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The Effect Of Capital Structure And Cash Flow Operations On Profitability In Manufacturing Companies Listed On The Indonesia Stock Exchange

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Abstract
The aim of this research is to determine the influence of capital structure and Cash Flow Operations on profitability in manufacturing companies listed on the Indonesian Stock Exchange. This type of research data is descriptive with a quantitative approach obtained from annual financial report data of manufacturing companies listed on the Indonesian Stock Exchange. The sample used in this research was 30 companies. The data collection used in this research is the documentation method by accessing the idx.Co.id site. The research instrument used in this research uses the panel data method. The results of the research show data using statistical calculations through the Eviews 12 application on the influence of capital structure and Cash Flow Operations on profitability in manufacturing companies listed on the Indonesian stock exchange which was discussed in the previous chapter, so the author draws important conclusions that capital structure research has a positive and significant effect on profitability and cash flow operations have no effect on profitability.

Keywords: Capital Structure, Cash Flow Operation, Profitability

INTRODUCTION

Profitability makes a significant contribution to the sustainability of a company's existence in the long term. Highlighting the importance of profitability in a company, especially in its ability to attract investors to inject capital. The author argues that increasing investor interest, while decreasing profitability can encourage investors to withdraw their investments. In addition, profitability serves as a measure to assess the effectiveness of company management practices. (M syahrial, 2023)

The relationship between capital structure and profitability is closely related, because the two elements influence each other significantly. Efforts to increase profits are essential for the success of a long-lasting business, thus forming an important relationship between the two. Companies are generally considered successful based on their reported profit levels, which indicate that maintaining profits is essential to their survival and reflects commendable performance. Improving company performance is in line with increasing profit levels, thus strengthening its appeal to potential investors. Companies can easily obtain external capital or attract investors, companies must show profits, by underlining the company's main goal of maximizing profits (M syahrial, 2023). The company's policy in determining the capital structure is a balance between risk and return. The company must offer investors a competitive interest rate and the best investment alternatives available. Determining the optimal capital structure will certainly be beneficial for the company because it can maximize the wealth of shareholders means modifying the goal of maximizing profits to be able to face changes in the complex

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operating environment, because all financial decisions will be reflected in it which means concerning funding.

RESEARCH METHODS

This study uses a quantitative descriptive approach, which involves statistical data analysis to determine the characteristics of a population or sample and to test predetermined hypotheses. The method used is the causal or cause-effect associative method which aims to establish a relationship between two or more variables, namely independent variables and dependent variables.

The research time required for the study is ± 2 (two) months, namely from December to January. The research location is the invoicing company listed on the Indonesian Stock Exchange 2020-2022 on the website (https://www.idx.co.id). This study is panel data, where the data used is the financial report data of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2020-2022 based on the data source, the data used is secondary data obtained from the official website of the Indonesia Stock Exchange, namely the website (https://www.idx.co.id). Population represents a broad category consisting of objects with certain qualities and characteristics set by researchers to be studied and analyzed further. In this study, the population consists of companies registered and listed on the Indonesia Stock Exchange (IDX) throughout the 2020-2022 period. The population of companies listed on the Indonesia Stock Exchange is 170 companies.

Based on the specified research criteria, it is known that the population of manufacturing companies listed on the Indonesia Stock Exchange (BEI) is 170 (one hundred and seventy) companies. Furthermore, a sample of 30 companies was selected using the purposive sampling technique. The data used in this study are secondary data, which refer to primary data that has gone through additional processing and obtained from the party that collects primary data or through an intermediary party. Primary data is usually presented in the form of tables or diagrams. In this study, secondary data was obtained from financial reports from a database originating from the Indonesian Stock Exchange (BEI) which can be accessed via https://ww.idx.co.id, as well as from the official website of each company.

The data collection method used in this study in the period 2020-2022 is the documentation method. The documentation method is carried out by searching for and collecting secondary data from various sources, including financial reports and model structure information that has been published on the official website of each company and https://www. Idx.co.id. These sources are directly connected to the research object. Profitability refers to the capacity of an entity to exploit future opportunities. A higher level of profitability indicates a promising company prospect in the future. According to Brigham and Daves (2010) profitability appears as the culmination of various policies and decisions formulated by the company. Shapiro (1991) stated that "profitability ratios measure management effectiveness, as indicated by return on sales, assets and owner's equity." Assessing a company's profitability often involves metrics such as this researcher focuses on several financial performance indicators such as gross profit margin, net profit margin, return on equity, return on investment and yield specifically focused on

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evaluating the company's profitability through Return On Equity (ROE). Profit is a tool to evaluate a factory's ability to generate profits, as well as providing an overview of the effectiveness of factory management. This is reflected in the profit obtained from sales from investments. In essence, the profit ratio indicates the level of factory efficiency. The use of the profit ratio involves a comparison between the various components listed in the financial statements, especially the balance sheet and income statement. This calculation can be done for several operating periods with the aim of tracking the company's development over a certain period of time, whether it is a decrease or increase, and to determine the effect of factory modifications. (Almadana, 2014)

This study aims to determine the effect of independent variables of capital structure and cash flow operations on the dependent variable profitability. Profitability is the ability of a company to generate profits during a certain period. The profit gained from the investment to be invested is the main consideration for companies in developing their business. Companies with a high rate of return on investment use relatively small debt. This is because the funds generated internally to finance most of the company's funding needs. So the higher the company's profitability, the lower the level of debt. Capital structure is permanent financing consisting of long-term debt, preferred stock is very important, because it reflects the comparison between debt and total assets. If a company has a debt that is greater than the amount of assets it owns, it indicates that the company has poor performance because the company is unable to generate profits from the assets it owns. Conversely, if the company has a lower debt than the amount of assets it owns, it indicates that the company has good performance, because it is able to generate profits from the assets it owns. This means that the capital structure reflects the company's effectiveness in meeting all obligations with the assets it owns to make a profit.

Profitable companies usually borrow in small amounts, because the company needs less external financing, while less profitable companies usually have larger debts because internal funds are insufficient and debt is the right source. So, it can be said that if a company has a larger debt, the company will bear higher costs, which can reduce profits. Thus, the greater the debt the company has, the lower the company's profitability will be and vice versa. The existence of cash in a company is very important to support the company's operational activities. If the company does not have cash, production activities will be disrupted, for example, it cannot provide the cost of raw materials, auxiliary materials, pay employee salaries or wages and so on. Therefore, cash management must be carried out properly by the financial manager. In addition, reports on cash flow must also be considered by the company as one of the reports that must be included in the company's annual financial report. One of the cash flow reports is operating cash flow, which is a report that is an indicator of whether the company's operations can generate sufficient cash flow to pay off loans, maintain the company's operating capacity, pay dividends and make new investments without relying on external funding sources.

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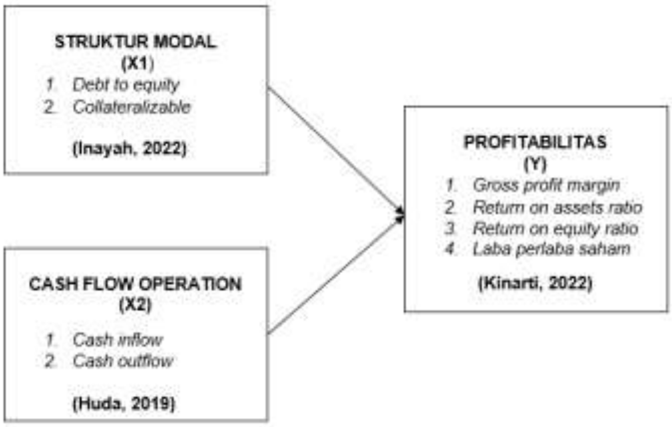

There are two types of variables used in this study, namely:

1. Independent variables are variables that affect the dependent variable. The independent variables in this study are capital structure (X1) and Cash flow operation (X2).
2. Dependent variables are variables that are influenced by the dependent variable in this variable is profitability (Y)

RESULTS AND DISCUSSION

Manufacturing Company is one form of industrial branch that can apply equipment and a process medium to be able to change raw materials into finished materials for sale. This process also involves all components of a product. Some industries use the term manufacturing in their production. This industrial sector is closely related to technological engineering. The activities of this company are basically also a production process by considering a certain Standard Operating Procedure (SOP) as a reference in working. In general, this type of company can carry out production activities on a large scale.

The normality test is used to test whether the dependent and independent data used are normally distributed or not. A regression model is said to be good if it has a residual value that is normally distributed. Researchers use the Kolmogorov Smirnov test to test the level of data normality. Data that is normally distributed has a significance value of more than 5% or 0.05. However, if the significance value is less than 5% or 0.05, then the data is not normally distributed.

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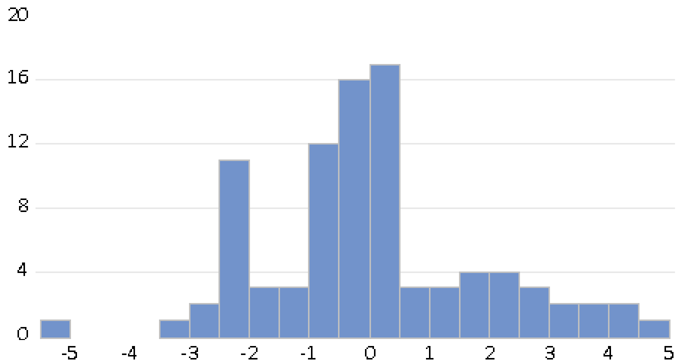

Series: Standardized Residuals	
Sample 2020Q1 2022Q4	
Observations 90	
Mean	-1.58e-16
Median	-0.103865
Maximum	4.770178
Minimum	-5.377023
Std. Dev.	1.826569
Skewness	0.336441
Kurtosis	3.498080
Jarque-Bera	2.628205
Probability	0.268715

Based on the results of sample testing with the Kolmogorov smirnov test method, the results showed that the significance value was 0.26. This means that the data used in the study has been normally distributed because it has a significance value of more than 5% or 0.05.

As a requirement for using multiple regression analysis, a multicollinearity test is performed. The goal is to determine whether or not there is a relationship between independent variables. The multicollinearity test is performed by looking at the tolerance value and the VIF multicollinearity test. If the tolerance value and the VIF value are close to or around the number one, then there is no multicollinearity between the independent variables. The values that indicate multicollinearity are the Tolerance value ≤ 0.1 and the VIF value ≥ 10. The results of the multicollinearity test are shown in the following table:

	Struktur Modal	*Cash Flow Operation*
Struktur Modal	1,000000	-0,033729
Cash Flow Operation	-0,033729	1,000000

The correlation coefficient of X1 and X2 is -0.33729 < 0.85, so it can be concluded that it is free from multicollinearity or passes the multicollinearity test.
In this model, it does not consider the time dimension, but individuals have differences. Based on the estimation results above, a panel data analysis model can be compiled on the factors that affect profitability with the equation:

In this model, it does not consider the time dimension, but individuals have differences. Based on the estimation results above, a panel data analysis model can be compiled on the factors that affect profitability with the equation:
$Yit = \alpha + b1\ X1\ it + b2\ X2\ it + eit$
$Y = 19.3359022674 + 1.28004646939 * X1 - 0.0102967955779 * X2$

The explanation is as follows: 1. The constant value of 19.33 means that without the variables (X1), (X2) then the variable (Y) will increase by 193.3%. 2. The beta coefficient value of the variable (X1) is 1.28 if the value of other variables is constant and variable X1 increases

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by 1% then variable Y will increase by 1%. Likewise, if the value of other variables is constant and variable X1 decreases by 1%, then variable Y will decrease by 1% 3. The beta coefficient value of the cash flow operation variable (X2) is -0.01, if the value of other variables is constant and variable X2 increases by 1% then variable Y will decrease by 1% and vice versa, if the value of other variables is constant and variable X2 decreases by 1% then variable Y will decrease by 1%.

Discussion

The Effect of Capital Structure on Profitability

The first hypothesis states that capital structure has a positive and significant effect on Profitability, proven by the calculated t value of 2.427643> t table, which is 2.048407 and the sig value of 0.0173 <0.05, so Ho is rejected and Ha is accepted, meaning that the capital structure variable has a positive and significant effect on profitability. This indicates that capital structure is able to significantly affect profitability. The positive regression coefficient value of the capital structure variable indicates that capital structure has a unidirectional effect on profitability. This means that the higher the company's capital structure ratio, the higher the company's profitability will be. Capital structure is permanent financing consisting of long-term debt, preferred stock and shareholders' equity. Capital structure is very important for a company, because it reflects the comparison between debt and total assets. The results of this study are not in line with the research of Idode et al (2014) who found that capital structure has a significant positive effect on profitability, research by Moradi et al (2012) who found that funding decisions and capital structure affect company performance, research by Makkulau and Hakim (2018) who found that capital structure as measured by DAR has a significant positive effect on profitability, but this study is not in line with the research by Mwangi and Birundu (2015) who found that there was no significant effect of capital structure on financial performance, research by Safitri and Wahyuati (2015) who found that capital structure did not have a significant effect on profitability, research by Khan et al (2017) who found that funding decisions did not affect company performance in Pakistan. 2. The Effect of Cash Flow Operation on Profitability

The second hypothesis which states that Cash Flow Operation has a positive effect on profitability, is proven, the calculated t value is 0.418573 <t table which is 2.048407 and the sig value is 0.6766> 0.05, then Ha is rejected and Ho is accepted, meaning that the Cash Flow Operation variable (X2) has no effect on Profitability. This means that operating cash flow is not able to significantly affect the company's profitability. The Cash Flow Operation variable does not have a significant effect on profitability, indicating that in general investors when making decisions whether or not to buy company shares are not based on accounting information in the form of Cash Flow Operation, but more on information other than accounting information, such as rumors (Arisdianto 2014). The results of this study are consistent with the research of Arisdianto (2014) and Munawar and Bintang (2013) which show that cash flow operations do not have a significant effect on company profitability. Research conducted by (enike kusumadewi 2018). With the title of analysis of the influence of working capital turnover, operating cash flow and capital structure on profitability (study on manufacturing companies in the consumer goods industry sub-sector listed on the Indonesian Stock Exchange for the period 2011-2016) the results of the study stated that operating cash flow did not have a significant effect on profitability in the company.

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The results of this study are not in line with the research conducted by Napitupulu (2020) which states that the results of Cash flow operations have a significant effect on profitability.

The negative regression coefficient value of the Cash Flow Operation variable indicates that the Cash Flow Operation variable has an effect in the opposite direction to the company's profitability. This means that the higher the Cash Flow Operation from the company's operating activities, the company's profitability actually decreases. This condition may be caused by Cash Flow Operations originating from operating activities obtained from the company's main activities that are able to generate income for the company and other activities outside of investment activities and financing activities. This Cash Flow generally comes from other transactions that affect the determination of the company's net profit or loss. For example, those who have operating cash flows originating from activities outside of operating activities that are greater than the cash flow from the company's operations. The value of cash flow from non-operating activities in these companies is greater than the company's operating activities, so that operating cash flow does not have a real effect on increasing the company's profitability.

CONCLUSION

Based on the results of the analysis and discussion of the capital structure and Cash Flow Operation on Profitability in manufacturing companies listed on the Indonesia Stock Exchange (IDX), the following conclusions can be drawn:

1. Capital Structure has a positive and significant effect on Profitability. This shows that the higher the amount of Capital Structure owned by the company, this states that every time there is an increase in the capital structure by one unit, it will encourage an increase in Profitability
2. Cash Flow Operation does not have a significant effect on profitability. In statistics, it can be seen that Cash Flow Operation has a negative correlation. This means that the relationship between Cash Flow Operation and profitability is very weak. Because Cash Flow Operation from this operating activity is obtained from the company's main income-generating activities and other activities that are not investment activities and financing activities. These cash flows generally come from transactions or other events that affect the determination of net profit or loss.

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