Factors Affecting Profitability in Manufacturing Sector Companies Listed on BEI

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Abstract. This study aims to determine the factors that affect the company's profitability. This study uses quantitative methods, the population used is the financial statements of manufacturing companies listed on the Indonesia Stock Exchange for the 2015-2019 period. The sampling technique in this study is a non-probability sampling technique by using purposive sampling. Data collection is done by data collection techniques archive in the database to obtain secondary data in the form of financial statements taken from the company's financial statements. The data analysis used is Descriptive Statistical Analysis, Determination of Capital Estimates (Chow Test and Hausman Test), Classical Assumption Test (Multicollinearity, Heteroscedasticity, and Panel Data Regression), Hypothetical Testing (Coefficient of Determination Test and Partial Test). The results of this study indicate that Firm size (FS), Leverage (DER), Liquidity (CR) and Sales Growth (SG) have no effect on profitability while Working capital and company efficiency affect profitability.

Keywords: Profitability, firm size, leverage, liquidity, sales growth, working capital, company efficiency

1 Introduction

Along with the development of time and era, the current ups and downs of Indonesia's economic development has greatly affected the business world in Indonesia. Currently, as reported by kompas.com, Indonesia's economic growth in 2020 is moving in a negative direction, which is negative 2.07 percent. The main factor that causes this is the pandemic that hit. Around 10 out of 17 economic sectors in Indonesia were stated to have given negative performance due to the impact of the pandemic.

Companies are encouraged to attain sustained company performance by this cutthroat business environment. To do this, the business must create, implement, and maintain a corporate strategy that will improve the performance of the business (Alarussi and Alhaderi, 2018). Profitability is the choice that is most usually used to gauge business performance.

The first of several variables that might affect a company's profitability is firm size. The impact of firm size on profitability, according to Barus & Leliani (2013), is characterized by high profit outcomes if the firm size is also greater. The company's resources will enable it

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to operate as a wise investment for both current and fixed assets. In agreement with this, Nanda & Panda's (2018) research reveals that firm size has a favorable

Secondly, there is leverage. Marlinah (2014) draws the conclusion that the usage of fixed finance costs, such as debt and shares, increases risk and return. If the corporation has a sizable amount of debt-related assets, leverage will be much higher. Leverage, as defined by Egbunike & Okerekeoti (2018), is the ratio of debt to equity in a company's capital structure. The commercial and financial risk of the company is assessed using this ratio.

The ability of the business to convert its short-term assets into cash to satisfy its ongoing operating demands is referred to as liquidity. The company's competence can be measured using liquidity in settling maturing obligations (Egbunike & Okerekeoti, 2018). Holding liquidity in the short term will have a negative impact on profitability.The funds needed by the company to carry out its operational activities are working capital. Working capital management can be the key to a company's success in producing goods or services. The company will likely lose income or profits if the company lacks working capital (Desliana & Irawan, 2018).

Efficiency is also the basis for achieving higher profits. Efficiency refers to the overall operation of the company. Efficiency here explains how the company can focus on the production produced by the company to produce the desired profit target (Tommy, 2019).

The final element is sales growth, which is a critical component in determining the company's profitability and the primary gauge of its operations. Sales growth is the rise in sales as measured from year to year (Kennedy, Azlina, & Suzana, 2013). Market share growth will signal higher sales for the corporation, and higher sales have strategic implications for the business (Hansen & Juniarti, 2014).

This study is a progression of earlier work, specifically that of Alarussi and Alhaderi (2018). In contrast to earlier research, which covered the years 2012 to 2014, this study covered the years 2015 to 2019. In contrast to earlier research, which used 120 businesses listed on Bursa Malaysia, this study used manufacturing companies listed on the IDX.

2 THE ORITICAL REVIEW

2.1 Agency Theory

Jensen & Meckling (1976) explained that agency theory is a theory that explains an agency bond that arises because there is an agreement between the principal who uses the agent to carry out services that are in the principal's interest, in terms of the formation of the division of ownership and control of the company. Information asymmetry explains that shareholders and managers do not have the same access to information. There is information that is known to managers, but not known to shareholders. Managers better understand information about the company's internal and industry prospects. So there is asymmetric information.

2.2 HYPOTHESIS DEVELOPMENT

Based on previous research, the researcher outlines several hypotheses as follows:

H1 : Firm size has a positive effect on ROE.

H2 : Leverage has a negative effect on ROE.

H3 : Liquidity has a positive effect on ROE.

H4 : Sales growth has a positive effect on ROE.

H5 : Working Capital has a positive effect on ROE.

H6 : Company efficiency has a positive effect on ROE.

3 RESEARCH METHODS

The quantitative method was applied by the researchers. The population of manufacturing enterprises listed on the IDX for the five years between 2015 and 2019 is used by the researcher. While profitability is the employed dependent variable. The www.idx.co.id official website serves as the data source for financial reports. The researcher employs a panel data type with a ratio scale as the measurement scale.

3.1 Operational definition

3.1.1 Independent Variable

The independent variables used are firm size, working capital, company efficiency, liquidity, sales growth and leverage in this study.

1) *Firm Size*, describe the size of a company. Three categories—large firms, medium-sized companies, and small companies—are used to categorize business sizes.

$$Firm\ Size\ =\ Ln\ Total\ Sales \tag{1}$$

Source: Alarussi & Alhaderi (2018)

2) *Current Ratio,* ratio used to evaluate the company's capacity to pay short-term debt.

$$CR = \frac{Current\ Asset}{Current\ Liability} \tag{2}$$

Source: Alarussi & Alhaderi (2018)

3) *Debt to Equity Ratio,* a measure to assess how much a company uses debt and what the company's debt and equity composition looks like.

$$DER = \frac{Total\ Liabilities}{Total\ Equity} \tag{3}$$

Source: Alarussi & Alhaderi (2018)

4) *Working Capital,* the funds needed by the company to carry out its operational activities.

$$WC = Current\ Asset - Current\ liabilitie \tag{4}$$

Source: Alarussi & Alhaderi (2018)

5) *Company Efficiency*, explains how the company can focus on the production produced by the company to produce the desired profit target.

$$Asset\ Turnover\ Ratio\ = \frac{Total\ Sales}{(Aset\ Awal + Aset\ akhir)} \quad (5)$$

Source: Alarussi & Alhaderi (2018)

6) *Sales Growth*, is an increase in the number of sales calculated from year to year.

$$Sales\ Growth = \frac{Net\ Sales(t) - Net\ sales\ (t-1)}{Net\ Sales\ (t-1)} x100 \quad (6)$$

Source: Barus & Leliani (2013)

3.1.2 Dependent Variable

1) *Return On Equity*, evaluate a company's capacity to make money from the investments made by its owners.

$$\text{ROE} = \frac{Earning\ after\ tax}{Total\ equity} \quad (7)$$

Source: Alarussi & Alhaderi (2018)

3.2 Sampling Technique

The researcher chose the sample using a purposive sampling approach, which involves choosing samples based on pre-established standards. To enable the sample used in the study address the issue and provide suitable value, sampling was done in accordance with a number of criteria. The following standards govern the selection of the study's sample:

1) Manufacturing sector companies listed on the Indonesia Stock Exchange in 2015-2019.
2) Manufacturing sector companies that provide complete financial reports for the period 2015 to 2019.
3) Manufacturing sector companies that present financial statements in Rupiah.
4) Completely have the data needed in measuring the variables in this study.

3.3 Collection and Processing Techniques

In order to acquire secondary data in the form of financial statements of businesses in the industrial sector, this study used archival data collection techniques in the database.

The data processing technique used in this study is first, selecting the variables to be entered into the table. Second, tabulating data in Microsoft Excel by summarizing the data as needed. Third, perform data processing using E-views software. The panel data regression equation in the Eviews application will be used because the data used is panel data.

4 RESULTS AND DISCUSSION

The sample studied in this research of manufacturing companies listed in IDX in the 2015-2019 period. The research sample companies were selected based on predetermined criteria. The following are the results of the amount of data collected under study:

Table 1 Number of Research Samples

The Company Indicators	Number of Companies
Manufacturing sector companies listed on the Indonesia Stock Exchange in 2015-2019.	183
Manufacturing companies experiencing delisting/relisting in the 2015-2019 period.	(51)
Manufacturing sector companies that did not provide complete financial reports during the 2015-2019 period.	(24)
Manufacturing sector companies that present financial statements in currencies other than Rupiah.	(16)
Companies that are selected as samples per year	91
Total Observations (91 x 5)	455

In table 1 there are 183 industries listed on the IDX in 2015-2019. There are 91 companies that meet the criteria for the research sample with the total of 455 samples.

4.1 Descriptive Analysis

Descriptive statistics include collecting, grouping, and processing data which will then produce statistical measures such as frequency, data formulation, data distribution and others (Sugiyono, 2017). Descriptive statistics describe data that can be in the form of mean, standard deviation, maximum and minimum.

4.2 Eviews Model Test Results

Chow test

Table 2 Chow test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	8.316457	(74,294)	0.0000
Cross-section Chi-square	423.459316	74	0.0000

Source: Output Eviews 9”

The Chi-Squares value in the table above has a value of 0.0000 <0.05. The results of the chow test show that it is more appropriate to use the Fixed Effect Model (FEM) than the Common Effect Model (CEM).

Hausman test

Table 3. Hausman test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	51.669664	6	0.0000

Source: Output Eviews 9

The results of the Hausman test show that the significance is <0.05 so that the selection of the right model is the Fixed Effect Model (FEM). So it is not necessary to do the Langrange test to determine the best model.

4.3 Classical Assumption Test

Multicollinearity Test

Table 4. Multicollinearity Test

	FS	DER	CR	WC	ATR	SG
FS	1	0.182	-0.145	0.468	0.281	0.203
DER	0.182	1	-0.370	-0.136	-0.083	0.105
CR	-0.145	-0.370	1	0.260	-0.024	-0.064
WC	0.468	-0.136	0.260	1	0.009	0.034
ATR	0.281	-0.083	-0.024	0.004	1	0.182
SG	0.203	0.104	-0.064	0.034	0.182	1

Source: Output Eviews 9

Based on table 4, it can be seen that the value of the correlation coefficient between variables has a value below 0.8. This indicates that the data in this study did not occur multicollinearity symptoms

Heteroscedasticity Test

Table 5. Heteroscedasticity Test

Tests were carried out on the regression model to find that there was no heteroscedasticity problem using the Breusch-Pagan-Godfrey test:

Heteroskedasticity Test: Breusch-Pagan-Godfrey 1			
F-statistic	11.22795	Prob. F(6,368)	0.0000
Obs*R-squared	58.02657	Prob. Chi-Square(6)	0.0000
Scaled explained SS	798.9663	Prob. Chi-Square(6)	0.0000
Heteroskedasticity Test: Breusch-Pagan-Godfrey 2			
F-statistic	2.058526	Prob. F(6,368)	0.0574
Obs*R-squared	12.17739	Prob. Chi-Square(6)	0.0581
Scaled explained SS	28.00444	Prob. Chi-Square(6)	0.0001

Source: Output Eviews 9, 2022

According to Table 6, the data exhibit signs of heteroscedasticity because the *R-squared value is 58.02657 and the probability value is 0.0000, or 0.05. In order to remove this heteroscedasticity symptom, the researchers transformed the data using the natural logarithm (Ln). Following data transformation, the researcher discovered that the *R-squared value was 12,17739 and the probability value was 0.0581, indicating that the data did not exhibit any signs of heteroscedasticity.

4.4 Panel Data Regression

In panel data regression the author has found that the data will be processed using FEM, then the FEM formula is as follows:

$$ROE_{it} = \alpha + \beta_1 FS_{it} + \beta_2 CR_{it} + \beta_3 DER_{it} + \beta_4 SG_{it} + \beta_5 WC_{it} + \beta_6 ATR_{it} + \varepsilon$$

4.5 Hypothesis Testing

Coefficient of Determination Test Results (R^2)

To determine the ability of the model in influencing the research variables. The value of R2 is shown from table 8 below:

Table 6. Coefficient of Determination (R^2)

R-squared	0.576	Mean dependent var	0.840328
Adjusted R-squared	0.461	S.D. dependent var	1.140768

Table 8's Adjusted R-squared value is 0.461. This indicates that the independent variables—Firm Size (FS), Debt Equity Ratio (DER), Current Ratio (CR), and Working Capital—have an impact on the dependent variable, which is profitability (WC). Asset Turnover Ratio (ATR) and Sales Growth (SG) accounted for 46% (0.461), and additional factors outside the study model accounted for the remaining 54%.

Partial Test Results (T Test)

The t-test was conducted to test the effect of the dependent variable on the independent variable. Decision to accept and reject by looking at the probability value. The decision making criteria is if the probability value is < 0.05 then "these variables have a significant effect. However, if the probability value is > 0.05 then the variable has no effect.

Table 7. Panel Data Regression

Variable	Coefficient	t-Statistic	Prob.
C	-0.464	-0.500	0.617
FS (H1)	-1.195	-1.320	0.188
DER (H2)	0.114	0.458	0.647
CR (H3)	0.317	1.547	0.123
WC (H4)	0.048	2.595	0.009
ATR (H5)	0.670	2.519	0.012

SG (H6)	0.015	0.319	0.750

Source: Output Eviews 9

5 DISCUSSION

Effect of Firm size on Profitability

The hypothesis test demonstrates that H1 is unsupported because the probability value that results is 0.188. The key factor that might impact ROE is not the size of the firm. The correlation between firm size and profitability has a negative tendency, as indicated by the coefficient value of -1.195.

Alarussi & Alhaderi (2018) contend that business size has a favorable impact on profitability, which is contrary to this conclusion. They concluded that huge businesses have their own markets in which to sell their products, which will enhance the company's performance and result in high profitability. It's the same as earlier study by Usman, Ormal, and Ahmad (2018).

Effect of Leverage on Profitability

Because the probability value—0.647—is higher than the significance level, H2 is not supported. Leverage is not the main variable that could affect profitability. The coefficient value of 0.114 indicates a one-way link between leverage and profitability that is favorable.

The study's findings conflict with those of Alarussi and Alhaderi (2018), Nawaf (2015), and Putra & Badjra (2018). (2015). They contend that one of the key elements affecting profitability is leverage. This is a natural conclusion given that a corporation can decide how much Profitability to sacrifice when deciding whether to finance its operations via stock, debt, or both.

Leverage has no impact on profitability, according to Hansen & Juniarti (2014), Pratomo (2017), Santoso, Maryono, & Bagana (2019), and Barus & Leliani (2013). The firm will be in risk if it is in an extreme debt situation as a result of using debt excessively, and it will be challenging for the company to repay its debt.

The effect of Liquidity on Profitability

Because the likelihood value is 0.123, the H3 test in table 11 above indicates that H3 is not supported. Liquidity is not the primary element that might effect profitability, according to the coefficient value of 0.317, which points to a positive tendency in the link between liquidity and profitability.

The findings of this investigation are consistent with studies by Alarussi and Alhaderi (2018). They claim that there is a slight but favorable correlation between profitability and liquidity. This is due to the fact that profitability is not reliant on the cash basis and that while liquidity is crucial for financial institutions like banks, it is less so for non-financial businesses. Liquidity is employed in banks to pay for the business's present liabilities.

The effect of Sales Growth on Profitability

The probability value of 0.750, which is higher than the significance, indicates that H4 is not supported. Sales growth is not the main element that could affect profitability because the relationship between sales growth and profitability is unidirectional and the coefficient is positive.

This outcome agrees with research from the years 2013 and 2014 by Barus, Leliani, and Hansen as well as Winarno, Hidayati, and Darmawati (2015). They claim that the fluctuations in sales growth have no bearing on profitability. In contrast to Yazdanfar D. (2013), whose research found a link between business growth and profitability, this study's findings are inconclusive. This could prevent the company from selling its stock of raw materials and completed goods.

The effect of Working Capital on Profitability

H5 is determined to be supported because the probability value for the test is 0.010, which is lower than the 0.05 or 5% significance level. The coefficient value suggests a positive direction, showing that there is a one-way relationship between working capital and profitability. Working capital is one of the main factors that may affect profitability.

The results of investigations by Bulan (2015), Alipour (2011), and Alarussi & Alhaderi (2018) are in agreement with these results. They contend that a company's profitability will be significantly impacted by its ability to manage its working capital. Sales are used to replenish the company's working capital. Then it will be used once more in business operations to increase profitability and sales.

The effect of Company Efficiency on Profitability

H6 test shows that H6 is supported. The coefficient value points in a positive direction, indicating that there is a unidirectional relationship between company efficiency and profitability and that company efficiency is one of the primary variables that can impact profitability.

This finding is consistent with studies by Alarussi & Alhaderi (2018) and Sagala, Pane, Yolanda, & Yanti (2020), which found that the more efficient a firm is at using its resources to generate sales, the greater its company efficiency ratio. This indicates that if the business increases its efficiency, it can grow sales while maintaining the same level of assets.

CONCLUSIONS AND SUGGESTIONS

Conclusion

The following are some of the findings from research that tries to ascertain the impact of several factors on profitability in the manufacturing industry in 2015–2019: First, profitability is unaffected by a company's size. Second, there is no impact of leverage on profitability. Third, profitability is unaffected by liquidity. Fourth, profitability is unaffected by sales increase. Fifth, profitability is impacted by working capital. Sixth, profitability is impacted by a company's efficiency.

Limitations and Suggestion

This study has limitations, namely researchers only use company objects in the manufacturing sector on the IDX so it is recommended for further research to take a different object so that this research can develop. Researchers also hope that in the future they can use different countries so that they can see the diversity between Indonesian companies and companies in other countries. Another limitation is that the researcher only uses the 2015 to 2019 timeframe, which is limited to firm size, leverage, liquidity, sales growth, working capital, and company efficiency. Therefore, the researcher hopes that further research can use a longer research period and use different variables so that the research continues to develop.

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