THE INFLUENCE OF LIQUIDITY, LEVERAGE, AND ACTIVITY RATIOS ON PROFIT GROWTH OF CONSUMER GOODS INDUSTRIES LISTED IN THE INDONESIAN STOCK EXCHANGE

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ABSTRACT

The purpose of this study was to analyze the influence of liquidity, leverage, and activity ratios on profit growth of consumer goods industries listed in the Indonesian Stock Exchange (IDX) 2009 – 2012. Samples were selected by purposive sampling method. From 41 companies, only 20 companies were selected as the sample for this study. Analytical tool used was multiple regression analysis. Results show that current ratio had positive effect on profit growth, debt equity ratio had negative effect on profit growth, and inventory net working capital had no effect on profit growth.

Keywords: *liquidity, leverage, activity ratio, profit growth.*

INTRODUCTION

Improved performance in the stock market is a barometer of healthy economy that will have a positive impact on business, which motivates investors to re-invest their fund in the market. Company performance can be assessed from financial performance published each period (Juliana dan Sulardi, 2003). Financial statement provide accounting information regarding companies' operation and financial position at a given time (Brigham and Enhardt, 2003). Accounting information in the financial statement is very important for business, especially for decision making purposes.

Profit is one measuring instrument for a company to survive and continue its operation. Profit is additional net income in the form of property and money that can be used for the company's survival (Hasibuan, 2009). Therefore users of financial statement measure the success of management through profit.

Profit growth is measured by an increase of company's profit (Hapsari, 2003). Good profit growth is an indicator of healthy financial position, which will increase the value of the company. Highly company will pay dividend on time. Thus, companies with high profit will have a large number of assets so as to provide greater opportunities in generating the profit. According Sujana (2004), the state company that has great total assets shows company has reached a stage of maturity.

In this globalization era, more techniques of investment analysis based on financial statements have been published. One of them is the ratio technique applied by businessman.
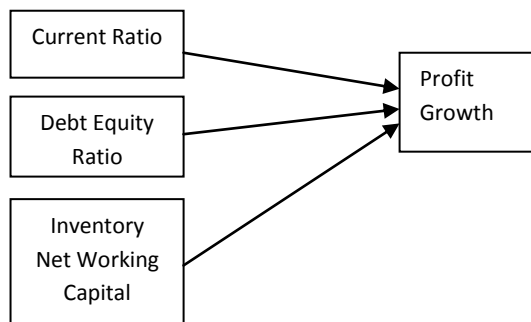
According to Lidyawati (2005), financial ratio consisting of 18 ratio which is divided into four categories: liquidity, leverage, activity, and profitability have shown that financial ratio influential on profit growth. Some researchs that used financial ratios to predict profit growth, such as Machfoedz (1994), Fadjih and Soelistyo (2000), Takarini and Ekawati (2003), Kaaro (2003), Ang (2005).

This study aims to further analyze the influence of financial ratio on profit growth in consumer goods industries period 2009-2012. Profit growth is one reason investors invest in company, so that every company needs to develop strategies that can maintain the continuity of the company and attract investors to invest. This research is still rare subject of the consumer goods industries with the latest data and also added activity ratio in predicting profit growth of a the company.

Current ratio as a proxy of liquidity used in this study, because this ratio measures the company's ability to fulfill its short-term debt by using its current assets. The higher ratio, the better of lender position will be because it provides protection against possible losses drastic if there is failure company (Lidyawati, 2005), Debt equity ratio (DER) shows that composition total debt (short-term and long-term) is bigger than total capital, so that the company expenses reveal bigger impact on creditors. DER as a proxy of leverage used in this study because Cahyaningrum (2012) proved this ratio can influence profit growth, while the Inventory Net Working Capital (INWC) as a proxy of the activity ratio is used because based on the research conducted by Lidyawati (2005) and Setiawan (2005) used this variable for knowing the influence of financial ratio on profit growth of a company.

Based on the background of the research above, the problems of this research were:
1. Does current ratio positively influence profit growth of consumer goods industries at Indonesian Stock Exchange?
2. Does debt equity ratio negatively influence profit growth of consumer goods industries at Indonesian Stock Exchange?
3. Does inventory net working capital positively influence profit growth of consumer goods industries at Indonesian Stock Exchange?

Picture 1. Reseach Model

Hypothesis
H_1 : Current ratio has positive effect on profit growth
H_2 : Debt equity ratio has negative effect on profit growth
H_3 : Inventory net working capital has positive effect on profit growth.

DISCUSSION

To find out that the regression model formed a good estimate, it is necesssary to test the goodness of fit, with the following result :

1. Coefficient of Determination

   This test was used to prove the extent of effect of independent variable could clarify the dependent variable. Based on the statistical calculation, the obtained value of determination coefficient was 0.319 or 32 percent. It depicted that the effect of independent variables i.e. CR, DER, INWC variable on profit growth was 32%, the remaining 68% was affected by the other variables which were not included in this research.

2. F-Test

   The researcher employed F test to examine the effect of independent variables simultaneously on the dependent variable. From the calculation result with significance level 95 percent or (α) = 0.05. The value of F_{table} was 2.76. Meanwhile, the value of $F_{statistic}$ was 4.428.

   Based on the explanation above, the value of Fstatistic> Ftable or was in the acceptance area H0. It could be concluded that CR, DER, and INWC variable simultaneously had significant effect on the profit growth variable.

3. Significant Partially Effect Testing by T-test

   t test was aimed to know each independent variable with the dependent variable and to know the course of the correlation between the independent variable and the dependent variable. If t statistic (significance probability) was below 0,05. The independent variable significantly affected on the dependent variable. In contrast, if t statistic was above 0,05. The independent variable did not affect significantly on the dependent variable. From the analysis result with error level (α) = 0.05, t_{table} was 1,6725.

Tabel: 1
Result of Multiple Regression

	Coefficient Value	$t_{statistic}$	P-Value
Constant	-0.522	-0.917	0.363
CR	0.348	2.145	0.036
DER	-0.359	-2.434	0.018
INWC	0.134	0.947	0.348
	$R^2 = 0.192$		
	$F_{statistic}$ = 4.428		

Discussion of the result

1. The effect of current ratio on profit growth

   Based on the calculation, the value of $t_{statistic}$ of current ratio variable was 0.348. From the result, it could be seen that -tstatistic> -ttable, could be concluded that variable current ratio partially have significant effect on the profit growth variable. Thus, the first hypothesis which stated that current ratio had positive effect on the profit growth is accepted. The higher of current ratio, the company increasingly liquid and will easier to obtain fund from creditors and investors to improve its operational activities, so that

profit growth will also increase. The results of this research supports research of Wulansari (2010) and Lidyawati (2005).

2. The effect of debt equity ratio on profit growth

The higher the Debt Equity Ratio, the lower the corporate funding provided by the shareholders. The higher DER showed higher use of debt as a source of corporate funding. This can pose considerable risk for the company when the company is unable to pay such obligation at maturity, so it will influence the continuity of company's operations. In addition, the company will be faced with higher interest costs that can reduce corporate profits. This shows that DER had negative influence on profit growth. The result of this research supports research of Raharjaputra (2009) and Syamsudin (2009).

3. The effect of inventory net working capital on profit growth

This ratio relates inventory, a company that has a large inventory does not necessarily generate large profits, because the company could has a turnover inventories that relatively slow. Thus, stock up on this year is not yet able to turn into profit for the year ahead. This reveals in significant change in the ratio of the change of INWC financial ratios. So this ratio in this research did not have influence on profit growth. The result of this research supports by Setiawan (2005).

CONCLUSION

Based on the research result and discussion, the conclusions can be drawn as follows:
1. Current ratio (CR) had positive effect on the profit growth of consumer goods industries listed on Indonesian Stock Exchange
2. Debt to equity ratio (DER) had negative effect on the profit growth of consumer goods industries listed on Indonesian Stock Exchange
3. Inventory net working capital (INWC) did not have significant effect on the profit growth of consumer goods industries listed on Indonesian Stock Exchange.

Based on the research result and discussion, the implication can be drawn as follows:
1. Company should pay more attention to the ability of company in obtaining profit by means of makes effective and efficient the use of charge, manage his debts, regulate the use of external funds in terms of expansion and financing operations of the firm in future and maintain good working capital and efficient.
2. Investors should consider other factors beyond financial ratio such as macro factors: inflation rate, interest rate, and political condition since they will indirectly influence on profit growth.

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