Factors Affecting Profitability

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Abstract

This study empirically tested the influence of liquidity, operational costs, to profitabilitas in mining sector companies listed in Indonesia Stock Exchange 2011-2015. The problem with mining companies is the decline in Problems that occur in mining companies is the decline in profitability despite liquidity decreased, operating costs decreased.The research method that is used is descriptive analysis method verifikatif with unit of analysis researched is financial report of mining sector companies listed in BEI in year 2010-2015. And the population of 23 Purposive Sampling and obtained sample research as many as 30 financial reports from 6 companies. This research that liquidity has a significant affecting on profitability with a negative relationship, operational costs have a significant effect on profitability with a positive relationship with a positive relationship.Partially profitability dominant influenced by operational cost compared with liquidity.

Kata Kunci *: Operational Cost, Liquidity, and Profitability.*

INTRODUCTION

Return on Assets (ROA) provides a better measure of the company's profitability as it demonstrates management effectiveness in using assets to generate revenue by Cashmere (2014: 201). Every management is required to improve the financial structure because it is responsible for creating profitability. Increased Liquidity in the company will actually lower the level of profitability of a company and vice versa. High liquidity is an indicator that corporate risk is low. That is, the company is safe from the possibility of failure to pay various current liabilities. But it must be achieved by giving up the low level of profitability, which will affect the low growth of the company. Conversely, if the company wants high profitability, the company must be willing to face low liquidity or an increasing risk of failure to pay short-term liabilities (which could lead to business bankruptcy) (Handono Mardiyanto, 2008 : 100).

The ratio of liquidity used in this study is the current ratio (ratio of current) is a common measure used on short-term solvency, the ability of a company to meet the needs of debt when maturing (Irham Fahmi, 2014: 121).

In various business cost reductions affect the profitability of the company. Cost is the most important part and must be in running the company's activities or start a business. A company to earn a profit or profit should be able to generate greater revenue than the amount of costs he sacrificed. Therefore, in order to compete the company must understand the basic concepts of cost and the units of the company so that the cost can still be controlled and minimized as much as possible with the prediction of a large profit rate (Widi Winarso, 2014).

The operational term is often used in an organization that produces output or outptut, both in the form of goods and services. In general operational is defined as a business, activity or process transform input (input) into output (output). In this general sense the usage is broad enough to cover the output (output) in the form of goods and services. So in the production and operational sense, it includes every process that changes inputs and uses resources to produce outputs in the form of goods or services (Abrams & Laplante, 2010). Operational costs are the overall cost-commercial costs incurred to support or support the activities or activities of the company to achieve predetermined targets, and in other words operational costs are the costs incurred in relation to the process of the company's operational activities in an effort to achieve maximum corporate objectives (Widi Winarso, 2014).

THEORETICAL FRAMEWORK AND HYPOTHESES

Profitability

The ability of companies to remain competitive in competition with other compa-nies, requires companies to improve profitabili-ty. According to Wiagustini (2010 : 76), said that profitability is: "The ability of the company to earn profit or measure the effectiveness of corporate management management. Profitabi-lity can be measured from the capital itself as well as from all funds invested into the company".

According to Sofyan Syafri (2004 : 304), states that: "Profitability is the ability of companies to earn profits through all the capabi-lities and existing sources such as sales activi-ties, cash, number of employees, number of branches and so on". Kasmir (2014 : 196), states that: "Profitability ratio is the ratio to assess the ability of companies in the search for profit."

Liquidity

According to Irham Fahmi (2014 : 174) states that: "It is a picture of the ability of a company to fulfill its short term obligations in a smooth and timely manner so that liquidity is often referred to as short term liquidity". Riyanto (2008 : 25) states that: "Liquidity is a problem related to the ability of a company to meet its financial obligations that must be met immediately". Kasmir (2012 : 129) states that: "Liquidity is the ratio to indicate or measure the ability of a company to meet its obligations that have matured, both liabilities to external parties (liquidity of business entities) and within the company (corporate liquidity)".

Current ratio (ratio lancer) is a measure to measure the ability of the company in paying short-term liabilities or debts that are due in full when collected entirely. Current ratio can also be said as a form to measure the level of security company. Current ratio is calculated by dividing the current assets with current debt. The greater the value of the ratio will be the more smoothly the company to fulfill its obligations (Cashmere, 2014: 134).

Operational Costs

To run a business requires resources that must be sacrificed as a substitute value for a profit. These resources are generally in value with units of money. Where resources are used are often called costs. Understanding the cost according to Mulyadi (2009: 8) is as follows: "Cost is the sacrifice of economic resources measured in units, which have occurred or are likely to occur for a particular purpose".

According to Widilestariningtyas et.al (2012: 10) The fees are as follows: "Costs as exchange rates, expenses, sacrifices to gain benefits." Meanwhile, according to Kuswandi (2006: 60) that: "Cost is all expenses to obtain goods or services from third parties. In this case, the cost is cash or cash or cash equivalents (measured non-cash property for goods or services desired) sacrificed for goods or services expected can provide both present and future profits. "

Definition of Operational Costs

Understanding operational costs propo-sed by Jusuf (2008: 33) that: "Operational costs or operating expenses are those costs that are not directly related to the company's products but relate to the daily operational activities of the company". In general, operational costs are defined as costs incurred in relation to the operations of the company and measured in units of money. Where operating costs are often referred to as operational costs or business costs.

According Siamat, 2005: 384 states that: "Operational costs are all costs directly related to the business activities of the bank". Syahrul and Nizar (2000: 256) states that: "Operational Costs are the costs associated with the administrative and sales activities of a company. Also called non manufacturing expense. It is time-related costs, not products. This cost is divided into the cost of general sales and administration fees".

The Influence of Liquidity on Profitability

Some experts claim that there is a relationship between Liquidity and Profitability (ROA). According to Frianto Pandia, (2012: 124) states that: "If you want to have a high level of liquidity, then the company will be in high safety but will get a low level of profitability. ". Van Horne & Wachowics (2005: 323) states that: "The greater the level of current assets, the greater the liquidity of the company, if other things equals greater liquidity, the risk will be smaller but profitability is also smaller or inversely proportional to liquidity".

As for the result of some previous research according to Ermaidiani and R, Weddie Andriyanto (2002), entitled influence of liquidity to profitability, result of research indicate that liquidity of current ratio influence to profitability.

Effect of Operational Costs on Profitability (ROA)

Some experts claim that there is a relationship between operational costs to profitability (ROA). According to Hidayat (2007: 42) states that: "To get the maximum profitabili-ty of the company, the work organization must think to reduce the cost level". In another opinion according to Jopie (2007 : 35) states that: "If the company can reduce operating costs, then the company will be able to increase net income. Likewise on the contrary, if there is waste of the cost will result in a decrease in net income.

Hypothesis

Based on the theoretical basis and framework above, the author makes the following hypothesis:

H1: Liquidity affects Profitability

H2: Operational cost affects Profitability

RESEARCH METHODS

In this research, the researcher use descriptive method, descriptive method is used to know more in liquidity development and operational cost to profitability at Mining Company which listed in Indonesia Stock Exchange year 2011-2015. While, in this research verifikatif method used to test the hypothesis by using statistical test tool that is Statistical Package for Social Sciences (SPSS). The verification method is used to test the effect of X1 and X2 on Y. Based on the understanding that has been stated above, the method used in this research is descriptive method and verification method with quantitative approach.

Based on this understanding, the population of this study are 115 consolidated financial statements of 23 mining companies listed on the Indonesia Stock Exchange with annual financial statements during 2011-2015 (5 years).

The sample in this study are 6 Mining companies listed on the Indonesia Stock Exchange included in the sample criteria required by the author, the financial statements consis-ting of comprehensive income, consolidated statement of financial position and notes on financial statements. As for the observation years used in this study during 5 years in a row that is starting in 2011 - 2015 because it is considered representative or representative for the test conducted to determine the influence of influence Liquidity and Operational Costs on profitability. So the sample used in this study as much as 30 (6 x 5) financial statements. The time of the research began in January 2017 until August 2017

RESULT AND ANALYSIS

The acquisition of quantitative data will be presented as the relevant variables in the study. Quantitative data is obtained based on predefined variables and scales. The available data will be presented in the form of descriptive statistics in order to make it easier to explain the research results. The following is presented data from research variables with statistical description table approach with SPSS 21 software.

This research is conducted at Mining company which is in Indonesia Stock Exchange for 5 period of financial report from 2011 until 2015. Before discussing the influence of Liquidity (CR) and Operational Cost to Profitabi-lity (ROA), firstly will be simulated Liquidity data, Operational Cost, and Profitability at Mining companies located in Indonesia Stock Exchange period 2011-2015. The data used and analyzed in this research is secondary data, because it is data collected and obtained from the results of annual financial statements.

Effect of Liquidity on Profitability

Research that has been done to produce correlation value between Liquidity to Profitabi-lity that is equal to 0.470 which pertained in category of relationship which is. This can be seen from the correlation value between 0.40 to 0.599 belonging to the medium category and the negative relationship means that every liquidity value will decrease the value of profitability. The results of this study also supported by the theory described by Frianto Pandia, (2012: 124) states that, If you want to have a high level of liquidity, then the company will be at high safety but will get a low level of profitability. The percentage of influence Liquidity to profitability of 22.09%, which means that 22.09% profitability influen-ced by Liquidity, while the rest of 77.91% influenced by other factors not examined in this study such as Total Asset Turnover (TATO), Debt To Equity Ratio (DER), Debt Ratio (DR), Sales Growth and Company Size.

Based on calculation of hypothesis test by using t test that result of hypothesis testing between Liquidity to Profitability show that tcount obtained in Liquidity variable equal to -2.770 for X1 then this research reject alternative hypothesis H0 and accept hypothesis H1. In other words based on the results of t test calculations can be concluded that Liquidity significantly affects Profitability. By comparing the Liquidity and Profitability data from the statistical test results, the results obtained that the high low value of the Company's liquidity really affect the company's ability in generating liquidity. And also the opposite decline Liquidity is also followed by the decrease in the amount of profitability in the can. (positive correlation). From the research that has been done by the author through the data have been analyzed and through statistical tests, it is known that Liquidity affects the amount of profitability.

The conclusion above is said that the results of research have responded to the phenomenon that occurs, where the phenome-non that occurred in the year 2014-2015 at the company Bumi Resource Tbk. where the total Liquidity decreased during consecutive but the profitability of the company even decreased, should be according to theories put forward by experts when Liquidity decreased then profitability should increase.

But some companies are low Liquidity caused by increased debt and reduced cash amount from the previous year. In addition, decreased liquidity can also be caused by the company can not manage effectively as many funds are unemployed, the high debt of the company. To overcome this, the company should increase the use of working capital by using the working capital effectively, by increasing the amount of production and increase the amount of inventory so that funds in the company continue to be used or used to obtain greater profits and influence increase profitability of the company.

So it can be concluded that when the Liquidity is higher then the possibility of companies to obtain Profitability will be smaller, vice versa when small Liquidity then the possibility of the company gain Profitability will also be greater.

Effect of Operational Costs on Profitability

Research that has been done to produce correlation value between Operational Cost to profitability that is equal to -0.582 which pertained in category of relationship which is. It can be seen from the correlation value is between 0.40 to 0.599 belonging to the category of medium and the relationship is negative meaning, every kenaiakan Operational costs then it will reduce the amount of profitability and vice versa when operating costs decreased then the amount of profitability will increase. This research is also supported by theoretical according to Jopie (2007: 35) states that, if the company can reduce operating costs, then the company will be able to increase net income. Likewise vice versa, if there is a waste of costs will result in a decrease in net income.

The percentage of influence of Operatio-nal Cost to profitability is 33.87%, which means 33.87% profitability is influenced by Operatio-nal Cost, while the rest of 66.13% is influenced by other factors not examined in this research such as production cost. Total Asset Turnover (TATO) Debt to Equity Ratio (DER), Debt Ratio (DR), Sales Growth and Company Size.

Based on calculation of hypothesis test by using t test that result of hypothesis testing between Operational Cost to Profitability show that tcount value obtained from working capital variable equal to 3,343 for X2, hence result of this research reject alternative hypothesis H0 and accept hypothesis H1. In other words based on the results of t test calculations can be concluded that Operational Costs significant effect on profitability. By comparing between Operational Cost and Profitability data from statistical test result, it is found that when Operational Cost of firms is high, the result really affect the company ability in generating profitability. and also decrease of Operational Cost also followed by increasing amount of profitability in the can. (negative correlation). From the research that has been done by the author through the data that have been analyzed and through statistical test, it is known that Operational Cost affects the amount of profitability.

The conclusion above is said that the results of the study have responded to the phenomenon that occurs, where the phenome-non that occurred in 2014-2015 at the company Adaro Energy Tbk. where operational costs have decreased for successively but Profitability of companies even decreased, should be according to theories put forward by experts when operating costs decreased then profitability should have increased.

However, some companies with low operating costs are due to lower sales costs and reduced cash from the previous year other than that the profitability decreased can also be caused because the company can not manage the company's assets well as the number of machines or vehicles that are not in use. To overcome this, companies should make efforts to increase the maximum use of assets, by stabilizing the price and inventory, and increase the amount of production followed by increased promotion so that the resulting product can be more competitive in the market so that the company can earn greater profit. Thereby increasing the profitability of the company.

So it can be concluded that when Operati-onal Costs higher then the possibility of compa-nies to obtain Profitability will be smaller, vice versa when the small Operating Costs then the possibility of companies gain profitability will also be greater.

CONCLUSION

Based on the conclusions that have been mentioned above, the researchers provide suggestions that can be used as input to issuers and investors as follows:

In order for liquidity in determining profitability is not low on mining companies listed in Indonesia Stock Exchange period 2011-2015, then the company should make efforts to increase cash usage maximally, that company must be able to manage its cash, by stabilizing cash in order to improve the company's liquidity.

Meanwhile, to reduce the operational costs of large companies and obtain a large profitability, should the company more effectively manage the company's revenue derived from sales in running the company's activities, so that the profitability of the company will continue to increase and it describes the company's profits are increasing.

Investors can use liquidity and operational costs as a reference in making investments. But investors should also do analysis on other indicators because there are many other indicators that can affect the profitability of the company, although in this study liquidity and operational costs affect the profitability, so that investors can more precisely in choosing investment decisions.

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