EFFECT OF WORKING CAPITAL, COMPANY SIZE, AND COMPANY GROWTH ON PROFITABILITY AND COMPANY VALUE

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Abstract

This study aimed to analyze whether working capital, company size, and company growth affected the profitability of companies listed on Indonesian Stock Exchange from 2012 to 2016. Therefore, explanatory research was applied to understands the impacts of those varaibles. In this study, samples were taken with saturated sampling technique with secondary data during data collection and documentation period in the 129 manufacturing companies listed on Indonesian Stock Exchange from 2012 to 2016. Then, the data were analyzed and presented with the Partial Least Square. As the results, the data indicated significant consequence of working capital towards profitability. The company size also significantly affected the company value. In contrast, the company growth had no significant effect on the company value, but had significant impact on profitability of the company value.

Keywords

Working Capital, Company Size, Company Growth, Profitability, and Company Value

1. Introduction

A manufacturing company is a type of company that manages raw materials to produce finished goods. It relatively engages larger amount of labors compared to other types of companies, such as: service companies and general trading companies (Agnes, 2011). The manufacturing company exemplifies the largest number of issuers compared to other companies listed on *Bursa Efek Indonesia* (BEI; the Indonesian Stock Exchange). In the manufacturing sector, there are many companies that grow incomparably since their products have been highly demanded by most of Indonesian societies (Apsari, Dwiatmono & Azizah, 2015). Therefore, most of Indonesian investors likely commit to do business in manufacturing companies.

The manufacturing industry has been considered as a major support for industrial development of a country. The growing establishment of manufacturing industries within a country can perform its national development (Barns & Leliani, 2013). The advancement can be captured in terms of product quality and of industry performance comprehensively. As in Indonesia, manufacturing industries have dominated the numbers of companies listed in Indonesian Stock Exchange (BEI). In current economic situation, the numerous Indonesian manufacturing companies tend to compete for gaining higher profit by improving their business performance.

Moreover, each manufacturing company intends to escalate its company value by increasing the owners' or shareholders' prosperity (Wahidahwati, 2002). Company value can be seen through the market value or book value of equity. Book value is the accumulation of a company's net assets, liabilities, and equity based on its historical recording. While market value is a market perception that is derived from investors, creditors, and other stakeholders against the condition of the company and that is usually reflected on the adjustment of company's share.

A higher share value of a company is definetely expected by shareholders as it performs the high profit for shareholders. The high share value also indicates the high company value. Therefore, Price Earning Ratio (PER) is one of ratios that is fundamentally used to measure and analyze a company's share price. Notably, PER is the comparison between share price and net profit of a company. The emitent's share price is compared to its net earnings in a year. As the calculation is focused on the net profit gained by a company, it is obvious for investors to know PER of a company. So they are able to determine whether its share price is fair or not as the company's reality; and the price is also not only as future prognosis. Simply, the changes of share prices indicate the interest changes of investors towards the shares. If the demand of a

company's shares increases, so its share price will also raise higher (Devi & Wirajaya, 2013). Conversely, the company's share price will decrease when the demand is lower in the share markets. The following table shows the average data of the value development of manufacturing companies listed in Indonesia Stock Exchange (IDX) period 2012-2016.

Table 1: *The average of manufacturing company values in 2012-2016*

Year	Company Value
2012	29.786
2013	264.562
2014	-2.470
2015	15.116
2016	-3.533

Source: BEI, 2012-2016

Drawing to previous research background, this research intended to formulate six reseach problems in order to obtain empirical evidence as follow:

1. Did the working Capital affect the profitability of manufacturing companies listed on the Indonesian Stock Exchange (BEI)?

2. Did the size of the company affect the profitability of manufacturing companies contained in the Indonesian Stock Exchange (BEI)?

3. Did the company growth influence the profitability of manufacturing companies contained in the Indonesian Stock Exchange (BEI)?

4. Working capital significantly influence the company value of manufacturing companies listed on the Indonesian Stock Exchange (BEI)?

5. Did the size of the company affect the company value of manufacturing companies listed on the Indonesian Stock Exchange (BEI)?

6. Did the company growth affect the company value of manufacturing companies listed on the Indonesian stock exchange (BEI)?

In accordance with the research problems, this study formulated six research purposes. First, this research aimed to investigate and analyze whether working capital had an effect on the profitability of manufacturing companies listed on the Indonesian Stock Exchange (BEI). Second, this research aimed to test and analyze whether the size of the company affected the profitability of manufacturing companies listed on the Indonesian Stock Exchange (BEI). Third, this research tended to test and analyze whether the growth of the company affected the profitability of manufacturing companies listed on the Indonesian Stock Exchange (BEI). Fourth,

this research tended to test and analyze whether the working capital influenced the company value of manufacturing companies listed on the Indonesian Stock Exchange (BEI). Fifth, this research aimed to test and analyze whether the firm size affected the company value of manufacturing company listed on Indonesian Stock Exchange (BEI). And last, this research aimed to test and analyze whether the company growth had an effect on the company value of manufacturing companies listed on the Indonesian stock exchange (BEI).

2. Literature Review

A company is an organization that combines and organizes various resources in order to produce goods and or services. In establishing a company, it is considered inefficient and costly for entrepreneurs to join and have business contracts with workers as well as capital holders, to rent or buy lands, and to involve other resources separately for each stage of production and distribution (Devi, 2013). Instead, the entrepreneurs fairly intend to engage workforces with large and long-term contracts so particular tasks, certain amount of wages, and other benefits can be adjusted for developing a company performance (Damayanti & Savitri, 2011). Furthermore, a company expects for profitability in doing businesses.

2.1 Profitability

Profitability is the percentage measurement that is used to assess the ability of a company to generate earnings againts its expenses and other costs during a specific period of time (Almazaril, 2014). The numerical metric of profitability is presented in terms of profit numbers before and after taxes, investment returns, earnings per share, and sales. Indeed, the rate of profitability indicates the healthy norm of a company (Bukit, 2012). According to Kasmir (2008: 197), the usages of profitability ratios for a company itself as well as for other stakeholders are various, such as:

1. To measure and assess the profit that is earned by a company in a specific period of time.
2. To assess the position of a company's earnings from previous to current years.
3. To assess the progress of profits in specific period of time.
4. To access the amount of net profit after tax as well as company capital.
5. To measure the productivity of all company capital, including liabilities and current assets

There are various definitions of working capital. According to Husnan (2001), working capital is "the overall funds needed to generate profits in the current year". While Weston, Copeland, and Houston (2010) define working capital as a company's investments in the form of

cash, securities, account receivables, and inventories that are reduced with curtent liablities. In short, working capital is an investment of a company that relates short-term assets, inlcuding: cash, short-term liabilities, and inventories.

Moreover, working capital can be defined into some concepts. Awat (2004) suggest three types of concepts for working capital, such as: quantitative, qualitative, and functional concepts. Reffering to quantitative concept, working capital is the amount of fund that is embedded in current assets. In other word, working capital is quantitatively adjusted as Gross Working Capital. In qualitative concept, the working capital is termed as the excess of current liabilities. The working capital is often referred to Net Working Capital. Last refers to functional concept that conveys working capital as a part of current assets that can generate Operating Income and Current Income.

2.2 Company Size

A company size includes the amount of assets owned by the company. It can be seen from the total assets owned by the company or the total assets of the company listed on the company's financial statements during the end of auditing period (Agnes, 2011). The company size can also be measured by its total sales, total book value of assets, total assets and numbers of employment (Ayuningtias & Kurnia, 2013).

2.3 Company Value

Company value is viewed as the perception of investors towards a company; and this is often linked to its stock or share prices. A company's higher share price indicates the higher value of the company. The share price is the amount of price when the stock is being traded in the market. In reality, not all companies expect high share prices as it is considered as expensive since they are worried for unsaleable shares that do not attract investors to buy their shares. Therefore, their share prices should be made as optimal as possible.

2.4 Company Growth

A company growth is in relation to company size. The theory of company growth was firstly explored by Robert Gibrat. In the paper of David S. Evans (1987), company growth was clearly compared with company size exploring a research by Robert Gibrat during 1904 to 1980. He studied a firm level data in the United States during 1976 to 1980 and found different result with previous studies. Evans gave an evidence that his research results was different with what Gibrat had found. Evans concluded a negative correlation between company size and company growth. In other words, both were not mutually affected for each other. However, Jovanovic

(1982) convinced that there was an inverse relationship between company growth and company age. Then, Evans (1987) intended to prove the evidence by combining both theories. While Evan disclosed what Jovanovic proved was consistent that the age variable had a significant impact on variables of company growth and surviving company. Based on the explanations about the relationship between exogenous and endogenous variables, this research formulated a conceptual framework below:
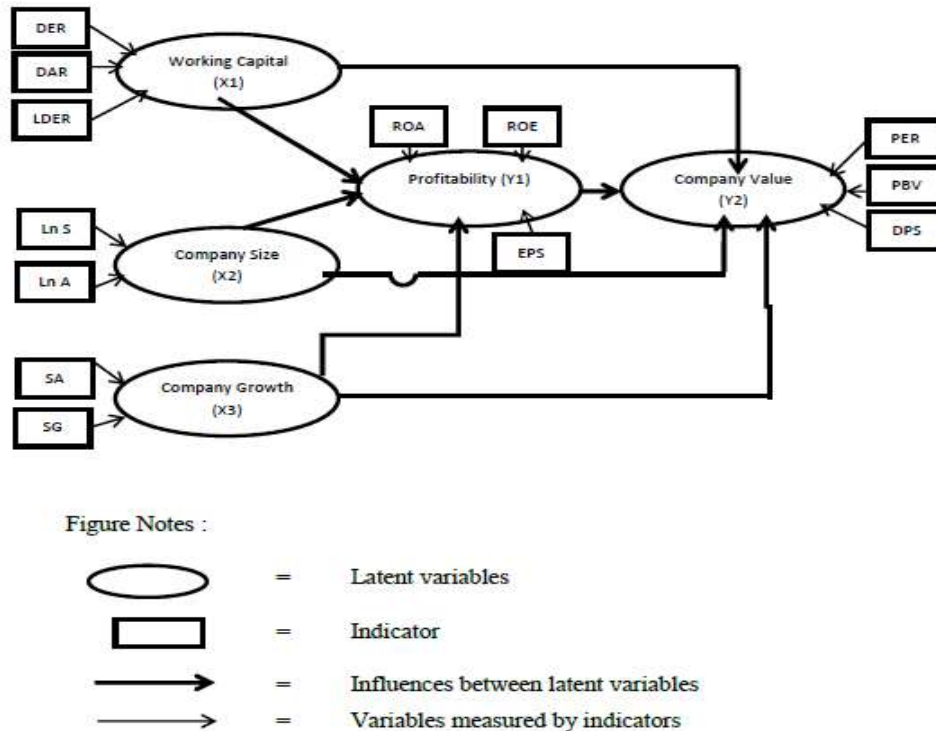

Figure 1: *Research Conceptual Framework*

3. Research Method

This research applied explanatory research that explains the causal relationship between several variables through hypothesis testing. This research explained the characteristics proxied with capital structure, company size, company growth towards profitability and company value (Arikunto, 2009). Therefore, appropriate participants should be taken to answer the research questions.

3.1 Population, Sample and Sampling Technique

Population is all members as the objects of this research (Arikunto, 2009). Population in this study is all manufacturing companies listed in Bursa Efek Indonesia (BEI; the Indonesian

Stock Exchange) in the period of 2012 to 2016. There were 129 companies listed in BEI. As for research analysis, the sample of population was considered into five criteria. First, the manufacturing companies were listed on the Indonesia Stock Exchange in 2012 -2016. Second, the manufacturing companies had published complete and consecutive financial statements during the period of 2012-2016. Third, the manufacturing companies remained active in the capital market during the period of 2012-2016. Fourth, the manufacturing companies had positive changing value of assets in the period of 2012-2016. Last, the manufacturing companies had Debt Equity Ratio data in 2012-2016.

3.2 Research Variables

In this research, there were two types of variables. The identification of variables were required to be done in order to provide clear overview and reference. Following the research problems and the hypothesis proposed in this research, the variables were identified as exogenous variables (free) and endogenous variables. The first involved variables of working capital, company size, and company growth. While the endogenous variables included profitability and company value.

3.3 Data Analysis Technique

In this research, the technique for analysising data applied Partial Least Square (PLS) analysis. Its calculation process was assisted by Smart Partial Least Square (PLS) application program. This program can be used on any type of data scales (nominal, ordinal, interval, ratio) as well as more flexible assumption terms. Partial Least Square (PLS) is also used to measure the relationship of each indicator with the construct. Moreover, PLS has two models, i.e. the inner model and outer model (Gozali, 2006). The first model is called as inner relation or structural model that shows the specification of relationship between hidden and latent variables between exogenous variables and independent variables. While the second model is also called the outer relation or measurement model, variable with its indicator.

4. Findings

4.1 Descriptive Statistics Results

This study applied descriptive statistical analysis. This explains the general picture of data without affecting the final results of a research. This research used samples of manufacturing companies listed on the Indonesia Stock Exchange between 2012 to 2016. Based on the sample criteria and sampling procedures, 30 companies were considered as appropriate

samples. In this study, the data were secondary data from the records of financial statements in 2012-2016. Then, the secondary data was discussed as the results of descriptive statistical analysis. The descriptive statistical analysis was performed on each variable, including Capital Usage that was proxied with Debt Asset Ratio (DAR); Debt Equity Ratio (DER) and LDER, Company Size that was prepared with Ln Asset (Ln A) and Ln Sales (Ln S); Corporate Growth that was proxied with Total Asset Changes (SA) and Total Sales Changes (SG); Profitability that was proxied with Earning Per Share (EPS), Return On Assets (ROA), Return On Equity (ROE) and Corporate Value Devidend Per Share (DPS), Price Book Value (PBV), Price Earning Ratio (PER) within 30 manufacturing companies listed on the Indonesia Stock Exchange during the period of 2012-2016. The following table showed the result of descriptive data analysis for each variable.

Table 2: *Descriptive Statistics*

Variable	N	Mean	StDev	Minimum	Maximum
DAR	150	0.0182	0.03165	0.00000206	0.23817
DER	150	0.0347	0.06183	0.0000023	0.39054
LDER	150	0.455	2.358	0.002	28.909
LN S	150	0.645	1.00643	0.000212	12.37
LN A	150	0.774	0.87541	0.000427	15.607
SG	150	0.038	0.01073	-0.1	0.12
SA	150	0.006	0.01612	-0.05	0.07
ROA	150	0.0197	0.1972	0.00000256	2.4181
ROE	150	0.0064	0.00975	0.0000029	0.08077
EPS	150	6.338	5.319	0.00113	14.769
PBV	150	1.137	1.852	0.000402	10.177
DPS	150	2.097	9.702	0.0000001	99.75
PER	150	0.7058	1.0373	0.00000057	5.8443

Based on the results of descriptive data analysis in the above table, the research results could be explained into thirteen indications. First, the indicator of Debt Asset Ratio (DAR) indicated that the lowest value was 0.00000206. While the highest value was 0.2382, with the average value of 0.0182 and the value of standard deviation was 0.0317. This showed that capital structure variables that were measured from DAR indicators on average used internal funds since the average DAR value was less than 1. Second, the indicator of Debt Equity Ratio (DER)

performed that the lowest value was 0.0000023, but the highest value was 0.3905, with an average value of 0.0347. Furthermore, the value of standard deviation was 0.0618. This showed that the capital structure variables measured from DER indicator on average used internal funds since the average value of DER was less than 1.

Third, the indicator of Long Term Debt to Equity Ratio (LDER) indicated that the lowest value was 0.002. While the highest value was 28.909 with the mean value of 0.455 and the value of the standard deviation was 2,358. This showed that the capital structure variables was measured from LDER indicator on average used internal funds since the average LDER value is less than 1. Fourth, the indicator of Ln Sales (Ln S) indicated that the lowest value of 0.000212 and the highest value of 4.85, with the value of the standard deviation of 0.01073. A mean value of 0.6445 or 1.91 trillions indicated that company size variables measured with Ln S indicator were on average including the large company size category. Fifth, the indicator of Ln Asset (Ln A) showed that the lowest value of 0.000427; while the highest value of 6.81 with the value of the standard deviation of 1.00643. A mean value of 0.774 or 2.17 trillions indicated that company size variables measured with Ln A indicator were on average including the large company size category.

Sixth, the indicator of total sales change (SG) showed that the lowest value of -0.1, the highest value of 0.12 with a value of the standard deviation of 0.01612. The positive mean of 00038 indicated that manufacturing companies during the research period experienced a rapid growth with 0.38% percentage. Seventh, the indicator of total asset change (SA) showed that the lowest value of -0.05; but the highest value of 0.07 with a value of the standard deviation of 0.00088. The value of positive mean of 0006 indicated that manufacturing companies during the research period experienced a rapid growth with a percentage of 0.06%. In addition, the indicator of Return On Asset (ROA) showed that the lowest value of 0.00000256; and the highest value of 2.4181 with a mean value of 0.0197 and the value of the standard deviation of 0.1972. The results showed that profitability variable measured with ROA indicator on average company increased the company's profit rate up to 1,97%.

Ninth, he indicator of Return On Equity (ROE) showed that the lowest value was 0.0000029, while the highest value of 0.0807 with the mean value of 0.0064 and the value of the standard deviation of 0.0097. The results showed that profitability variable measured with ROE indicator on average company increased the company's profit rate up to 0,64%. Tenth, the indicator of Earning Per Share (EPS) indicated that the lowest value of 0.00113, while the

highest value of 14,769, with a mean value of 6.338 and the value of the standard deviation of 5,319. The results showed that profitability variable measured with EPS indicator on average company increased the rate of company profit up to 633,8%. Eleventh, the indicator of Price Book Value (PBV) performed the lowest value of 0.000402, the highest value of 10,177 with a mean value of 1.337 and the value of the standard deviation of 1.852. The results indicated that company value variables measured with PBV indicator on average proved the high value of manufacturing companies since the PBV average value was greater than 1.

Twelfth, the indicator of Devidend Per Share (DPS) showed the lowest value of 0.0000001, while the highest value of 99.75 with a mean value of 2.097 and the value of the standard deviation of 9,702. The results indicated that company value variables measured with PBV indicator on average proved the high value of manufacturing companis since the average value of DPS was greater than 1. And last, the indicator of Price Earning Ratio (PER) showed the lowest value of 0.00000057, while the highest value of 5.8443 with a mean value of 0.7058 and the value of standard deviation of 1.0373. The results indicated that company value variable measured with Average Performance indicator proved the low value of manufacturing companies because the average value of PER was less than 1.

4.2 Partial Least Square Results

This research tested the influential significance level between research variables between exogenous construct and endogenous construct. The first construct consisted of capital structure, company size, and company growth; while endogenous construct consisted of profitability and company value. Moreover, working capital was measured with 3 indicators, such as: Debt Asset Ratio (DAR), Debt Equity Ratio (DER), Long Term Debt To Equity Ratio (LDER). Then, the company size measured 2 indicators, such as: Ln S and Ln A. Furthermore, the company growth measured 2 indicators, such as: total assets change and total sales changes. For the profitability, three indicators were measured including: Return On Assets (ROA), Return On Equity (ROE), Earning Per Share (EPS). For company value, three indicators were also measured including Price Book Value (PBV), Devidend Per Share (DPS) and Price Earning Ratio (PER). Data processing for this research applied Partial Least Square (PLS) method with Smart PLS software.
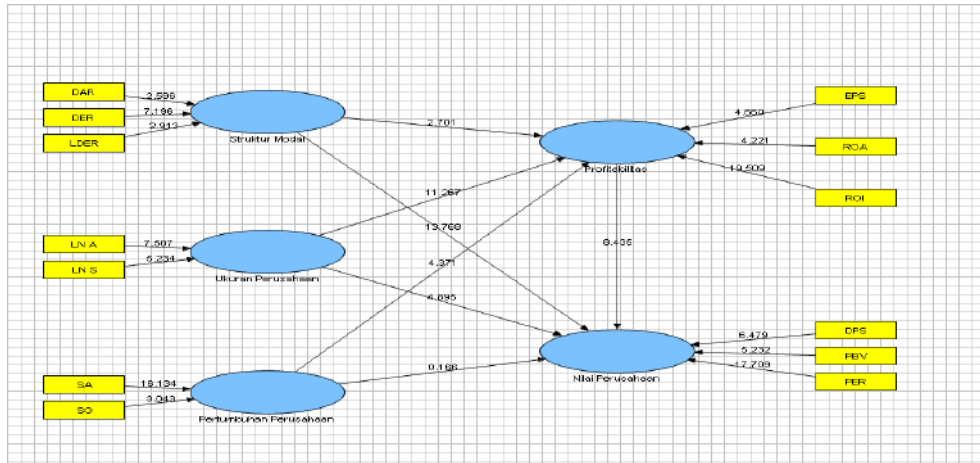
Figure 2: *Model of Formative PLS Measurement*

4.3. Hypothesis Test

In this study, the testing result of hypothesis through *Partial Least Square* (PLS) applied bootstraping method to the total of resampling count of 1000 indicated a straight influence between exogen variable to endogen variable (Ghozali, 2006). The following table was the result of hyphothesis test in this study.

Table 3: *Coefficients Path (Mean, STDEV, T-Values)*

	Original Sample (O)	T Statistics (|O/STERR|)	Notes
Capital Structure → Profitability	0.184167	2.700619	Significant
Company Size → Profitability	0.557133	11.26691	Significant
Company growth → Profitability	0.263492	4.371123	Significant
Capital Structure → Company Value	0.505941	13.76842	Significant
Company Size → Company Value	0.227035	4.895197	Significant
Company Growth →Company Value	-0.002577	0.165967	Not significant

5. Discussions

Based on the above findings, this study showed the relationship of direct influence between research variables. These were explained into six types of hyphothesis. On the first hyphothesis, the estimation result to the influence between capital structure and profitability was 0,184167 with t-statistic of 2,700619. As the results, the t-statistics of 2,700619 > 1,96 was concluded that the capital structure had a significant influence on profitability of manufacturing companies listed on the Indonesia Stock Exchange (BEI). Hence, hypothesis 1 was accepted.

On the second hyphothesis, the estimation result to the influence between company size and profitability was known as 0,557133 with t-statistic value of 11,266905. Based on the results, the t-statistics of 11.266905 > 1.96 was concluded that company size had a significant effect on the profitability of manufacturing companies listed on the BEI. Thus, hypothesis 2 was accepted.

On the third hyphothesis, the estimation result to the influence between company growth and profitability was 0,263492 with value t-statistic 4,371123. Based on this result, the value of t-statistics of 4,371123 > 1,96 was concluded that the company growth had a significant impact on the profitability of manufacturing companies listed on the BEI. Thus, hypothesis 3 was accepted.

On the fourth hyphothesis, the estimation result to the influence between capital structure and company value was known in the amount of 0,505941 with value t-statistic13,768420. Based on these results, the t-statistics of 13.768420> 1.96 was concluded that the capital structure had a significant effect on the company value of manufacturing companies listed on the Stock Exchange. Thus, the hypothesis 4 was accepted.

On the fifth hyphothesis, the estimation result to the influence between company size and company value was known as 0,227035 with t-statistic of 4,895,197. So the t-statistics of 4.895197 > 1.96 was concluded that the comoany size had a significant effect on the company value of manufacturing companies listed on the Stock Exchange. Thus, hypothesis 5 was accepted.

On the sixth hyphothesis, the estimation result to the influence between company growth and company value was known as the amount of -0,002577 with t-statistic value of 0,165967. Based on this result, the t-statistic value of 0.165967 <1.96 was concluded that the company growth did not have a significant effect on the company value of manufacturing companies listed on the Stock Exchange. Hence, hypothesis 6 was rejected.

6. Research Limitation

In any fields of scientific research, some weaknesses and limitations are possible to appear at the end of research implementation. Likewise, this research indicated two kinds of research limitations. First, this research was conducted in thirty manufacturing company listed on *Bursa Efek Indonesia* (the Indonesian Stock Exchange) only within five specific periods in 2012 to 2016. Therefore, the research samples obtained was considered limited. Second, the number of

factors that could affect the company value including dividend policy, working capital, market growth, profitability, inflation rate, sales growth, company size, institutional ownership, and shareholding structure were not observed. This research only used working capital, corporate growth, profitability, and company size to view the impact of company value so that further research results might be elaborated with other variables.

7. Conclusion

This study aimed to explore and analyze whether working capital, company size, and company growth affected the profitability of companies listed on Indonesian Stock Exchange from 2012 to 2016. Therefore, four conclusions could be raised as the results of this research. First, the usage of working capital had a significant influence towards profitability and had a positive relationship to the oberved manufacturing companies listed in the Indonesian Stock Exchange (BEI). This reserach concluded that the usage of optimal working capital could raise profitability; in contrast, the usage of working capital was that was not optimal could reduce profitability.

Second, the company size had a significant influence on profitability and had a positive relationship to the manufacturing companies listed on the Indonesian Stock Exchange (BEI). This meant that the larger size of company would influence its higher profitability. Conversely, the smaller size of a firm would perform its lower profitability. Third, the company growth had a significant influence on profitability and had a positive relationship to the manufacturing companies to the manufacturing companies listed on the Indonesian Stock Exchange (BEI). This meant that companies with fast growth rates could raise its profitability; on the other hand, companies with lower growth rates could decrease profitability. In addition, the working capital had a significant influence on the company value and had a positive relationship to the manufacturing companies listed on the Indonesian Stock Exchange (BEI). This meant that the optimal capital structure could increase the company value; however, the working capital that was not optimal could reduce the company value.

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