International Journal of Multidisciplinary Research and Publications
ISSN (Online): 2581-6187

Leverage, Liquidity, Turnover, and Company Size on Profitability in Basic and Chemical Industrial Sectors Companies Listed on the Indonesia Stock Exchange

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Abstract— *Each company certainly wants to achieve its company goals to increase its profitability. However, with increasingly intense business competition, they must be able to determine which steps to take in order to increase its profitability, including companies that are included in the basic and chemical industrial sectors. This study aims to find out how leverage, liquidity, working capital turnover and company size affect profitability in companies in the basic industrial and chemical sectors listed on the Indonesia Stock Exchange (IDX) for 2018-2021. The sampling method used in this study was purposive sampling so that 36 observation samples were obtained. The data analysis technique used in this study is Multiple Linear Regression Analysis. The results obtained was leverage has a negative and significant effect on profitability, meanwhile liquidity, Working Capital Turnover and company size have a positive and significant effect on profitability, in Basic Industry and Chemical Sector Companies Listed on the IDX in 2018-2021.*

Keywords— *Leverage, Liquidity, Working Capital Turnover, Company Size, Profitability.*

I. Introduction

The development of business competition is currently increasing rapidly, so companies are required to be able to provide optimal financial performance for investors. Financial performance is the achievement of a company during a certain period of managing company finances, so that a company can show how it is performing (Oktalia et al., 2020). Financial performance is one of the considerations for investors and potential investors to determine future prospects for good growth and development potential for the company (Fahmi, 2016). In assessing the company's financial performance, it can be done by analyzing the company's financial statements by looking at its financial ratios, one of which is by looking at the profitability ratio (Harahap, 2018).

Each company certainly wants to achieve its company goals to increase its profitability, because it will be a positive signal for investors and potential investors to invest in the company including companies that are included in the basic industrial and chemical sectors. The operations of companies in the basic and chemical industry sector include the conversion of raw organic and non-organic materials to chemical and produce final product to increase domestic and international trade growth in supporting development of manufacture, agriculture, infrastructure and real estate. However, during 2018-2021, companies in the basic industrial and chemical sectors listed on the Indonesia Stock Exchange (IDX) experienced profitability fluctuations in average.

Increasing the company's profitability is one of the goals of each company, because it will be able to maintain the continuity of its business (Kasmir, 2019). However, companies in the basic and chemical industries listed on the Indonesia Stock Exchange during 2018-2021 profitability in average was fluctuated and tend to decrease. This is based on the calculation of projected profitability using the Return on Assets ratio, where during 2018-2021, the profitability in average has decreased.

One of the things that must be considered to increase the company's profitability is leverage. According to Kasmir (2019: 153), the Leverage Ratio or Solvability is the ratio used to measure a company's assets that are financed with debt or how much the debt burden by the company compared to its assets. The information about Leverage is given through signal by the company to investor, as guidance on how management views the company's prospects and what has been done by management to realize the wish of the investor (Brigham and Hauston, 2011).

Leverage, liquidity, working capital turnover, and company size are important factors in determining the profitability of a company, although Sukadana and Triaryati (2018); Mailinda et al., (2018); Fransisca and Widjaja (2019); Andreani and Putra (2019) found that leverage had a negative and significant effect on profitability. The inconsistency of previous research and also fluctuations profitability in average that is experienced by companies in the basic industrial and chemical sectors listed on the The Indonesian Stock Exchange making researchers interested in this research.

II. Literature Review

Leverage

Leverage is the ratio used to measure a company's assets that are financed with debt or how much the debt burden by the company compared to its assets (Kasmir, 2019:153).

Liquidity

Fred Wetson (in Kasmir, 2019: 129) the liquidity ratio is a ratio that describes a company's ability to meet short-term obligations (debt). This means that if the company is billed, the company will be able to fulfill the debt, especially debt that is due.

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Working Capital Turnover

Kasmir (2019: 184) Working Capital Turn Over is a ratio to measure or assess the effectiveness of a company's working capital during a certain period. This means how much working capital rotates during a period or in a period.

Company Size

According to Abdul Halim (2015: 125), company size is the larger the company size, the greater the tendency to use foreign capital. This is because large companies require large funds to support their operations and one alternative to fulfil this is with foreign capital if their own capital is insufficient.

Profitability

Kasmir (2019:198) the profitability ratio is a ratio for assessing a company's ability to make a profit. This ratio also provides a measure of the effectiveness of a company's management. The use of profitability ratios can be done by using a comparison between the various components in the financial statements, especially the balance sheet financial statements and income statements.

III. RESEARCH METHODS

This research was conducted on basic and chemical industry companies listed on the Indonesia Stock Exchange by collecting data from financial reports for 2018-2021 obtained on the Indonesian Stock Exchange website, namely www.idx.co.id. The population used in the research is all basic industrial and chemical companies listed on the Indonesia Stock Exchange in 2018-2021, namely 74 companies. Quantitative data in this study are leverage, liquidity, working capital turnover, company size, and profitability obtained from the annual financial reports of companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange for 2018 - 2021 obtained on the website www.idx.co.id. The secondary data source used in this study was obtained from the annual financial reports of companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange for 2018-2021. The data analysis technique in this study was divided into several stages including descriptive statistics, quantitative analysis, classical assumption test, multiple liner analysis and feasibility test of the model according to the problems in the series of hypotheses.

IV. RESULTS AND DISCUSSION

Based on the Asymp value normality test. Sig. (2-tailed) is 0.200 which is greater than 0.05 indicating that the data is normally distributed. Based on the multicollinearity test, it was shown that all independent variables had a tolerance value of > 0.10, as well as the results of calculating the VIF value, all variables had a VIF value of < 10. This means that the regression model created does not show signs of multicollinearity. Based on the heteroscedasticity test, each model has a significance value greater than 0.05. It means that in this regression model, there is no similarity of variance from one residual observation to another or there is no heteroscedasticity. Multiple Linear Regression Analysis is used to determine the effect of leverage, liquidity, capital turnover, and company size on profitability. Multiple linear regression analysis in this study was processed with IBM SPSS version 26. The following summarizes the results of multiple linear regression:

TABLE 1. Results of Multiple Linear Regression Analysis

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.678	1.154		.588	.558
	Leverage	-.378	.047	-.425	-8.045	.000
	Likuiditas	.192	.087	.116	2.208	.029
	Perputaran Modal	5.606	.342	.896	16.369	.000
	Ukuran Perusahaan	2.677	.749	.191	3.576	.000

a. Dependent Variable: Profitabilitas

Source: Processed data (2022)

Based on Table 1, it can be written multiple linear regression equations as follows.

$$Y = 0.678 – 0.378X1 + 0.192X2 + 5.606X3 + 2.677X4 + e$$

Based on the regression equation above, it can be explained that:

1. The constant value (α) of 0.678 means that if the value of leverage (X1), liquidity (X2), capital turnover (X3), and company size (X4) is 0 (zero), then the amount of profitability (Y) is 0.678.
2. The regression coefficient value of the leverage variable (X1) is -0.378 which means that leverage has a negative relationship to profitability, where if leverage increases by one percent, profitability will decrease by 0.378 percent so that profitability becomes 0.300 percent assuming the other independent variables are constant.
3. The regression coefficient value of the liquidity variable (X2) is 0.192 which means that liquidity has a positive relationship to profitability, where if liquidity increases by one percent then profitability will increase by 0.192 percent so that profitability becomes 0.870 percent assuming the other independent variables are constant.
4. The regression coefficient value of the capital turnover variable (X3) is -5.606 which means that capital turnover has a positive relationship to profitability, where if capital turnover increases by one percent then profitability will increase by 5.606 percent so that profitability becomes 6.284 percent assuming the other independent variables are constant.
5. The regression coefficient value of the company size variable (X4) is -2.677 which means that company size has a positive relationship to profitability, where if the company size increases by one rupiah, the profitability will increase by 2.677 percent so that profitability becomes 3.355 percent assuming the other independent variables are constant.

Discussion

Effect of Leverage on Profitability

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The first hypothesis in this study states that leverage has a negative and significant effect on profitability. Based on the results of the analysis that has been done, it can be seen that leverage has a negative regression coefficient of -0.378 with a t-count of -8.045 and a significance value of 0.000. The significance value is 0.000 <0.05 so H1 is accepted. This means that leverage has a negative and significant effect on profitability in basic industrial and chemical sector companies listed on the IDX in 2018-2021. This indicates that the higher the leverage ratio of a company tends to reduce the company's ability to generate profits.

Effect of Liquidity on Profitability

The second hypothesis in this study states that liquidity has a positive and significant effect on profitability. Based on the results of the analysis, it can be seen that liquidity has a positive regression coefficient of 0.192 with a t-count of 2.208 and a significance value of 0.029. The significance value is 0.029 < 0.05 so H2 is accepted. This means that liquidity has a positive and significant effect on profitability in basic industrial and chemical sector companies listed on the IDX in 2018-2021. This indicates that the higher the current ratio tends to increase the company's profitability.

Effect of Working Capital Turnover on Profitability

The third hypothesis in this study states that capital turnover has a positive and significant effect on profitability. Based on the results of the analysis, it can be seen that capital turnover has a positive regression coefficient of 5.606 with a t-count of 16.369 and a significance value of 0.000. The significance value is 0.000 < 0.05 so H3 is accepted. This means that capital turnover has a positive and significant effect on profitability in basic industrial and chemical sector companies listed on the IDX in 2018-2021. This indicates that the better the turnover of a company's working capital tends to increase the company's ability to generate profits.

Effect of Company Size on Profitability

The fourth hypothesis in this study states that company size has a positive and significant effect on profitability. Based on the results of the analysis, it can be seen that company size has a positive regression coefficient of 2.677 with a t-count of 3.576 and a significance value of 0.000. The significance value is 0.000 < 0.05 so H4 is accepted. This means that company size has a positive and significant effect on profitability in basic industrial and chemical sector companies listed on the IDX in 2018-2021. This indicates that the larger the size of the company, it tends to increase the company's ability to generate profits.

V. CONCLUSIONS AND SUGGESTIONS

Based on the analysis and research results described above, it can be concluded as follows:

1. Leverage has a negative and significant effect on the profitability of companies in the chemical and basic industrial sectors listed on the Indonesia Stock Exchange in 2018-2021. This indicates that the higher the company's debt ratio reflects that the company has debt that is too high, so it will reduce the company's ability to generate profits.
2. Liquidity has a positive and significant effect on profitability in companies in the chemical and basic industrial sectors listed on the Indonesia Stock Exchange in 2018-2021. This indicates that the higher the company's liquidity reflects that the company is able to finance operational activities optimally, so it can afford increase the company's ability to generate profits.
3. Capital turnover has a positive and significant effect on profitability in companies in the chemical and basic industrial sectors listed on the Indonesia Stock Exchange in 2018-2021. This indicates that the higher the company's capital turnover reflects that the company is able to increase sales, so it can increase the company's ability to generate profits.
4. Company size has a positive and significant effect on profitability in companies in the chemical and basic industrial sectors listed on the Indonesia Stock Exchange in 2018-2021. This indicates that the larger the size of the company reflects that the greater the company's total assets that can be used optimally in the company's operations, so that it is capable to increase the company's ability to generate profits.

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