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Unveiling the Secret Ingredients: Boosting Profit Growth in Food and Beverage Manufacturing Companies on the Indonesia Stock Exchange

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Abstract

In this study, we aim to investigate the key factors influencing profit growth within the manufacturing companies listed on the Indonesia Stock Exchange. The primary focus of our research centers on profit growth as the dependent variable, with independent variables including the current ratio, debt-to-equity ratio (DER), and total asset turnover (TATO). Our analysis was conducted on a dataset comprising 26 manufacturing companies within the food and beverage sub-sector, which are listed on the Indonesia Stock Exchange. Among these, we selected a sample of five companies over the period spanning 2017 to 2019. Utilizing various statistical tests such as classical assumption testing, linear regression analysis, t-tests, F-tests, and coefficient of determination tests through SPSS, we found that only the debt-to-equity ratio (DER) demonstrated a significant influence on profit growth, as indicated by a significance level below 0.05. Conversely, the current ratio (CR) and total asset turnover (TATO) were found to have no significant impact on profit growth within these companies.

INTRODUCTION

Profit optimization stands as the paramount goal for companies, representing a pivotal yardstick for gauging the effectiveness of their management. It serves as a barometer for the success or failure of their strategic decisions and operational endeavors. Furthermore, profitability assessments are essential for shaping a company's future trajectory, guiding strategic planning, and ensuring sustainable growth. Among the diverse array of businesses, manufacturing companies command a unique position due to their significant market capitalization and economic impact.

Manufacturing companies constitute a distinct category within the business landscape, comprising three primary industrial sectors: the basic and chemical industry sector, the consumer goods sector, and various industrial sectors. These sectors, in turn, encompass multiple subsectors, reflecting manufacturing activities'

intricate and multifaceted nature. Each subsector plays a unique role within the broader manufacturing landscape, contributing to the overall economic vitality of the sector.

However, recent years have witnessed a shift in the growth dynamics of the manufacturing industry. In 2019, the Central Statistics Agency (BPS) reported a notable decline in the industry's growth rate, which stood at 3.8%. This decrease departed from previous years, signaling evolving market conditions and economic challenges that manufacturing companies must navigate. Understanding the determinants of profit growth within manufacturing companies, especially in specific subsectors like the food and beverage industry listed on the Indonesia Stock Exchange, becomes crucial for informed decision-making and sustainable business success.

The primary objective of this research was to investigate and identify the key factors influencing profit growth among manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2019. In pursuit of this objective, the study drew upon insights garnered from previous research, specifically the findings of Mahaputra in 2012. Mahaputra's research highlighted that specific financial indicators, including the current ratio, debt-to-equity ratio, total asset turnover, and profit margin, were significant contributors to profit growth within the context of manufacturing companies.

Nevertheless, it is essential to note that our study deviates from previous research in a particular aspect. Unlike Mahaputra's study, our research chose not to include the variable of profit margin in the analysis. By omitting this variable, we aimed to scrutinize the impact of the current ratio, debt-to-equity ratio, and total asset turnover in isolation, shedding light on their significance in driving profit growth among manufacturing firms. This divergence from prior research lends a distinctive perspective to our study, allowing us to gain deeper insights into the unique determinants of profit growth in the selected manufacturing companies. Through rigorous analysis and empirical examination, our research contributes to a more nuanced understanding of the complex dynamics influencing profitability in this sector, ultimately aiding stakeholders in making more informed decisions to enhance company performance and sustainability.

Literature Review

Profit Growth

Profit growth is essential to any business, as it indicates the company's financial health and success (H. Kyssima et al., 2020). Profit growth can be achieved

through various strategies, such as increasing sales prices, reducing costs, improving productivity, and expanding the market share (Thompson-Elliott, 2016). Measuring profit growth is possible by looking at some pertinent statistics, such as overall sales, the number of staff, market share, and turnover (Dugguh & Oke, 2018). However, determining whether profitability or growth is more important for a business can be a complex issue (Dugguh & Oke, 2018). While profitability is essential for a company's survival, growth is necessary for long-term success. Identifying growth opportunities should become the next essential item on any company's goal list after moving beyond the start-up phase (Dugguh & Oke, 2018). To increase profit growth, businesses can work with their staff to analyze their operational and financial processes to identify ways of increasing efficiency and productivity (Thompson-Elliott, 2016). Leaders must reward the creativity and ingenuity required to devise new growth options and only screen out a few growth ideas. Finally, businesses must build the skills and capabilities needed to capitalize on their most promising experiments (Eggert et al., 2014).

Current Ratio (CR)

The current ratio (CR) is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year (Smith & Watts, 1992). It compares a company's current assets to its current liabilities, incorporating all current assets and current liabilities. The current ratio is sometimes called the working capital ratio. A current ratio of 1 or higher indicates that a company has enough current assets to cover its current liabilities (Core et al., 1999). The current ratio formula is: Current Ratio = Current Assets / Current Liabilities. Current assets are usually defined as cash or will be turned into cash in a year or less, while current liabilities are liabilities that will be paid in a year or less. The current ratio is an essential metric for investors and analysts to evaluate a company's liquidity and financial health (Makgopa & Antonites, 2021).

Debt to Equity (DER)

The debt-to-equity ratio (DER) is a financial metric comparing a company’s total debt to its equity (Rahmawati & Hadian, 2022). It is calculated by dividing a company's total liabilities by its shareholder equity (Lazulfa & Pertiwi, 2022). The DER measures the degree to which a company finances its operations with debt rather than resources (Lazulfa & Pertiwi, 2022). A high DER indicates that a company relies heavily on debt to finance its operations, which can increase its financial risk.

Total Asset Turnover (TATO)

Total Asset Turnover (TATO) is a financial ratio that measures a company's efficiency in using its assets to generate revenue (Kusumadewi et al., 2023). It is calculated by dividing a company's net sales by its total assets (Kurniawati, 2022). The TATO ratio indicates how much revenue a company generates for each dollar of purchases it owns (Kusumadewi et al., 2023). A high TATO ratio suggests that a company uses its assets efficiently to generate income, while a low TATO ratio indicates that it needs to use its assets more efficiently (Kurniawati, 2022). The TATO ratio formula is Total Asset Turnover Ratio = Net Sales / Total Assets. The TATO ratio is an essential metric for investors and analysts to evaluate a company's operational efficiency and financial health (Gunawan et al., 2022).

RESEARCH METHODS

This research is quantitative and causality research; according to Sanusi (2011: 14), the causality research design is designed to examine the possibility of a causal relationship between variables. In this design, generally, the causal relationship (that) can be predicted by the researcher so that the researcher can state the classification of the causal, intermediate, and dependent variables.

This study aims to examine the effect of the independent variable, namely current ratio (CR), debt to equity ratio (DER), and total asset turnover (TATO), on the dependent variable, namely return on assets (ROA). The financial data needed for research is obtained from financial reports for 2017-2019. The subjects in this study are manufacturing companies listed on the Indonesia Stock Exchange for the 2017-2019 period.

Measurement

The measurement scale is an agreement that is used as a reference to determine the length and shortness of the intervals in the measuring instrument so that the measuring tool when used in measurement, will produce quantitative data. This measurement scale is to clarify the variables to be measured so that there are no errors in determining data analysis and further research steps.

In statistics, the measurement scale is divided into 4, namely:

a) Nominal scale: The Nominal scale is the simplest measurement scale or the lowest level in a study.
b) Ordinal scale: The Ordinal scale is a measurement scale that states the ranking between levels. The distance or interval between groups also does not have to be the same.

c) Interval scale: The Interval Scale is a measurement scale that can express ratings for levels. The distance or interval between groups is clear, but it does not have an absolute 0 (zero).
d) Ratio scale: The Ratio scale is a measurement scale aimed at measurement results that can be distinguished, sorted, have a certain distance, and can be compared.

In statistical analysis, different data types greatly influence the choice of statistical test models or tools. In this research, we use the ratio scale measurement scale because in this measurement analysis, we analyze based on absolute and logical ratio calculations according to the company's annual financial statements. The ratio scale is a measurement scale that has absolute zero.

Population and Sample

The population used in this study are manufacturing companies listed on the Indonesia Stock Exchange in the 2017-2019 period. The number of samples used was five manufacturing companies with an observation period of 3 years, so the number of observations in this study was 15.

Sampling Method

The method used in this research sample collection is the purposive sampling method. Purposive sampling is based on specific considerations such as population or previously known characteristics. In other words, the purposive sampling method is a method of selecting samples based on several criteria. The criteria are as follows:

a. Manufacturing companies listed on the Indonesia Stock Exchange in 2017-2019;
b. Companies that issued continuous audited financial reports from 2017-2019;
c. Companies that have a positive profit growth value.

Research Objects

The object of research is the characteristics inherent in the research subject. If this characteristic is given a value, the value will vary (different) between individuals or with others (Christina, 2015). The research objectives we examined were Current Ratio, Debt to Equity Ratio, Turn Assets Turnover, and Profit Growth.

Data collection

The data collection method used is literature study and documentation. The data used is secondary data, the financial statements of manufacturing companies obtained from the site www.idx.co.id.

Research Instruments

A research instrument is a tool used by a researcher in collecting data. The number of research instruments depends on the number of research variables that have been determined to be studied. The following are the instruments used for each variable:

a) Variable Y Profit Growth, The Instrument used to obtain earnings growth data is a financial report published by the company for interested parties through the Indonesia Stock Exchange website.
b) Variable X1 current ratio (CR), The Instrument used to obtain the current ratio (CR) data is a financial report published by the company for interested parties through the Indonesia Stock Exchange website.
c) Variable X2 current ratio (CR), The Instrument used to obtain the current ratio (CR) data is a financial report published by the company for interested parties through the Indonesia Stock Exchange website.
d) Variable X3 total asset turnover (TATO), The Instrument used to obtain total asset turnover (TATO) data is a financial report published by the company for interested parties through the Indonesia Stock Exchange website.

Data analysis

Based on data analysis with the sampling technique, namely the Purpose Sampling technique, it is known that from 2017-2019, there were 26 manufacturing companies in the food and beverage sub-sector. During the data selection process, it was found that 21 companies had negative profits for each different year. The remaining five companies have positive gains, and these five companies are sampled.

RESULT AND DISCUSSION

Normality test

The normality test aims to test whether the dependent and independent variables are normally distributed in regression. In the normality test, the reference for the normality test report is on Asymp. Sig Seen in Table 1, from the results of the normality test using the Smirnov Columnogrov method, a significant result is obtained from the normality test of 0.200 where the result is more than the

significance level of 0.05. So, it can be concluded that the normality test in this study is typically distributed.

Table 1. Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		15
Normal Parametersa, b	Mean	.0000000
	Std. Deviation	25.38491896
Most Extreme Differences	Absolute	.148
	Positive	.148
	Negative	-132
Statistical Test		.148
Asymp. Sig. (2-tailed)		,200c, d

Source: Processed primary data (2020)

Multicollinearity Test

The multicollinearity test tests whether the regression model finds any correlation between the independent variables. A good regression model does not correlate with the independent variables. To determine whether there is multicollinearity, it can be seen from the VIF value, if the tolerance value> 0.1 and VIF <10, it is declared that there is no multicollinearity. Based on the multicollinearity test, which can be seen in Table 2, it shows that there are no multicollinearity problems that arise; this is indicated by the tolerance value> 0.1. The Independent variable offers that the VIF value of the variable current ratio (CR) = 1.297, debt to equity ratio (DER) = 1.293, and total asset turnover (TATO) = 1,020 where the value is less than 10.

Table 2. Multicollinearity Test

Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	109,755	38,127		2,879	.015		
	CR	-175	.107	-455	-1,636	.130	.771	1,297
	DER	-425	.185	-,637	-2,293	.043	.773	1,293
	TATTOOS	-007	.197	-008	-.033	.974	.981	1,020

Source: Processed primary data (2020)

Heteroscedasticity Test (Glejser Test)

Test Heteroscedasticity the aim is to test whether, in the regression, there is an inequality of variance from the residual of the observation to the other comments. Based on Table 3, from the multicollinearity test results using the Glacier test, the results of the significance of the independent variable or variable current ratio (CR), debt to equity ratio (DER) and total asset turnover (TATO) show the variable current ratio (CR) of 0.003, debt to equity ratio (DER).) of 0.000 less than the significant value of 0.05, and the total asset turnover (TATO) of 0.442 above the significance value of 0.05.

So, it can be concluded that the variable current ratio (CR) and debt to equity ratio (DER) heteroscedasticity problems occur, while the total asset turnover (TATO) variable does not have heteroscedasticity problems.

Table 3. Heteroscedasticity Test (Glejser Test)

Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	71,828	11,021		6,517	.000
	CR	-118	.031	-620	-3,829	.003
	DER	-325	.054	-,980	-6,065	.000
	TATTOOS	.003	.057	.007	.047	.964

Source: Processed primary data (2020)

Autocorrelation Test

A good regression model is the absence of an autocoleration model. In this study, a way to detect the absence of autocoleration using the Durbin Watson test. Based on the results of table 4, it is known that the DW value = 2.635, then compared with the value from the 0.05 significance table with a sample size of 15 and the number of independent variables 3 (K = 3) = 3.15so that the results obtained from the dU table r = 1.7501. The DW value is greater than the dU limit and greater than (4-dU) = 4 - 1.7501 = 2.2499 So it can be concluded that there is autocorrelation.
Result = Du <D> 4-D = 1.7501 <2.635> 2.2499.

Table 4. Autocorrelation Test

Model Summary b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.587a	.344	.165	28.63805	2,635

Source: Processed primary data (2020)

Linear Regression Test

a) T-test

The t-test determines whether the independent variable individually affects the dependent variable. For nominal t-table, it can be calculated by the formula: T table = t (a / 2: nk-1) Information: n = number of samples and k = number of variables x. Based on Table 5, the results of the t table for the variable current ratio (CR), it is known that the value of t count <t table is -1.636 <3.106 with a significance value of 0.130> p-value of 0.05. This means that the current ratio (CR) variable does not affect profit growth (H1 is not proven).

The results of the t table for the debt to equity ratio (DER) variable show that the value of t count <t table is -2.293 <3.106 with a significance value of 0.043 <p-value 0.05. This means that the debt-to-equity ratio (DER) variable affects profit growth (H2 is proven). The results of the t table for the variable total asset turnover (TATO) show that the value of t count <t table is -0.33 <3.106 with a significance value of 0.974> p-value 0.05. This means that the total asset turnover (TATO) variable does not affect profit growth (H3 is not proven).

Table 5. T test

Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	109,755	38,127		2,879	.015
	CR	-175	.107	-455	-1,636	.130
	DER	-425	.185	-,637	-2,293	.043
	TATTOOS	-007	.197	-008	-.033	.974

Source: Processed primary data (2020)

b) F test

The F test will show the effect of the independent variable simultaneously on the dependent variable. The significant level is 0.05 with the assessment criteria if F count> F table, which means that the independent variable simultaneously significantly affects the dependent variable. Based on the output of table 6 above, it is known that the significance value for the effect of current ratio (CR), debt to equity ratio (DER) and total asset turnover (TATO) simultaneously on profit growth is 0.184> 0.05, so it can be concluded that H4 is not accepted. means that there is no stimulant effect on current ratio (CR), debt to equity ratio (DER) and total asset turnover (TATO) on profit growth.

Table 6. F test

ANOVAa

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4731,816	3	1577,272	1,923	.184b
	Residual	9021,518	11	820,138		
	Total	13753,333	14			

Source: Processed primary data (2020)

c) Determination Coefficient Test

The coefficient of determination R2 is used to measure how far the model can explain the variables affecting the dependent variable. Based on the coefficient of determination test results, the value of Adjusted R Square is 0.344. This value can be seen in table 7, which means influence variable current ratio (CR), debt to equity ratio (DER), and total asset turnover (TATO) simultaneously to profit growth while other variables outside the study influence 66%.

Table 7. F test

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.587a	.344	.165	28.63805

Source: Processed primary data (2020)

CONCLUSION

the findings of this research lead to several critical conclusions regarding the determinants of profit growth in manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2019. Firstly, it is evident that among the independent variables under scrutiny, the debt-to-equity ratio (DER) emerged as the sole significant contributor to profit growth. This conclusion is supported by the statistical significance of the DER variable, as indicated by a significance level (sig value) of less than 0.05. In practical terms, this signifies that variations in the debt-to-equity ratio indeed have a discernible and noteworthy impact on the profit growth trajectory of these companies.

Conversely, our analysis revealed that the current ratio (CR) and total asset turnover (TATO) variables did not statistically significantly influence profit growth within the sample of manufacturing companies. This outcome suggests that fluctuations in these particular financial indicators may not be the primary drivers

of profit growth in the companies examined. In essence, these conclusions provide valuable insights for business leaders, investors, and stakeholders in the manufacturing sector, offering a more precise understanding of the factors that can impact profit growth.

The significant effect of the debt-to-equity ratio underscores the importance of prudent financial management and capital structure decisions in achieving profitable outcomes. However, it is also crucial to recognize that other factors not explored in this study may also play a role in influencing profit growth, necessitating further research and analysis to comprehensively comprehend the multifaceted nature of profitability in manufacturing companies.

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