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The Effect of Financial Resources and Company Prices on Financial Performance of Public Palm Oil Companies in The Period 2016-2022 in Indonesia

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ABSTRACT

This study aims to determine the effect of Capital, Growth, Leverage, Size, and Price on the performance of palm oil companies the period 2016 - 2022 both partially and simultaneously. In this study, researchers used the method of multiple linear regressions with panel data with quantitative approach. Comparative research hypothesis is the hypothesis formulated to provide answers to the problems meant to be an influence. The population in this study was 15 oil palm companies listed in Indonesia Stock Exchange. Where sampling is devoted period 2016 - 2022. Test used in this study is the test for normality, multicollinearity, autocorrelation, heteroscedasticity, hausman, chow, lagrange multiplier, common effect, the fixed effect and random effect. The results showed that the variables leverage, size, and price does not have a significant effect on ROA, while the variable capital intensity, and growth has a significant effect on ROA. However, simultaneously the variables Capital, Growth, Leverage, Size, Price significant effect on ROA.

INTRODUCTION

Palm oil is a commodity with numerous functions and needs, both at the household and industrial levels. This is particularly true with the program to convert fossil fuels (petroleum) to biodiesel, which uses palm oil as its raw material. There are two sources of demand (market opportunities) for Indonesian CPO: domestic consumption and exports. After previously increasing by around 8% per year, domestic CPO consumption is expected to increase at a rate of between 6% initially and then decline to around 4%. In addition to relying on the domestic market, the export market is the primary market for Indonesian CPO. Indonesian CPO exports have increased at a rate of between 7% and 8% per year over the past decade. In addition to being influenced by international market prices and production levels, Indonesian CPO export performance is also significantly influenced by government policies (Nurdiansyah, 2011).

Meanwhile, the performance of palm oil companies is inextricably linked to external factors such as prices, as palm oil prices are based on international prices. The Head of Marketing at the Indonesian Palm Oil Association (Gapki) stated that palm oil prices can decline due to speculation, but this is usually only temporary because production of the commodity in Indonesia and Malaysia has not increased significantly. For example, in 2009, palm oil prices experienced a slight decline, falling 4.15% to IDR 8,310 per kg from IDR 8,670 per kg at an auction at the Joint Marketing Office (KPB) of PT Perkebunan Nusantara. However, beyond speculation, the decline in palm oil prices is also linked to macroeconomic factors such as economic crises or oversupply by suppliers. Historically, CPO prices experienced drastic increases during the 1992 Gulf War, the 1998 Asian monetary crisis, and the surge in global crude oil prices from 2007 to 2008. Therefore, palm oil company management needs to effectively anticipate changes in palm oil prices to minimize their impact on company performance.

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The leverage ratio is related to the amount of debt a company holds; palm oil companies also require debt as a source of financing. Kuswadi (2004:209) states that the greater the amount of funds a company receives from debt, the greater the risk borne by the company. This results in the leverage ratio (debt-to-equity ratio, debt-to-asset ratio, and long-term debt-to-equity ratio) being inversely related to performance.

Based on the above description, the researcher is interested in further examining the influence of financial resources and company prices on the financial performance of publicly traded palm oil companies in Indonesia from 2016 to 2022.

LITERATURE REVIEW

Profitability

Profitability is the relationship between revenue and costs incurred by a company, including current assets and fixed assets in production activities (Gitman, 2009). According to Cassar and Holmes, to analyze company profitability, a profitability ratio analysis is carried out using return on assets (ROA) analysis, which measures the company's ability to generate profits in the future. Profitability can be calculated by comparing EBIT with the company's total assets (Cassar and Holmes, 2003). According to Abor and Biekpe (2009), profitability can be measured by comparing EBIT with the company's total assets. Meanwhile, according to Ramasamy et al (2005), return on assets is measured by comparing the profit before tax obtained with the total assets used.

Capital

Sarkaria and Shergill (2000) in Ramasamy et al. (2005) suggest that companies seeking to improve financial performance must increase their capital capacity. This will lead to process modernization, improved product quality, reduced waste, and more efficient production costs. Ramasamy et al. (2005) measured capital intensity by comparing the total fixed assets used with the total sales generated.

Firm Size

Ramasamy et al. (2005) in their research on palm oil companies measured firm size as the log of total assets. Large companies have a greater ability to enjoy economies of scale, which have a significant positive impact on company performance (Penrose in Majumdar, 2006). Conventionally, large companies can exploit market power, both in terms of products and market factors. Empirical research conducted by Pandey in Buferna et al. (2005) found a positive relationship between leverage and firm size in developing countries, and Titman in Buferna et al. (2005) stated that firm size is positively related to short-term debt and long-term debt, while Bevan in Buferna et al. (2005) found that firm size is negatively related to both short-term debt and long-term debt.

Leverage

Leverage has been widely used as a risk measure in financial performance studies, reflecting the trade-off between shareholder return and risk (Ramasamy et al., 2005). The general assumption is that a company with relatively higher leverage represents a greater financial risk for shareholders than a company with relatively lower debt (Bothwell, Cooley, & Hall, 1984). Depending on the cost of debt, the effect of leverage can be favorable or unfavorable. When the cost of debt is lower than the firm's rate of return, shareholder returns will be magnified. However, when the firm's rate of return on assets is lower than the cost of debt capital, leverage will be favorable. In line with Sarkaria and Shergill (2000), leverage in this analysis is assumed to arise from firms' attempts to borrow capital when they expect to earn more than the cost of debt capital, and therefore, a positive relationship between leverage and expected performance is expected. From the various leverage measurements presented, it is clear that leverage can be measured in several ways. However, in this study, the leverage measurement considered relevant to the research object is the comparison between long-term debt and shareholder equity. This has also been done by Ramasamy et al (2005) who measured leverage in palm oil companies.

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Growth

Setiawan (2009) defines growth opportunity as a company's future growth opportunities. Companies with high growth opportunities have significant investments, particularly in fixed assets with an economic life of more than one year. These investments are made through the construction of new factories, the purchase of new machinery, research and development programs to discover new products and technologies, the purchase of new technologies, especially information technology, and market expansion.

Meanwhile, a high company growth rate indicates a significant investment opportunity that requires funding, so the company must consider seeking external funding sources. This will also impact the company's capital structure. Ramasamy et al. (2005) measured growth in palm oil companies as the difference between current year sales and last year's sales divided by last year's sales.

Price

Kotler and Armstrong (2010) define price as the amount of money paid for the right to use a product. Economists often assume that setting a lower price for a product compared to other similar products will result in higher sales. However, price is often a signal of quality. Low prices are perceived as lower quality. Some consumers require product features that reflect their individuality. Therefore, companies need to understand the role of price when determining selling prices.

Meanwhile, research by Ramasamy et al. (2005) states that palm oil product pricing is based on international CPO price standards. Therefore, companies set prices not only based on internal factors but also more heavily influenced by international factors.

From the description of the previous theory, the research model is presented as below:

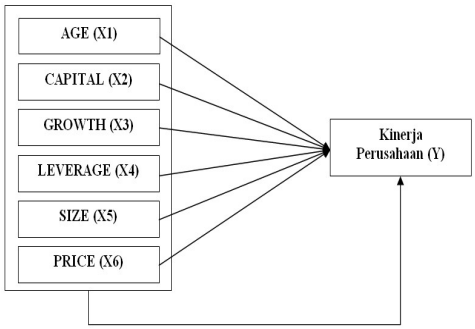

Figure 1. Framework

RESEARCH METHODS

Research Design

In this study, the researcher used an explanatory research method, explaining the causal relationships between variables through hypothesis testing. The aim was to determine the influence of the independent variables of capital, growth, leverage, size, and price on the financial performance of palm oil companies from 2016 to 2022.

The data used in this study was secondary data. Secondary data is data obtained by an organization, institution, or company, generally in the form of evidence, records, or historical reports that have been compiled in archives (documentary data) and in finished form, such as publications. Data sources were obtained directly from company websites and the Indonesia Stock Exchange (IDX).

Data collection was conducted through indirect observation by the researcher of the research subjects, namely palm oil companies. The observations made by the researcher included the observation and recording of the companies' financial reports.

Population and Sample

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The population of this study was 15 palm oil companies listed on the Indonesia Stock Exchange from 2016 to 2022. The sample was selected using a non-probability sampling method with a purposive sampling technique, a sampling technique in which each element of the population does not have an equal chance of being selected, and the sample selection criteria were adjusted to reflect the research objectives. The sample criteria for this study were:

1. Companies listed on the Indonesia Stock Exchange from 2016 to 2022
2. Companies have complete financial reports according to the data required for this study
3. Companies have consistently reported financial reports from 2016 to 2022
4. Companies have not engaged in mergers

RESULTS AND DISCUSSION

Multiple Linear Regression Analysis

Normality Test

Based on the results of the normality test using the Kolmogorov-Smirnov test, the significance value for the unstandardized residual of the tested variable was 0.203 > 0.05. Because the significance value obtained was greater than 0.05, it can be concluded that the data in the regression model is normally distributed.

Multicollinearity Test

Based on the results of the multicollinearity test, which examined the Variance Inflation Factor (VIF) and Tolerance values, the VIF values for Capital Intensity were 1.391, Growth 1.046, Leverage 1.242, Size 1.431, and Price 1.038. Furthermore, based on the Tolerance values, all independent variables met the tolerance requirement of > 0.1 and VIF values < 10, indicating that there was no multicollinearity between the independent variables.

Heteroscedasticity Test

Based on the heteroscedasticity test results, the Chi-Square Prob. value for Obs*R-Squared was 0.0033. This indicates that the data in the regression model suffers from heteroscedasticity, as the Chi-Square Prob. value for Obs*R-Squared is < 0.05.

Autocorrelation Test

The LM test results show a Chi-Square Prob. value for Obs*R-Squared of 0.000 < 0.05. This indicates that the data in the model contains autocorrelation, as the Chi-Square Prob. value for Obs*R-Squared is < 0.05.

Selecting the Best Panel Data Regression Model

Chow-Test

Based on the results of the Chow test, the probability values for both the F-test and chi-square are less than 0.05. Therefore, Ho is rejected and H1 is accepted. This means that the model estimation approach follows a fixed effects model. In other words, the fixed effects model is superior to the common effects model.

Hausman-Test

Based on the results of the Hausman test, the probability value for the cross-sectional random effects test was 0.0000, indicating low significance at a 95% significance level (α = 5%), using the Chi-Square distribution (Gujarati, 2004:651). Therefore, based on the Hausman test, the best model is the fixed effects model.

Panel Results Analysis

Based on the results of selecting the best panel data regression model, it was proven that the fixed effects model was the best method to use in this study, compared to the common effects model. Therefore, for the panel analysis of this study's results, a white cross-section was first conducted on the fixed effects model. This was intended to eliminate the assumption of heteroscedasticity in the research data. Furthermore, the purpose of using the fixed effects method on panel data was to examine the

relationship between the dependent variable of company performance, proxied by return on assets (ROA), and the independent variables of Capital, Growth, Leverage, Size, and Price. The following conclusions can be drawn from the results of the regression analysis equation.

T-Test (Peripheral Hypothesis Testing)

Based on the t-test results, it was found that individually, the Capital and Growth variables significantly influence company performance (ROA) with a probability value of < 0.05. Meanwhile, the Leverage, Size, and Price variables did not significantly influence company performance (ROA).

F-Test (Simultaneous Hypothesis Testing)

The F-test results yielded a value of 80,965.88 with a significance level of 0.000. Since the significance level is less than 0.05, the regression model can be used to predict ROA. It was concluded that Capital, Growth, Leverage, Size, and Price collectively have a significant effect on ROA.

Coefficient of Determination Test (R^2 Test)

Based on the coefficient of determination test, the R2 value was 0.999943. This indicates that Capital, Growth, Leverage, Size, and Price contribute 99.99% to ROA, with the remainder being contributed by other factors not examined in this study.

CONCLUSION

Capital Intensity has a significant effect on ROA, thus it can be concluded that to achieve profitability in palm oil companies is not only determined by capital factors, but technical factors also need to be considered. Then Growth has a significant effect on ROA, thus it can be concluded that the company's growth rate determines the level of profitability of palm oil companies. Then Leverage has no significant effect on ROA, thus it can be concluded that the level of profitability of palm oil companies is not affected by the amount of company debt. Size is proven to have no significant effect on ROA, thus it can be concluded that size does not determine the level of company profitability. Then for the Price variable has no significant effect on ROA. And finally Capital, Growth, Leverage, Size, Price together have a significant effect on ROA, thus it can be concluded that company management needs to implement these 5 factors proportionally in an effort to increase ROA.

Recommendations for the company. The research results and conclusions above indicate that the dominant factor determining the profitability of palm oil companies is capital. Therefore, company management is advised to maintain and improve the condition of fixed assets in the company, such as the area of oil palm plantations. This is because companies with large capital tend to have easier access to investment development activities, such as expanding plantations, purchasing new land, and purchasing superior oil palm seeds, which will impact the company's production capacity. This condition will lead to increased production volume, which will ultimately impact the profitability of the palm oil company. Recommendations for future researchers include: The research period should be expanded to include research objects, such as the mining industry, and the data observation period can be extended to up to 10 years. Profitability measurements can also be expanded to include factors such as NPM and ROE.

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