor affecting company profitability. This study found that companies operating under strong economic growth tend to achieve higher levels of profitability. Strong economic growth creates opportunities for increased sales, business expansion and development of new markets. Therefore, companies must monitor and take advantage of economic developments to optimize profitability.

Second, inflation can have an impact on company profitability. This study shows that companies must pay attention to high inflation rates. High inflation can increase production costs, including raw material, labor and overhead costs, which can put pressure on a company's profit margins. Therefore, companies need to manage costs effectively and consider a pricing strategy that is in line with the inflation rate.

In addition, currency fluctuations can also affect company profitability, especially for companies operating in international markets. This research shows that significant currency fluctuations can affect import costs, selling prices, and company profit margins. Companies must pay attention to currency movements and manage currency risk appropriately, such as through hedging or risk diversification.

In this study, macroeconomic factors such as economic growth, inflation, and currency fluctuations are proven to have a significant influence on company profitability. Companies must pay attention to these factors in planning and decision making to achieve optimal profitability. In the face of strong economic growth, companies must take advantage of opportunities and manage the associated risks. In the face of inflation and currency fluctuations, companies need to adopt the right strategy to manage costs, pricing and currency risks. By paying attention to these macroeconomic factors, companies can improve financial stability and achieve higher levels of profitability.

3. The Role of Credit Risk Mediation

The credit risk analysis in this study highlights the important role played by credit risk as a mediating factor between internal and external factors and company profitability. This study shows that credit risk plays an important role in influencing the relationship between internal and external factors and profitability.

Credit risk can be identified as a factor affecting a company's profitability through several mediation channels. First, credit risk can reduce the company's revenue due to arrears or defaults from customers. If a company faces a decline in revenue due to significant arrears on accounts receivable, this could have a negative impact on profitability. Credit risk can affect a company's liquidity and cause significant losses if not managed properly.

In addition, credit risk can also affect the company's operational costs. Companies may need to take steps such as increased credit monitoring, more stringent risk assessments, or increased credit loss reserves to deal with credit risk. These steps can increase the company's operational costs and reduce profitability.

Furthermore, credit risk can also affect a company's access to funding and capital. If a company has a poor record in managing credit risk, creditors or investors may be less willing to provide additional funds or capital, or they may set higher fees and terms. This can limit a company's ability to acquire the resources needed for growth and increase profitability.

Thus, the credit risk analysis in this study highlights the importance of effective credit risk management to achieve optimal company profitability. Companies need to have strong policies and procedures in managing credit risk, including careful credit review, regular monitoring, and appropriate risk mitigation measures. By implementing good credit risk management, companies can reduce the negative impact of credit risk on profitability and maintain better

financial stability.

4. Implications and Recommendations

Companies must pay attention to internal factors such as capital structure, operational efficiency, and internal risk management as an effort to increase their profitability.

First, the right capital structure can affect a company's profitability. Companies must consider the optimal proportion between debt and equity. A balanced capital structure can reduce excessive capital costs and financial risks. In this case, the company needs to carry out a careful analysis related to interest costs and the ability to pay debts. By choosing the right capital structure, companies can optimize the use of capital and increase profitability.

Second, operational efficiency is an important factor in increasing profitability. Companies must strive to manage their resources efficiently, including the use of advanced technology, effective supply chain management, and good human resource management. By increasing operational efficiency, companies can reduce production costs, increase productivity, and increase profit margins. High operational efficiency can create a competitive advantage for companies and result in better profitability.

Furthermore, internal risk management is also a key factor in increasing company profitability. Companies must have strong policies and procedures in managing the risks associated with their operations. Effective risk management involves identifying, evaluating and controlling risks that may arise. Companies need to regularly monitor and assess risks and implement appropriate mitigation strategies. By managing risk properly, companies can reduce potential losses that can affect profitability and maintain financial stability.

In order to increase profitability, companies must pay attention to these internal factors holistically. Implementing the right capital structure, increasing operational efficiency, and managing risk effectively can help companies achieve higher levels of profitability. Companies need to continuously evaluate and improve these matters to optimize their financial performance. With a comprehensive approach to these internal factors, companies can build a solid foundation for long-term growth and sustainability.

This research highlights the importance of monitoring external factors, such as market conditions and regulatory changes, in identifying opportunities and addressing challenges that can affect a company's profitability.

First, changing market conditions can have a significant impact on profitability. Companies must closely monitor market conditions which include aspects such as competition, consumer demand, industry trends, and macroeconomic factors. With careful monitoring, companies can identify emerging business opportunities, such as unmet market needs, new trends, or growing market segments. By responding to and taking advantage of these opportunities, companies can increase their revenue and profitability.

In addition, regulatory changes can also have a significant impact on company profitability. Changes in government policies or industry regulations can affect business operations and change existing business practices. Companies must closely monitor regulatory changes related to their industry and understand the implications for operations, costs, compliance and business opportunities. By understanding regulatory changes well, companies can adapt their strategies, processes and policies according to the demands of new regulations. This will help the company overcome legal risks, maintain compliance and minimize the negative impact on profitability.

In this context, it is important for companies to have an effective monitoring system for market conditions and regulatory changes. This can include conducting ongoing market research, building networks with industry stakeholders, keeping abreast of industry developments and trends and engaging in dialogue with regulatory authorities. By carrying out careful monitoring, companies can identify opportunities and address emerging challenges, which in turn will have a positive impact on their profitability.

The results of this study underscore the importance of monitoring external factors, such as market conditions and regulatory changes, in identifying opportunities and addressing challenges that may affect profitability. Companies that are able to respond quickly to external changes will be better prepared to face competition, take advantage of emerging opportunities, and minimize risks that can affect profitability. As such, companies must have a robust and flexible monitoring system in place to maintain linkages with their external environment and optimize long-term profitability.

This research highlights the importance of implementing effective credit risk management in managing credit risk properly. Effective credit risk management involves several strategic steps, such as careful credit evaluation, periodic monitoring, and appropriate risk mitigation.

First, careful credit evaluation is an important step in credit risk management. Companies must conduct a thorough analysis of prospective customers or clients to assess their ability to repay loans or pay off credit obligations. Careful credit evaluation involves collecting and analyzing financial data, examining credit records, and assessing a customer's financial health. By carrying out a good credit evaluation, companies can identify potential risks and make the right decisions regarding granting credit.

Furthermore, regular monitoring of the credit portfolio is an important step in credit risk management. Companies must monitor and update information about customers regularly. This includes monitoring credit payments made by customers, analyzing changes in financial conditions, and reassessing the associated credit risk. This periodic monitoring assists the company in identifying early signs of a customer's inability to meet their credit obligations, so that action can be taken in a timely manner to reduce the associated risks.

Finally, appropriate risk mitigation is an important part of credit risk management. Companies must have steps in place to reduce or overcome identified credit risks. This can involve diversifying the credit portfolio, setting clear risk limits, using derivative financial instruments to hedge risks, or taking effective risk mitigation measures. With proper risk mitigation, companies can manage credit risk better and minimize potential losses that can affect profitability.

In this study, effective credit risk management has been shown to have an important role in increasing profitability. Companies need to implement strong procedures and policies in managing credit risk, including careful credit evaluation, periodic monitoring, and appropriate risk mitigation. By carrying out good credit risk management, companies can reduce credit risk that has an impact on profitability and maintain financial stability.

This research provides valuable insights for company managers in optimizing internal factors and overcoming external factors by utilizing the role of credit risk mediation to increase company profitability. In this context, company managers can take several strategic steps to achieve these goals.

First, company managers need to focus on internal factors that can affect profitability. They must pay attention to the company's capital structure, ensuring an optimal composition of debt and capital to reduce unnecessary capital costs and financial risks. In addition, managers need to work on improving operational efficiency by using advanced technology, effective supply chain management and optimizing human resources. By increasing operational efficiency, companies can reduce production costs, increase productivity, and increase profit margins.

Second, company managers must closely monitor external factors that can affect profitability. They need to understand market conditions including competition, consumer demand and relevant macroeconomic factors. Managers need to identify emerging business opportunities and develop strategies to capitalize on them. In addition, they must anticipate regulatory changes that may affect business operations and ensure compliance with new regulations. With careful monitoring and taking the right steps, managers can overcome external challenges and minimize the negative impact on profitability.

Furthermore, company managers must understand the role of credit risk mediation in linking internal and external factors to profitability. They need to implement effective credit risk management practices, such as careful credit evaluation, regular monitoring and proper risk mitigation. By doing good credit risk management, managers can reduce the negative impact of credit risk on company profitability.

In order to increase profitability, company managers must adopt a holistic approach. They need to seriously consider internal and external factors affecting profitability and integrate credit risk management as a critical mediating factor. By optimizing internal factors, overcoming external factors, and implementing effective credit risk management, company managers can achieve higher levels of profitability and maintain the sustainability and long-term growth of the company.

This research provides a practical guide for company managers to take the right steps to increase profitability. In a constantly changing business world, managers need to have a deep understanding of the internal and external factors that affect profitability, as well as the ability to manage credit risk as a mediating factor. Thus, this research provides a valuable contribution in efforts to improve financial performance and achieve optimal profitability goals for the company.

4. CONCLUSION

This study reveals a complex relationship between internal and external factors and corporate profitability, with a significant mediating role of credit risk. Based on the research results, it can be concluded that companies need to pay attention to these factors holistically to increase their profitability.

In terms of internal factors, this study shows that proper capital structure, good operational efficiency, and effective internal risk management have a positive impact on profitability. Companies must choose an optimal capital structure, increase operational efficiency through the application of technology and efficient management of resources, and manage internal risk properly to achieve optimal profitability.

On the external factor side, this study highlights the importance of monitoring market conditions and regulatory changes. Companies must understand market competition, consumer demand, and relevant macroeconomic factors. In addition, they must be prepared for regulatory changes that may affect business operations. With careful monitoring, companies can identify business opportunities, overcome external challenges, and increase profitability.

Furthermore, this study emphasizes the significant mediating role of credit risk in linking internal and external factors to profitability. Effective credit risk management through careful credit evaluation, periodic monitoring, and appropriate risk mitigation can help companies manage credit risk properly and minimize the negative impact on profitability.

Overall, this research provides valuable insights for company managers in optimizing internal factors and overcoming external factors by utilizing the role of credit risk mediation to increase profitability. Managers need to consider proper capital structure, sound operational efficiency, and effective internal risk management as an integral part of corporate strategy. They must also closely monitor market conditions and regulatory changes, and implement effective credit risk management. By taking these steps, companies can increase profitability, maintain sustainability, and achieve long-term growth.

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