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Sustainable Growth and Liquidity on Profitability: A Study on Mining Sector Companies Listed at Indonesia Stock Exchange in 2018

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ABSTRACT

The study projected to determine the effect of sustainable growth & liquidity on profitability, sustainable growth on profitability, and liquidity on profitability. Data derived are quantitative from IDX companies financial statement in 2018. The sample is 43 companies of IDX mining sector companies. The variables used in this study are sustainable growth and liquidity as independent variables. Profitability as the dependent variable. The research analysis uses statistical data that is descriptive statistics, correlation matrix, significant tests, regression analysis for research data in the mining sector. Test results show that the effect is significant between sustainable growth rate and liquidity on profitability. And the effect between Liquidity on Profitability is not significant. Simultaneously states there is a significant influence between sustainable growth rate and Liquidity on the profitability of mining companies in the Indonesia stock exchange in 2018.

INTRODUCTION

In Indonesia, the development of the number of companies in the industrial sector is growing rapidly. Every company is trying its best to ensure the company's condition is running well. Therefore, this is a strength for the company to survive and develop to achieve company goals. But in this globalization era, fierce competition overshadows every company. The company's financial statements become a reference for stakeholders in assessing the financial performance of a company. One performance highlighted is the company's ability to generate profits from the business that is being undertaken. Profit is the goal of every company. Because by generating profits, the company can move and continue the company's operations.

To achieve the company's goals, each company competes and tries to ensure sustainability in the company can run well. The ability of a company to ensure its sustainability can be seen from the size of its growth rate. According to Lockwood and Prombutr (2010), sustainable growth rates are various measurements that can be divided into separate elements and describe the company's retention rate, efficient use of assets (asset turnover), ability to maintain costs (net profit margins), and funding strategies (leverage finance). With an increase in the sustainable growth rate, the company is expected to be able to achieve its goals in producing maximum profits.

Liquidity is a measure that can be used to assess a company's ability to pay short-term debts on time. The current ratio is a measure commonly used to measure company liquidity that connects current assets and current liabilities. With a company that can pay its debts

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in the short term, it is hoped that the company will automatically be able to increase its ability to generate profits. If the company ignores liquidity, it will go bankrupt and cannot last long because it cannot pay its debts.

Regarding sustainable growth, this is by the news on the cash site by Winarto (2018) which reported that in improving financial performance, BUMN companies held BUMN awards and the winners had the criteria for implementing sustainability growth. In other words, sustainable growth is an important element in improving company performance. Concerning liquidity, according to the news on the cash site by Olivia (2019) who reported that PT. Delta Merlin Dunia Textile (Duniatex) faced problems in liquidity mismatch. Due to an error in projecting liquidity, Duniatex failed to pay a large enough amount of bond coupons. In other words, the liquidity ratio becomes very important not only for the company as the guarantor of the obligations and creditors in accepting their rights but also for the overall economic condition. Therefore, sustainable growth and liquidity is considered an important factor in the ability of a company in gaining profit.

Based on the description above, this study intends to determine the effect of sustainable growth and liquidity on company profitability.

According to Brigham and Houston (2013), Profitability Ratios are a collection of ratios that reveal a combination of the effect of asset management, liquidity, and debt on a company's operating results. According to Hery (2015), Objectives and benefits of profitability ratios include: To assess the ability of a company to make a profit during a certain period, to assess the development of profits obtained by the company from time to time, to assess the profit position of a company's previous year with the current year, to measure how big is the net profit that the company will get from each rupiah of funds embedded in total assets, to measure net profit margins on net sales, to measure how much net profit will be generated from every rupiah of funds embedded in total equity, to measure operating profit margins on net sales, and to measure gross profit margins on net sales. According to Kasmir (2008), profitability ratios have several types, namely: ROI or ROA, ROE, Profit margin on sales, EPS.

According to Ross, Jordan, and Westerfield (2008) Sustainable Growth rates are the maximum growth rates that a company can achieve without external equity financing while maintaining a stable debt-equity ratio. According to Horne and Wachowicz (2009) said that rapid growth can cause bankruptcy. But on the other hand, the company's growth which is too slow can also provide great pressure because it can reduce liquid assets in the future.

According to Ross, Jordan and Westerfield (2008) growth rates can be divided into two, namely sustainable growth rates and internal growth rates. According to Saputro (2013), the concept of sustainable growth rate is driven by a motivation to make sustainable profits in the future. This is what then encourages stakeholders to know the relationship that occurs between the benefits received by the level of sales growth in the company.

According to Gitman and Zutter (2015), liquidity is the ability of a company to pay short-term debt when due. Liquidity refers to the overall financial position of a company or the ease of paying bills. According to Uyar (2009) Besides profitability is very important for business, liquidity management is also very important in all businesses. From starting small, medium, or large businesses to be afford to pay the short-term debt without any difficulty in paying because by collecting money from customers on time.

According to Hayati (2017), a high liquidity ratio will attract investors' attention. Because in general investors have the character to stay away from risk, and bring the maximum profit closer. For this reason, investors usually choose to buy shares in companies with stable liquidity to avoid the risk that will occur.

Sustainable growth, according to Palepu (2007) is a calculation of the percentage of the extent to which a company can grow while maintaining profitability and does not change the company's financial policies. According to Adhima and Bambang (2012), Every increase of one sustainability report (SRDI) disclosure unit will make an increase in company profitability (ROA). This is supported by research conducted by Susanto and Josua (2013) which concluded that sustainability reports have a significant effect on profitability. On the other hand, it is found according to Utami (2015) Profitability using the ratio of return on equity has a positive regression coefficient and the results do not significantly influence the sustainable growth rate.

H1: Sustainable growth significantly affects profitability

Liquidity, according to Alicia (2017) is very important because it concerns the creditor's trust in the company in terms of the company's ability to meet its due obligations. According to Mardiyanto (2009) If a company expects high returns, then the risk to be borne is also high. Because liquidity and profitability can be said as a relationship that is directly proportional between risk and return. Liquidity states risk, and profitability states results. Liquidity and profitability are interrelated because if a company can fulfill its short-term liabilities using its current assets, it can be said that the company has enough funds available to pay its liabilities which

will have an impact on profits for the company. (Alicia, 2017). This is supported by research conducted by Wahyuliza and Dewita (2018) that liquidity has a significant negative effect on profitability. While other studies according to Pitoyo and Lestari (2018) found that the results of Liquidity using the Current Ratio formula did not significantly influence profitability by using the ratio of return on assets (ROA), a ratio of return on equity (ROE), and the ratio of return on capital employed (ROCE).
H2: Liqudity significantly affects profitability

MATERIALS AND METHODS

This research uses descriptive exploration method. As for what is used is quantitative data in the form of financial statements on the IDX in 2018. The population conducted in this study are companies listed on the IDX. And the sample of this research is mining sector companies listed on the IDX in 2018 as many as 43 mining companies, therefore the sample in this study is 43 data samples. The variables used in this study are sustainable growth and liquidity as independent variables with current ratio as its proxy. ROA as proxy of Profitability is independent variable of this study. Research analysis uses statistical data that is descriptive statistics, correlation matrix, significant tests, regression analysis for research data in the mining sector. The regression models in this study are:

ROA = β0 + β1SG + β2CR

Information:
ROA = profitability return on asset ratio
β0 = constant
SG = sustainable growth
CR = liquidity current ratio

RESULTS AND DISCUSSION

This section will present result of the study and its discussion. The result will comprise of descriptive statistic, correlations matrix, significant test and coefficient determination. The discussion is based on the hypothesis of the study and its compare to the result and previous studies.

The section will presented the result f the study regarding the characteristic of variable in study based on mean minimum maximum in descriptive statistics.

Table 1. Descriptive Statistic

	N	Min	Max	Mean	Std. Deviation
ROA	43	-.08	.46	.0658	.10399
SGR	43	-73.89	110.94	9.8741	26.97761
CR	43	.00	111.31	3.9654	16.79285
Valid N	43				

Table 1 shows the descriptive statistics of variable in the study. Descriptive statistics shows that characteristics of variable used in the study. On profitability, return on asset has a mean value of 0.0658 or 6.58%, this mean that the average ability of mining companies to gain profit is above the standard of 5%. Nonetheless, the study found the minimum value of ROA of -8% and maximum value of 46%. In terms of sustainability, the SGR ratio shows that the result is 9.87 which mean that mining companies in average has positive sustainability growth rate. And in terms of liquidity, the study found that in average mining companies has good liquidity with mean value of 3.9654 above the standard of 1.

The following test look at whether the data could be normally distributed or not. Hypothesis test is conducted with correlation matrix as follows :

H1 : There is multicollinearity (r > 0.9)
H0 : No multicollinearity (r < 0.9)

Table 2. Correlations

		CR	SGR
CR	Correlation (Pearson)	1	-.092
	Sig.		.556
	N	43	43
SGR	Correlation (Pearson)	-.092	1
	Sig.	.556	
	N	43	43

The table above shows that the correlation value between the two independent variables is below .9 which means multicollinearity does not occurs.

Table 3. Autocorrelation

Model	Change Statistics		Durbin-Watson
	df2	Sig. F Change	
1	40[a]	.000	2.118

a. Predictors: (Constant), CR, SGR
b. Dependent Variable: ROA

Based on information provided from the table above, it is known that the value of Durbin Watson obtained in this study was 2.118

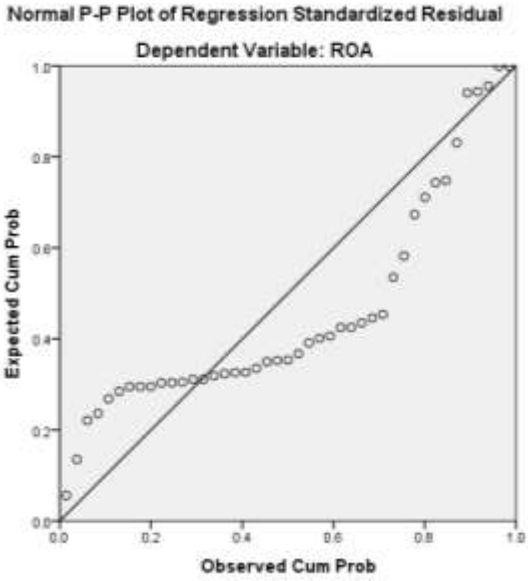

Figure 1. Normal Test

Figure 1 shows that the data is normally distributed as seen from the plot points that lie between the diagonal lines.

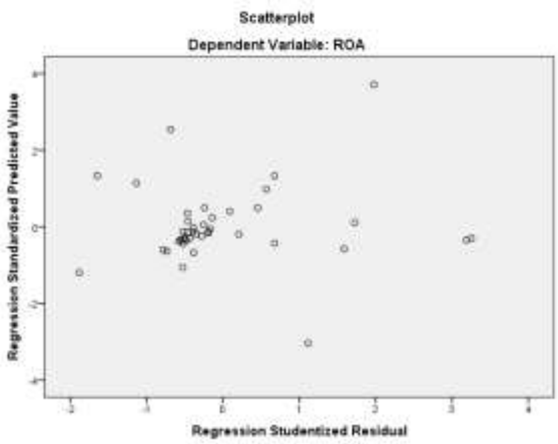

Figure 2. Heteroscedasticity

Figure 2 shows the plot points are scattered and do not form patterns, this means that the test is accepted that heteroscedasticity does not occur.

Table 4. Coefficient Determination

Mdl	R^2	Adj. R^2
1	.483	.457

a. Predictors: (Constant), CR, SGR

The table above shows that the value of r = .695 which means there is a strong relationship between SGR and Liquidity towards profitability. Another thing that is obtained is that the contribution of SGR and Liquidity in influencing changes in profitability is 48.3% and the rest is influenced by other factors.

Table 5. Significant Test (F)

Mdl	Sum of Sq.	df	Mean Sq.	F	Sig.
Regression	.219	2	.110	18.697	.000[b]
Residual	.235	40	.006		
Total	.454	42			

a. Y : ROA
b. X : CR, SGR

The table above shows the information that there is a significant effect between SGR and liquidity on profitability as seen from the F-count value of 18,697 and result with 0,000 significant value at 5% or 0.05. This shows that the implementation of SGR and Liquidity together can help in increasing the company's ability to generate corporate profits in mining companies listed on the IDX 2018.

Table 6. Coefficients[a]

	Mdl	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Std. Coef. Beta	t	Sig.
1	(Constant)	.041	.013		3.209	.003
	SGR	.003	.000	.686	6.009	.000
	CR	.000	.001	-.066	-.576	.568

a. Dependent Variable: ROA

The table above shows that there is a significant effect between SGR and profitability seen from the result of 6.009 and sig value of 0.000 below the standard of 5% or 0.05, this means that H1 is accepted. The results of the table also show that there is no significant effect between liquidity and profitability as seen from the t-value of -.576 and sig. .568 above the 5% standard or 0.05. This means H2 is rejected. The regression formulas obtained from this study are:

$$Y = a + b1X1 + b2\,X2$$

$$ROA = 0.041 + 0.003\,SGR - 0.000\,CR$$

Discussion

In this section, the results of the study will be discussed based on the hypotheses that have been made in this study.

In the first hypothesis states that there is a significant influence between sustainable growth and profitability with the results of the study seen from the t-value of 6.009 and sig value of 0.000 below the standard 5% or 0.05. This means that H1 is accepted. This is supported by research conducted by Susanto and Josua (2013) which concluded that sustainability reports have a significant effect on profitability. On the other hand, it is found according to Utami (2015) Profitability using the ratio of return on equity has a positive regression coefficient and the results do not significantly influence the sustainable growth rate.

In the second hypothesis it is stated that there is no effect between liquidity and profitability with the results of the study seen from the t-value of -.576 and sig. .568 above the 5% standard or 0.05. This means H2 is rejected. This is supported by research conducted by Waleed and Pasha (2018) who said that liquidity ratios using CR and LR have a significant impact on profitability ratios that use ROA, ROE, EPS, NPM and ROI ratios. In that study, the ROA results were directly affected by two current ratios and liquidity ratios. While other studies according to Pitoyo and Lestari (2018) found that the results of Liquidity using the Current Ratio formula did not significantly influence profitability by using the ratio of ROA, ROE, and ROCE.

CONCLUSIONS AND SUGGESTION

The conclusion drawn from the results of this study is that the level of sustainable growth significantly affects the profitability of mining companies on the Indonesia Stock Exchange. This is evidenced by the result analysis and sig. Value 0.05. hance, H1 is accepted. In terms of liquidity, the ratio is not significantly affecting profitability and could not explain the variability of profitability. However, the result also shows that collectively sustainable growth rate and liquidity have a significant influence on profitability. This is evidenced by the result of the analysis of the F-test with significant results 18.697 > 0.05.

These results indicate that the company's sustainable growth rate has affected the company's profitability. However, the results are not the same for liquidity in mining companies. for corporate finance managers, it is recommended to consider the effect of liquidity on profitability in companies where the low cash owned by the company must be used efficiently for the needs of the company. and for academics and practitioners, it is recommended that for future studies they can broaden their studies in terms of sectors and increase the period of their research. Besides, for the future studies mining companies to ASEAN context is recommended.

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