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Determinants of Net Income of Growth in Manufacturing Companies: Evidence in Emerging Markets

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Abstract

The purpose of this study is to identify the variables influencing earnings growth. Profitability, liquidity, and firm size are the variables examined in manufacturing firms in the basic and chemical industries listed on the Indonesia Stock Exchange between 2019 and 2023. 37 businesses served as the study's samples. Multiple linear regression models and secondary data processed with SPSS 24.0 were used in this investigation. The findings demonstrated that net profit growth was negatively and significantly impacted by profitability, liquidity, and company size.

Keywords:

Return on Assets, Current Ratio, Company Size, Net Profit Growth, Manufacturing, Basic and Chemical Industry Sector.

Introduction

Indonesian companies play an important role in the country's economy. Its role covers various aspects, from providing employment to the community to increasing the added value of local products to the backbone for Indonesian exports (Maryati & Siswanti, 2022). The manufacturing company sector is the basic sector of the chemical industry. Manufacturing companies in the basic and chemical industry sector provide raw materials, chemicals, and basic products that resonate with various industries. These companies play an important role in meeting the basic needs of society and the support of other sectors such as food, pharmacy, automobile, and construction. In addition, production companies in the basic and chemical industry sector drive the country's economic growth, thanks to increased exports and state revenues through employment, support for innovation, and production and distribution of products. Net profit growth is one of the main indicators of the success of manufacturers in the basic and chemical industry sector. It has a very significant impact on many aspects

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of business and business continuity. A stable or increasing net profit indicates the company's ability to generate enough profit to support its business. This situation allows the business to survive and run for the long term. Also, high net profit creates additional resources that can be used to invest in research, development, facility expansion and acquisitions. This will encourage company growth (Indaryani et al., 2022).

An increase in net profit plays a key role in increasing company and stock value, which brings benefits to shareholders and reflects the efficiency and effectiveness of management. Companies that experience solid profit growth are more attractive to investors and creditors, and make additional moves or loans easier with better interest rates. Steady profits allow you to innovate your products, invest in processes, technology, and maintain a competitive advantage. Profit growth can also create opportunities to incentivize employees to improve morale and productivity (Athira & Murtanto, 2022).

The net profit growth of manufacturing companies in the basic and chemical industry sector of several selected companies can be seen in the following table:

Table 1. Net Profit Growth of Basic Industry and Chemical Sector Manufacturing Companies in 2019-2023

No.	Code	2019	2020	2021	2022	2023	*Mean*
1	INTP	60,12	-1,56	-0,99	3,02	5,85	**-3,41**
2	SMBR	-60,53	-63,38	325,18	65,56	57,22	**33,22**
3	SMCB	160,27	30,46	9,58	17,65	6,60	**7,05**
4	SMGR	-22,31	16,74	-26,70	15,54	-8,22	**-3,93**
5	WSBP	-26,93	-690,57	59,18	-0,02	-120,61	**-101,60**
6	WTON	5,35	-74,99	-35,25	96,50	-79,05	**-2,76**
7	AMFG	-1.985,71	-226,51	173,94	37,25	33,36	**-304,96**
8	ARNA	37,58	49,54	45,78	22,36	-22,72	**28,10**
9	KIAS	-541,89	88,56	88,63	204,38	-661,77	**-106,74**
10	MLIA	-32,80	-56,62	1.084,27	30,86	-34,10	**245,53**
11	TOTO	-59,37	-121,77	610,71	99,96	-22,65	**85,19**
12	ALMI	-4.371,43	10,70	100,37	-5.100,00	-230,00	**-1.357,55**
13	STEEL	101,03	5.411,85	60,61	-216,74	98,75	**709,44**
14	CTBN	127,38	-286,96	-432,56	54,15	373,33	**-2,46**
15	GDST	130,53	-390,39	18,16	529,55	-22,17	**-84,19**
Mean		**-431,91**	**246,34**	**138,73**	**-276,00**	**-41,75**	**-72,92**

Source: www.idx.co.id (2024)

Table 1. Demonstration of data on the growth of net profit of companies in the basic and chemical industry sector for 2019 - 2023. This appears to be a massive fluctuation in most companies. Some companies have very negative profit growth rates, while

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others have significant positive increases. This phenomenon suggests that the basic and chemical industry sector experienced extreme instability during this period. On average, the sector experienced large variations in ear wax values that were highly negative, especially in certain years. There was considerable economic instability that affected the financial performance of the companies.

Literature Review

Effect of Return on Assets (X1) on Net Income Growth (Y)

Profitability refers to a company's ability to achieve profits from its business. It indicates the overall efficiency and financial health of the company. Assets (revenue) is a financial relationship that measures the efficiency of a company when it comes to achieving profits from units of wealth.

ROA shows how efficiently a company uses its assets to generate profits as a percentage return. It gives you an idea of how well the company is managing its assets and generating profits. Return on assets plays a key role in influencing a company's net profit growth. A high ROA indicates the efficiency of using assets to generate profits, increasing the attractiveness of the company to investors, and achieving the company's ability to achieve revenue. A low ROA may indicate inefficiency in managing assets, leading to a decrease in the company's net profit. Therefore, ROA serves as a leading indicator that helps companies optimize the use of their assets, affecting their competitiveness and growth in the long run.

Findings from Anggraini & Rivandi (2023) and Indaryani et al. (2022). It shows that return on assets can have a positive and significant impact on the company's net profit growth. This shows that changes in assets (REC) have a positive and significant effect on increasing the company's net profit individually. This means that all increases or changes in ROA will significantly contribute to an increase in the company's net profit.

H1. Return on Assets has a significant effect on net profit growth in manufacturing companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange in 2019-2023.

Effect of Current Ratio (X2) on Net Profit Growth (Y)

Liquidity refers to a company's ability to quickly convert assets into cash without causing significant losses. Current relationship is a financial relationship that compares short-term liquid assets to the company's current liabilities. This ratio shows how well a company can meet short-term obligations using immediately payable assets. As a level of liquidity, the current relationship plays an important role in

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assessing a company's ability to meet its short-term obligations. If the current ratio is high, it indicates a good ability to meet immediate obligations. However, if it is too expensive, it may indicate that assets are not being used efficiently.

The current relationship plays a role in determining management decisions related to the company's liquidity and financial management. A balanced relationship can affect the company's strategic decisions when managing the company's short-term assets and liabilities, which can affect our net profit growth. Higher ratios may indicate conservatism in financial management, while lower opportunities may increase the risk of paying liabilities that may affect net income. Therefore, the role of the current relationship in the treatment of liquidity is important in the impact of the company's net profit growth.

Research Findings from Athira & Murtanto (2022) and Amin et al. (2022) It shows that the current ratio currently has a positive and significant impact on the company's net profit growth. This shows that changes that occur in the current ratio have a positive and significant effect on increasing the company's net profit individually. This means that an increase or change in the current ratio will statistically and positively affect the company's net profit.

H2. Current ratio has a significant effect on net profit growth in manufacturing companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange in 2019-2023.

Effect of Company Size (X3) on Net Income Growth (Y)

Company size is an assessment of the size or general dimensions of a business unit or organization. Total assets are the sum total of all resources a company owns at a given time. The total total of the firm size measurement device shows the total size of the business operations. The larger the total assets, the greater the operating capacity and sales.

The size of a firm has a significant impact on net profit growth, as reflected in its total assets. Companies with more total assets tend to have higher resources for investment, research, expansion and acquisition. This will increase production capacity, the ability to innovate and access a wider market, which may affect revenue and net results. However, large firms may face more complex management challenges and bureaucracy that may affect efficiency and reduce the positive effects of firm size. Firm size as reflected in total assets can have a significant impact on net profit growth at various scales, depending on the management strategies employed.

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Research results from Maryati & Siswanti (2022) and Yunita & Ramadhana (2022). It shows that company size has a positive and significant impact on the company's net profit growth. This shows that changes in company size, when analyzed individually, have a positive and significant impact on increasing the company's net profit. This means that an increase or change in firm size will contribute individually to our net profit growth.

Based on some related research findings, the relationship between the variables and asset income (x1), current ratio (x2), and company size (x3) is net profit growth (y) of this study as follows:

H3. Company size has a significant effect on dividend policy in manufacturing companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange in 2019-2023.

Methods

The data collected encourages a quantitative research approach. Manullang & Pakpahan (2018) also said that quantitative research involves collecting qualitative or numerical data. The data collected in this study is based on measurements that have been made by the variables to be studied. The company's financial statements published on www.idx.co.id are used as secondary data. Statistical analysis was conducted using SPSS 24.0. Multiple linear regression analysis was used to evaluate the relationship and impact of the independent variables on the dependent variable. From 2019 to 2023, all manufacturing companies in the basic and chemical industries listed on the Indonesia Stock Exchange were the subject of this study. while the sample in this study used purposive sampling so that only 37 companies were eligible to be sampled.

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Results And Discussion

Results

The results of data collection on return on assets, current ratio, company size, and net profit growth from 24 samples of manufacturing companies in the basic and chemical industry sector on the Indonesia Stock Exchange in 2019-2023 used in this study resulted in descriptive analysis as shown in Table 4.1 below:

Table 2. Descriptive Statistical Analysis of the Data

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Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Return on Assets (X_1)	185	-38,59	24,60	2,6893	7,70493
Current Ratio (X_2)	185	4,87	2170,45	245,9765	297,66642
Company Size (X_3)	185	5,44	11,96	8,1544	1,71476
Net Profit Growth (Y)	185	-1985,71	5400,00	37,7558	478,19471
Valid N (*listwise*)	185				

Source: Results of Data Processing with SPSS Ver. 24

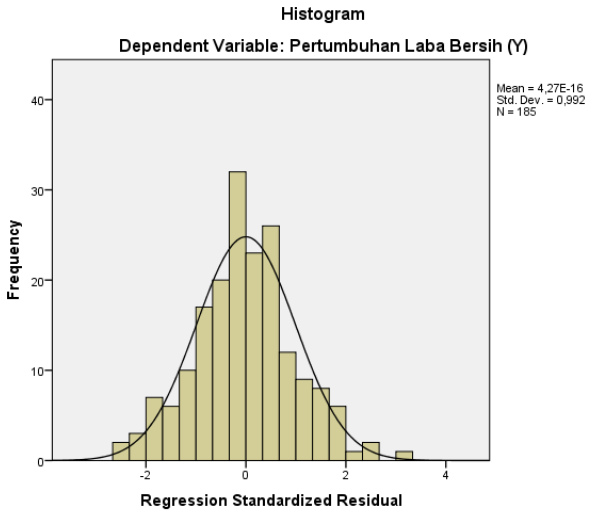

Figure 1. Histogram of Normality Test

Source: Results of Data Processing with SPSS Version 24.0

The results of normality testing with a histogram show that the graph on the histogram tends to be slightly convex in the middle, forming a bell-like shape, and the shape of the graph does not lean to the left or right. So that based on this graph the residual data is normally distributed.

Normality can also be seen by looking at the distribution of data (points) on the diagonal axis of the P-P Plot graph. If the distribution follows the diagonal line on the histogram, then the data can be said to be normal. The P-P Plot graph of the data normality test results can be seen in the following figure:

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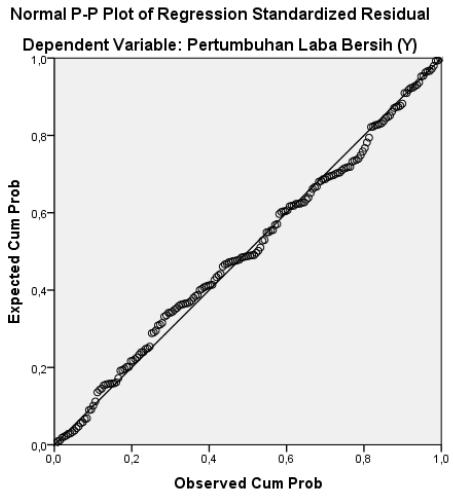

Figure 2. Histogram P-P Plot Normality Test
Source: Results of Data Processing with SPSS Version 24.0 (2023)

The results of multiple linear regression tests carried out with the help of the SPSS application can be seen in Table 4.6 below:

Table 8. Multiple Linear Regression Test Results

Coefficients[a]				
Model	*Unstandardized Coefficients*		*Standardized Coefficients*	Conclusion
	B	Std. Error	Beta	
1 (*Constant*)	8,932	1,295		
Return on Assets (X_1)	-0,288	0,093	-0,225	Positively Affected
Current Ratio (X_2)	-0,263	0,107	-0,175	Negatively Affected
Company Size (X_3)	-1,584	0,514	-0,224	Positively Affected

a. *Dependent Variable*: Net Profit Growth (Y)

Source: Results of Data Processing with SPSS Version 24.0 (2023)

Table 9. t Test Results (Partial Test)

Coefficients[a]				
Model	t_{count}	*Sig.*	Terms	Conclusion
1 (*Constant*)	6,896	0,000		

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Return on Assets (X_1)	-3,104	0,002		Significant Effect
Current Ratio (X_2)	-2,460	0,015	Sig. < 0.05 -1.973 > $t_{(count)}$	Significant Effect
Company Size (X_3)	-3,081	0,002		Significant Effect

a. *Dependent Variable*: Net Profit Growth (Y)

Source: Results of Data Processing with SPSS Version 24.0 (2024)

Discussion

Hypothesis 1.

The t-test results for the return on assets variable (X1) show that the tcount value = -3.104 and the ttable value = 1.973, which indicates that these values meet the equation -ttable > tcount or -1.973 > -3.104, with a significant value of t = 0.002, where this significant value is smaller than 0.05, which means that Ha and Ho are accepted. This indicates that return on assets affects net profit growth.

Return on assets partially and significantly affects the growth of net income of manufacturing companies in the basic and chemical industries listed on the Indonesia Stock Exchange from 2019 to 2023. This conclusion is based on the results of multiple linear regression tests and t tests. Therefore, the proposed H1 hypothesis has been tested, shown to be accurate, and is considered acceptable. Previous research by Anggraini & Rivandi (2023) and Indaryani et al. (2022) showed that return on assets significantly affects business net profit growth. The results of this study are supported by the findings of this study.

The results of this study are in accordance with the research objectives, namely to analyze and find out whether return on assets has a significant effect on net profit growth in manufacturing companies in the basic and chemical industry sector listed on the Indonesia Stock Exchange from 2019 to 2023. This study has also answered the question posed, namely whether return on assets has a significant effect on net profit growth in manufacturing companies listed on the Indonesia Stock Exchange from 2019 to 2023.

The ability of a company to generate profits from its assets is described by a ratio called Return on Assets (ROA). However, the results of multiple linear regression tests and t tests show that the net profit growth of manufacturing companies in the basic and chemical industries on the Indonesia Stock Exchange is partially negatively and

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significantly affected. This phenomenon can be caused by a number of variables that affect financial performance in the industry.

First, the asset ownership ratio (ROA) indicates a company's ability to utilize its assets to generate profits, but an excessive increase in ROA may indicate that the company's assets are under significant stress. To support production, manufacturing companies often require large fixed assets, such as plant and machinery. When businesses maximize the use of assets to improve short-term efficiency, this can have a negative impact on net profit in the long run. For example, over-intensive use of assets can cause machine quality to decline or machines to become older, resulting in higher maintenance and replacement costs, ultimately reducing net profit.

Secondly, raw material and energy prices change frequently in Indonesia's basic and chemical industries. During a period, an increase in return on assets (ROA) may be due to a temporary decrease in costs or a delay in capital expenditure, or capital expenditure. However, in the long run, the company must incur additional costs to maintain its operations. These costs may lead to a decrease in net income, even though initially the ROA seems to be increasing. This can also happen if a business delays major investments that could increase profitability in the future.

Third, businesses in this industry are highly dependent on global demand and commodity markets. If ROE increases due to asset efficiency, but global demand decreases or chemical product prices fall, the net profit growth of the business will be negatively impacted. In other words, even if assets are used efficiently, external factors such as commodity prices and market demand remain the main determinants of profitability.

Therefore, although return on assets (ROA) is usually considered a good indicator of how efficiently a business is using its assets, in the basic and chemical manufacturing industry, an excessive increase in ROA can lead to a decrease in net profit. This negative effect is caused by pressure on assets, additional costs to be paid later on, and external elements that affect the profitability of a business.

Hypothesis 2.

Based on the t test for the current ratio variable (X2), it is known that the tcount value = -2.460 and the ttable value = 1.973, which indicates that these values meet the equation -ttabel > tcount or -1.973 > -2.460, with a significant t value of 0.015, this significant value is smaller than 0.05, which means that ha and Ho are rejected.

Based on the results of multiple linear regression tests and t tests, it can be concluded that the current ratio partially has a negative and significant effect on the net profit

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growth of manufacturing companies listed on the Indonesia Stock Exchange from 2019 to 2023. Therefore, the proposed hypothesis H2 has been tested, shown to be accurate, and accepted. The results of this study are supported by the results of research by Athira & Murtanto (2022) and Amin et al. (2022) which show that the current ratio partially has a significant effect on the company's net profit growth. The purpose of this study was to determine whether the current ratio has a significant effect on the growth of net income of manufacturing companies. basic and chemical industry sectors listed on the Indonesia Stock Exchange in 2019-2023 and these objectives have been carried out. This study has also answered the proposed problem formulation, namely: Does the current ratio have a significant effect on net profit growth in manufacturing companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange in 2019-2023.

There are many ways to explain this negative impact. First, a too-high exchange rate may indicate that businesses are holding too many current assets, such as inventories, receivables, or cash, which may not be used effectively. Inventory build-up is often indicated by large current assets in the manufacturing industry, especially in the basic and chemical industries. If inventory is not sold for a long time, working capital turnover will be reduced and storage costs will increase, which in turn will reduce the company's net profit.

Secondly, a high current ratio may also indicate that an overly cautious management policy in managing liquidity has been practiced. Management may seek to keep liquidity high to reduce the risk of default, but this may lead to underinvestment in long-term projects that could increase profitability. By holding too many current assets, the business may miss out on opportunities to increase production, capacity, or innovation, which could ultimately increase net profit.

Third, Companies in the basic and chemical industries often face problems due to fluctuations in raw material and energy prices. If the high current ratio is caused by receivables or inventory buildup, it may slow down cash flow and affect the business's ability to adjust to market changes. For example, if a company cannot sell inventory in a competitive market quickly, its net profit may be eroded by price reductions or increased production costs that are not balanced with revenue.

Therefore, in the basic and chemical manufacturing industry, an excessively high current ratio may indicate inefficient utilization of current assets. This is despite the fact that the current ratio is usually considered as an indicator of liquidity health. Net profit growth may be hampered by the accumulation of assets that are not immediately rotated in productive activities such as investment or sales. Thus, a high

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current ratio does not necessarily mean good financial performance and can actually have a negative impact on the company's net profit growth.

Hypothesis 3

Based on the results of the t test for the company size variable (X3), it is known that the tcount value = -3.081 and the ttable value = 1.973, which indicates that these values fulfill the tcount equation greater than the ttable or -3.081 greater than 1.973, with a significant t value of 0.002, which is a significant value smaller than 0.05, which indicates that Ha and Ho are rejected.

The t-test and multiple linear regression show that, from 2019 to 2023, firm size partially and significantly has a negative and significant effect on the net profit growth of companies listed on the Indonesia Stock Exchange. Therefore, the proposed H3 hypothesis has been tested, shown to be accurate, and accepted. Research by Maryati & Siswanti (2022) and Yunita & Ramadhana (2022) also supports the results of this study, which show that company size has a significant effect on the company's net profit growth.

The results of this study are in accordance with the research objectives, namely to analyze and find out whether company size has a significant effect on net profit growth in manufacturing companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange from 2019 to 2023. This study has also answered the question posed, namely whether company size has a significant effect on net profit growth in manufacturing companies in the basic and chemical industry sectors listed on the Stock Exchange.

Many people view firm size as a measure of the scale of operations and the ability to generate revenue, as measured by total assets or the natural logarithm of total assets. Larger companies theoretically have the ability to achieve scale efficiency and acquire more market opportunities. However, the results of multiple linear regression tests and t tests show that, during the 2019-2023 period, company size actually had a negative and significant impact on the net profit growth of companies listed on the Indonesia Stock Exchange in the basic and chemical industries.

Factors related to the operation and management of large companies in the basic and chemical industries may help explain this negative impact. First, bureaucracy and management inefficiencies are common in larger companies. Larger companies have more complex organizational structures, which can lead to slower and more complicated decision-making. Internal inefficiencies in businesses that must quickly respond to market changes, such as changes in raw material prices or product

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demand, can lead to missed business opportunities or increased operating costs, which negatively impact net profit growth.

Secondly, Large manufacturing companies usually have higher fixed costs. Infrastructure, equipment, and plants, regardless of their production levels, require a lot of maintenance costs. Due to the large scale of operations and dense capital, large companies may not be able to adjust quickly when market demand falls or production costs increase. High fixed expenses are not balanced with the revenue earned, so net income may decrease.

Third, large businesses are more vulnerable to external risks such as commodity price fluctuations and global market uncertainty. Basic and chemical industries are highly dependent on fluctuations in raw material and energy prices. Large companies, despite having greater scale, may find it more difficult to adapt to such changes due to the more complicated nature of their operations and capital locked up in fixed assets.

Fourth, Often, greater corporate growth requires financing from outside sources, such as debt or the issuance of new shares. This financing carries interest or other liabilities that can reduce net income. A large company can be a burden rather than a benefit if the increase in assets is not followed by an increase in profitability. Therefore, in the basic and chemical manufacturing industry, too large a company size can negatively impact net profit growth. Operational inefficiencies, high fixed costs, and difficulty to adjust to market changes can lead to decreased profitability, even though firm size is usually associated with greater production capacity and market dominance.

Conclusion

Based on the examination and analysis that has been carried out, several conclusions can be made as follows:

1. Return on assets partially has a negative and significant effect on net profit growth of manufacturing companies in the basic and chemical industries listed on the Indonesia Stock Exchange in 2019-2023.
2. Current ratio partially has a negative and significant effect on the growth of net profit of manufacturing companies in the basic and chemical industry industry listed on the Indonesia Stock Exchange in 2019-2023.

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3. Company size has a negative and significant impact on net profit growth of manufacturing companies in the basic and chemical industries on the Indonesia Stock Exchange from 2019 to 2023.

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