



Several Factors That Can affect the growth of Manufacturing Company Profits listed on the Indonesia Stock Exchange for the period 2016-2018

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Abstract: This study aims to examine the effect of profitability, capital structure, operating cash flow and firm size on earnings growth. The population of this study is all manufacturing companies listed on the Indonesia Stock exchange (IDX) in 2016-2018. Based on purposive sampling method, the total sample of this study was 19 companies. The analysis carried out in this research is descriptive statistical test, panel data testing, classical assumption test and hypothesis test. The measurement tool used for this analysis is the Eviews 9. The result of this study indicate that based on the partial test (t test) profitability, operating cash flow and firm size have a positive effect on earnings growth while capital structure has a negative effect on earnings growth. Taken together (test f) profitability, capital structure, operating cash flow and firm size affect the earnings growth.

Keywords: Profitability, Capital Structure, Operating Cash Flow, Firm Size and Earnings Growth

INTRODUCTION

Profit growth that continues to increase from year to year can give a positive signal about the company's prospects in the future regarding the company's performance. Good corporate profit growth reflects that the performance of a company is also good, because profit is a measure of the performance of a company, the higher the profit growth achieved by the company indicates the better the company's performance.

Financial ratios are also useful in predicting company profits. In addition, financial ratios are used to decide whether to buy company shares, to borrow money, or to predict the company's strength in the future. If the company's financial performance is good then profit growth increases, and vice versa if the company's performance is not good then profit growth decreases (Mahaputra, 2012).

One of the ratios that can be used is the profitability ratio. Kasmir (2018) says "Profitability ratio is a ratio to assess the company's ability to seek profit. This ratio also

provides a measure of the level of management effectiveness of a company. This is indicated by the profit generated from sales and investment income. The point is that the use of this ratio shows the efficiency of the company" (p. 196).

In choosing alternative funding to finance the company's activities, what will be considered is how the company can create a profitable combination between the use of funds from share capital and funds from debt. This concerns the problem of the existence of the company's capital structure, such a capital structure is certainly expected to increase profits for the company which in turn improves the welfare of its owners and improves good relations with creditors through increasing prosperity or company value (Dewi & Setiawati, 2009).

Errors in determining the capital structure will affect the sustainability of the company, especially if the company is too large in using debt, then the burden that must be borne by the company will also increase, this increases the company's financial risk if the company cannot pay the interest expense or debt installments.

Cash flow from operating activities is the amount of cash flow from operating activities which is an indicator that determines whether the company's operations can generate sufficient cash flow to repay loans, maintain the company's operating capability, pay dividends and make new investments without relying on external funding sources. . Operating cash flow is an effective test of net income, but is not a substitute for net income (Subramanyam, 2012 in Rahmawati, 2016).

Another factor that affects profit growth is the size of the company. Company size is a reflection of the total assets owned by a company. Companies with low and high total assets will continue to spur profit growth to create a good impression about the company to users of financial statements, because high total company assets will cause the company's capital to increase and encourage investors to assess the company and ultimately investors will invest their capital. to the company (Margaretta 2010, in Yohanas, 2014).

Based on the background described previously, the authors titled this research "The Effect of Profitability, Capital Structure, Operating Cash Flow and Company Size on Profit Growth in Manufacturing Companies Listed on the Indonesia Stock Exchange for the Period 2016-2018.

The formulation of the problem in this study are profitability, capital structure, operating cash flow and company size together affect profit growth in manufacturing companies listed on the Indonesia Stock Exchange for the period 2016 to 2018.

The objectives to be achieved in this research are to examine the effect of profitability, capital structure, operating cash flow and company size on profit growth in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2016-2018

LITERATURE REVIEW

Profitability

Hery (2014) writes as follows: "Profitability ratio is a ratio that describes the company's ability to generate profits through all the capabilities and resources it has, namely those from sales activities, use of assets, and use of capital. Profitability ratios or profitability ratios can be used as a tool to measure the level of effectiveness of management performance. Good performance will be shown through the success of management in generating maximum profit for the company" (p. 192).

Capital Structure

According to Sulindawati, Yuniarta & Purnamawati (2017) "Capital structure is a balance or comparison between foreign capital and own capital. Foreign capital is defined in

this case as debt, both long term and short term. Meanwhile, the own capital can be divided into retained earnings and can also be included in the ownership of the company" (p. 111).

Operating Cash Flow

Prastowo (2011) states as follows "Operating activities are the main income generating activities of the company and other activities that are not investment and financing activities. Cash flows from operating activities include all cash effects from each transaction or event that is a component of determining net income, such as cash receipts from sales of merchandise, cash payments, purchases of materials to suppliers, and payment of company employees' salaries (p. 34).

Company Size

According to Bambang Riyanto (1999) in Laksitaputri (2012) what is meant by firm size or company size is the size of the company which can be seen from the amount of equity value, sales value, and total asset value. A company's size can determine whether or not the company's performance is good. Investors usually have more confidence in large companies, because large companies are considered capable of continuously improving the company's performance in order to generate profits or profits every year.

Profit Growth

Profit growth is a change in the percentage increase in profit earned by the company. Good profit growth implies that the company has good finances which will ultimately increase the value of the company, because usually the dividends to be paid in the future depend on the condition of the company. Thus, knowing the profit growth obtained by the company is very important for users of financial statements because by knowing profit growth, they can determine whether there is an increase or decrease in a company's financial performance (Simorangkir, 1993 in Fransiska, 2014).

RESEARCH METHOD

Type of Research

The type of research used in this study is a causal comparative research method. The comparative causal research method is a type of research with the characteristics of the problem in the form of a causal relationship between two or more variables.

Variable Operations

1. Profitability

The higher the Net Profit Margin ratio, the greater the net profit achieved by the company on net sales. This profitability calculation formula uses:

$$\text{Net profit margin} = \frac{\text{Net income}}{\text{Net sales}}$$

2. Capital Structure

A high Debt to Equity Ratio has a bad impact on company performance because the higher debt level means the interest expense will be greater which means reducing profits, on the other hand a low Debt to Equity Ratio indicates better performance, because it causes a higher rate of return (Gunawan & Wahyuni, 2013). Capital structure can be calculated by the formula:

$$\text{Debt-to-Equity} = \frac{\text{Total Debt}}{\text{Total Capital}}$$

3. Operating Cash Flow

The ratio of cash flow to net income shows how far the accrual accounting adjustments and assumptions affect the calculation of net income. The higher this ratio indicates that the company's financial performance is getting better, although with a small net profit as a result of the large non-cash expenses (Hery, 2014: 107). Operating cash flow can be calculated by the following formula:

$$\text{Ratio of Operating Cash Flow to Net Income} = \frac{\text{Operating Cash Flow}}{\text{Net Income}}$$

4. Company Size

Company size is a scale capable of classifying company size in various ways, namely total assets, log size, stock market value, and others. Company size is assessed by the natural logarithm of the total assets of a company (Adriani et al, 2018). Company size can be calculated by the following formula:

$$\text{Company Size} = \ln (\text{total asset})$$

5. Profit Growth

Harahap (2012) states that the profit growth ratio is "a ratio that shows the company's ability to increase net income compared to last year" (p. 310). Profit used is profit after tax (earnings after tax). Profit growth is formulated as follows:

$$Y = \frac{Y_t - Y_{t-1}}{Y_{t-1}}$$

Description:

Y: Profit growth

Y_t : Company profit after tax in period t

Y_{t-1}: Company profit after tax in period t-1

Population and Research Sample

The population that is the object of this research are manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2016-2018 period. The population used in this study there are 171 companies. (www.idx.co.id)

The sample used in this study were 19 companies from manufacturing companies listed on the Indonesia Stock Exchange for the period. 2016-2018

Data Collection Method

The research method used by the author in the preparation of this thesis uses an indirect observation method approach. The author observes, researches, and collects financial statement data without being involved in company activities. Data collection techniques use documentation techniques by looking at the company's published financial statements (www.idx.co.id).

RESULTS AND DISCUSSION

The data analysis used in this study included descriptive analysis, classical assumption test and regression test using Eviews version 9. Descriptive statistics were used to determine the mean, maximum, minimum and standard deviation values of each variable. Analysis with panel data to determine which method of Common Effect, Fixed Effect and Random Effect is most appropriate to use to estimate the regression equation in this study. By comparing the prob (F-Statistic) less than 0.05, the regression equation is feasible to use for estimation. Based on the results of panel data analysis with a probability statistic of $0.0000 < 0.05$ and

the Fixed Effect Model (FEM) method that is feasible to use. Classical assumption test consists of multicollinearity test and heteroscedasticity test

Descriptive Statistics Test

Table 1

	GROWTH	NPM	DER	AKO	SIZE
Mean	0.216421	0.095930	0.870281	1.610263	15.38367
Median	0.172000	0.073000	0.628000	1.021000	15.02100
Maximum	0.833000	0.379000	2.655000	12.85300	19.65800
Minimum	0.005000	0.009000	0.083000	0.016000	11.98000
Std. Deviation	0.181538	0.083800	0.647037	2.212840	1.790843
Observations	57	57	57	57	57

It can be analyzed that the average profit growth in manufacturing companies listed on the Indonesia Stock Exchange for the 2016-2018 period is 0.216421, with a standard deviation of 0.181538. The company that has the highest profit growth with a value of 0.833000 is PT Budi Starch & Sweetener Tbk in the 2016 period, while the lowest profit growth is 0.005000, namely PT Gudang Garam Tbk in the 2018 period.

The average profitability (NPM) in the 2016-2018 period is 0.095930, with a standard deviation of 0.083800. The company that has the highest profitability with a value of 0.379000 is PT Delta Djakarta Tbk in the 2018 period, while the company that has the lowest profitability with a value of 0.009000 is PT Ricky Putra Globalindo Tbk in the 2018 period.

The average value of capital structure (DER) in the 2016-2018 period is 0.870281, with a standard deviation of 0.647037. The company with the highest capital structure with a value of 2.655000 was PT Unilever Indonesia Tbk in the 2017 period, while the company with the lowest capital structure with a value of 0.083000 was PT Industri Jamu and Pharmaceutical Sido Muncul Tbk in the 2016 period.

The average value of operating cash flow in the 2016-2018 period is 1.610263, with a standard deviation of 2.212840. The company that has the highest operating cash flow with a value of 12.85300 is PT Ricky Putra Globalindo Tbk in the 2017 period, while the lowest operating cash flow with a value of 0.016000 is PT Kimia Farma Tbk in the 2017 period.

The average value of company size in the 2016-2018 period is 15,38367, with a standard deviation of 1.790843. The company that has the highest size with a value of 19.65800 is PT Astra International Tbk in the 2018 period, while the lowest size with a value of 11.98000 is PT Pyridam Farma Tbk in the 2017 period.

Test Chow

Table 2.

Redundant Fixed Effects Tests

Equation: FEM

Test cross-section fixed effects

Effects Test	Statistics	d.f.	Prob.
Cross-section F	5.518509(18,34)		0.0000

To test which of the Common Effect Model and Fixed Effect Model is most appropriate to use. With the results of the probability value of the Cross-section F < 0.05. based on the

results that the Fixed Effect Model is more appropriate to use in the regression estimation model, namely the probability of Cross-section $F 0.0000 < 0.05$.

Hausman test

Table 3

Correlated Random Effects - Hausman Test

Equation: REM

Test cross-section random effects

Test Summary	Chi-Sq. Statistics	Chi-Sq. d.f.	Prob.
Cross-section random	10.786807	4	0.0291

To test which of the Fixed Effect Model and Random Effect Model is the most appropriate to use. Based on a random cross-section, the results were $0.0291 < 0.05$, so H_0 was rejected, meaning that the Fixed Effect Model is more appropriate to use.

Classical Assumption Test

Table 4

a. Multicollinearity Test

	NPM	DER	AKO	SIZE
NPM	1.000000	-0.376970	-0.264379	0.081260
DER	-0.376970	1.000000	0.450745	0.022613
AKO	-0.264379	0.450745	1.000000	-0.160947
SIZE	0.081260	0.022613	-0.160947	1.000000

The correlation value between variables less than 0.8 can be identified as no multicollinearity problem.

Heteroscedasticity Test

Table 5

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.050112	0.664492	-0.075414	0.9403
NPM	-0.086791	0.517034	-0.167863	0.8677
DER	-0.041181	0.037642	-1.094035	0.2816
AKO	0.010595	0.006277	1.687963	0.1006
SIZE	0.011167	0.043769	0.255127	0.8002

From the results of the glejser test, it can be concluded that the probability value of each independent variable is the probability of Profitability (NPM) of 0.8677, the probability of Capital Structure (DER) of 0.2816, the probability of Operating Cash Flow (AKO) of

0.1006 and the probability of Firm Size (SIZE) of 0.8002. greater than 0.05, then H0 is accepted, meaning that the above calculation does not occur heteroscedasticity.

Hypothesis Test

a. Multiple Linear Regression Equation

Multiple linear regression analysis is the method used to test the effect of two or more independent variables with a measuring scale or ratio in a linear equation. Based on the results of the table above, the following multiple linear regression equations are obtained:

$$Y = -4.241929 + 1.341762 (X1) - 0.138312 (X2) + 0.043658 (X3) + 0.284698 (X4) + \varepsilon$$

Description:

X1: Profitability

X2 : Capital Structure

X3: Operating Cash Flow

X4: Company Size

Based on the multiple linear regression equation above, it can be analyzed the effect of each independent variable on the dependent variable as follows:

- 1) The constant of -4.241929 states that if the value of Profitability (NPM), Capital Structure (DER), Operating Cash Flow (AKO) and Company Size (SIZE) are constant (0) then the Profit Growth is -4.241929.
- 2) Profitability regression coefficient (NPM) has a positive relationship 1.341762, this shows that if each Profitability (NPM) has increased by 1, Profit Growth will increase by 1.341762 assuming the regression coefficient of other variables is zero.
- 3) The regression coefficient value of Capital Structure (DER) has a negative relationship of -0.138312, this shows that if each Capital Structure (DER) increases by 1, then Profit Growth will decrease by -0.138312, assuming the regression coefficient of other variables is zero.
- 4) The regression coefficient value of Operating Cash Flow (AKO) has a positive relationship of 0.043658, this shows that if each Operating Cash Flow (AKO) increases by 1, Profit Growth will increase by 0.043658 assuming the regression coefficient of other variables is zero.
- 5) The regression coefficient value of Firm Size (SIZE) has a positive relationship of 0.284698, this shows that if each Firm Size (SIZE) increases by 1, then Profit Growth will increase by 0.284698 assuming the regression coefficient of other variables is zero.

b. T-Test (Partial Test)

Table 6

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-4.241929	0.902681	-4.699256	0.0000
NPM	1.341762	0.637286	2.105430	0.0427
DER	-0.138312	0.056699	-2.439403	0.0201
AKO	0.043658	0.018407	2.371802	0.0235
SIZE	0.284698	0.055045	5.172085	0.0000

Based on the table data above, the panel data regression test (t test) shows that:

- 1) Profitability (NPM) has $t_{count} > t_{table}$ which is $2.105430 > 2.00665$ and probability < 0.05 which is $0.0427 < 0.05$. This states that Profitability (NPM) partially has a positive and significant effect on Profit Growth.
- 2) Capital Structure (DER) has $t_{count} > t_{table}$, namely $-2.439403 > 2.00665$ and probability < 0.05 , namely $0.0201 < 0.05$. This states that the Capital Structure (DER) partially has a negative and significant effect on Profit Growth.
- 3) Operating Cash Flow (AKO) has $t_{count} > t_{table}$ which is $2.371802 > 2.00665$ and probability < 0.05 which is $0.0235 < 0.05$. This means that Operating Cash Flow (AKO) partially has a positive and significant effect on Profit Growth.
- 4) Company Size (SIZE) has $t_{count} > t_{table}$ which is $5.172085 > 2.00665$ and probability < 0.05 , which is $0.0000 < 0.05$. This states that the Company Size (SIZE) partially positive and significant effect on Profit Growth.

c. F Test (Joint Testing)

Table 7

R-squared	0.773365	Mean dependent var	0.418918
Adjusted R-squared	0.626719	S.D. dependent var	0.597245
S.E. of regression	0.154574	Sum squared resid	0.812368
F-statistic	5.273686	Durbin-Watson stat	2.662654
Prob(F-statistic)	0.000008		

Based on the table above, we can compare between F_{count} of $5.273686 > F_{table}$ of 2.55 . So Profitability, Capital Structure, Operating Cash Flow and Company Size have an effect on Profit Growth.

d. Coefficient of Determination Test

The coefficient of determination is used to determine the percentage of the independent variables on the dependent variable. It can be seen that the Adjusted R-squared value of 0.626719 means that together the variables Profitability, Capital Structure, Operating Cash Flow and Company Size have a contribution of 62.6719% , while the remaining 37.3281% ($100\% - 62.6719\%$) is influenced by other variables that not researched or not included in this research model.

CONCLUSION AND SUGGESTION

Conclusion

Based on the results of the analysis that has been carried out, the conclusions of this study are as follows:

1. The results of the analysis show that the Profitability variable partially has a positive effect on Profit Growth, it can be concluded that the first hypothesis can be accepted.
2. The results of the analysis show that the Capital Structure variable partially has a negative effect on Profit Growth, it can be concluded that the first hypothesis can be accepted.
3. The results of the analysis show that the Operating Cash Flow variable partially has a positive effect on Profit Growth, it can be concluded that the first hypothesis can be accepted.
4. The results of the analysis show that the Firm Size variable partially has a positive effect on Profit Growth, it can be concluded that the first hypothesis can be accepted.

Suggestion

From the conclusions that have been described, the suggestions that the author can give as input for interested parties are:

1. Company management should optimize the company's sales level and minimize operating costs so that the profit generated will be even greater. With a large profit, the company can increase the investment attractiveness of investors to invest their capital, so that it will increase the company's profit and profit growth.
2. Company management needs to manage its capital structure properly by maintaining the composition between total debt and total equity so that it can contribute to company profits, as well as allocating debt funds into appropriate investments so that company profits can increase.
3. Company management is expected to increase operating cash flow. Because in general the ratio of operating cash flow to net income has a value above 1. The higher this ratio indicates that the company's financial performance is getting better, even though the net profit is small as a result of the large non-cash expenses.
4. Company management is expected to maintain the effectiveness of the company in using assets to create sales, the more effective the company in using assets, the better the company's performance so that profit growth will increase.

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