THE EFFECT OF COMPANY GROWTH, LIQUIDITY, AND GOOD CORPORATE GOVERNANCE ON PROFITABILITY

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ABSTRACT

This study aims to examine the effect of Company Growth, Liquidity, and Good Corporate Governance on Profitability in the industrial sector listed on the Indonesia Stock Exchange for the period 2019-2022. This research is a quantitative research and uses purposive sampling method to collect sampling. Data collection in this study used secondary data taken from the website www.idx.co.id. Based on the established criteria, there are 40 companies out of 52 companies that match. In this study the independent variables are company growth which is proxied by growth assets, liquidity is proxied by the current ratio, and good corporate governance is proxied by independent commissioners. The dependent variable of this research is Profitability which is proxied to Return on Equity (ROE). The analytical tool used is multiple linear regression . The results of the regression analysis show that simultaneously Company Growth, Liquidity, and Good Corporate Governance affect profitability by 33.4%, while 66.6% is influenced by other factors. Partially, company growth, liquidity, and good corporate governance have a significant positive effect on profitability. That the magnitude of the company's profitability is influenced by company growth, liquidity, and good corporate governance.

Keywords : *Company Growth, Liquidity, Good Corporate Governance, Profitability*

INTRODUCTION

Economic growth in the Industrial Revolution 4.0 era experienced a high increase, namely with the development of various industries and large companies. This rapid development has resulted in the creation of unavoidable business competition. This competitive business competition requires business people to maintain the survival of the company and achieve company goals by improving company performance.

Given the dynamic economic environment, companies need to improve their performance to maintain stable business conditions, taking into account theexisting considerations. One of the company's performance is characterized by profitability. Profitability is a measure used to assess the company's performance in seeking profit (Kasmir , 2012). Profitability can be influenced by many factors, the following factors that can affect profitability include liquidity, leverage, company growth (Rahmah, et al 2021) Working capital, and Good Corporate Governance (Purnama, 2021).

Company growth is an increase or decrease in the total assets owned by the company. The company 's growth is calculated as the percentage change in assets in a certain year against the previous year (Suprantiningrum, 2013). The company's ability to increase assets is the company's growth. Growing companies describe the rate of expansion by looking at asset growth.

Liquidity is the ability of a company to meet its short-term obligations in a timely manner (Irham Fahmi, 2019). Companies need to make loans to creditors in an effort to meet the cost needs for the company's operational activities. If the percentage of liquidity in a company is low, it is considered a problem in liquidation. In other words , the company does not have the ability and opportunity to meet its short-term obligations. Conversely, if the current ratio in the company is high, it is said to be good for the company.

Good Corporate Governance is one way to increase company profitability. According to Daniri (2006) company management in an effort to achieve profit and continuity in a balanced manner, can be achieved through the implementation of Corporate Governance. The implementation of good corporate management needs to implement *Good Corporate Governance* (GCG) to achieve increased profitability. Being one of the pillars of a market economy system, *Good Corporate Governance* refers to trust in the company and a healthy competition climate and a favorable business climate. Good implementation of Good Corporate Governance can encourage stable and sustainable economic growth. Creating added value (*value added*) for all interested parties (stakeholders). Ensure that the set targets have been achieved. Ensure that company assets are well maintained. Ensuring the company implements healthy business practices. Therefore *, Good Corporate Governance* is very influential on the company's performance.

This research was carried out on Manufacturing companies selected by the researchers from various industrial sectors. The miscellaneous industry sector consists of six sub-sectors including machinery and heavy equipment, automotive and components, textiles and garments, footwear, cables, and electronics. This sector also has a significant contribution in supporting the economy in the pandemic era and era 4.0. The researcher used the time period from years2019-2021 because the data is the latest data and has not been studied by researchers who have done it before.

THEORITICAL BASIS

Profitability

Profitability in a company indicates a comparison between profits and assets or capital that generates these profits, in other words profitability is the effectiveness of the company to generate profits during a certain period (Riyanto, 2011:35). The company's profitability is one of the bases for evaluating the company's health. For that we need an analytical tool in order to evaluate it. Therefore, every company will always try to increase its profitability, because the higher the level of profitability of a company, the more certain the survival of the company. Profitability in this study is proxied by *return on assets* (ROA) because it can show how the company's performance is observed from the use of all assets owned by the company in generating profits. In this study, the company's profitability will be measured using *Return on Equity* (ROE) which is used as a comprehensive analysis tool and is commonly used to measure the effectiveness of the overall operation.

Company Growth

According to Sunarto and Budi (2009), the company's growth is used as a measure of the company's success. This success is also a benchmark for investment for future growth. Titman and Wessel (1988) say that the opportunity to grow as a company is an appropriate *proxy for the agency costs* of debt. They suggest that the tendency to invest is in firms in growing industries.

Liquidity

Liquidity is one of the most commonly used ratios to measure a company's ability to meet short-term obligations without facing difficulties. The indicator used is the current ratio according to Syamsuddin (2016: 43) that the Current ratio is one of the *financial ratios* that is often used. The *current ratio level* can be determined by comparing current assets with *current liabilities* . The greater the *current ratio* , the higher the company's ability to meet its short-term obligations.

The company's ability to pay short-term obligations that are due immediately when fully collected can be measured by the current ratio (Kasmir, 2018). Based on some of the opinions above, it can be concluded that the *current ratio* is one of the liquidity ratios that shows the level of company liquidity related to the company's ability to pay its short-term debt as seen from the comparison of current assets and current debt of the company.

This ratio shows the extent to which current assets cover current liabilities. The greater the ratio of current assets to current liabilities, the higher the company's ability to cover its short-term liabilities. This ratio can be made in the form of a number of times or in the form of a percentage. If the current ratio is 1:1 or 100%, this means that current assets can cover all current liabilities. A better current ratio is if it is above 1 or 100%. This means that current assets must be far above the amount of current liabilities.

Good Corporate Governance

Corporate governance is a system that regulates the company's relationship with stakeholders from the perspective of rights and obligations, in other words, a system that directs and controls the company (Putra and Nuzula, 2017). *Good Corporate Governance is a system* that regulates the organizational structure so that it is carried out properly. In addition, *Good Corporate Governance* is a means to regulate interactions among stakeholders, structures and mechanisms that ensure control, but encourage business efficiency and effectiveness. the better the company implements *Good Corporate* Governance, the better the company's performance will be.

HYPOTHESIS DEVELOPMENT

Effect of Company Growth to Profitability

The company's growth can be seen from increase or decrease in company assets. Whether or not a company develops can be seen from the total assets owned increase or decrease. Profitability is the company's expertise in obtaining profits through total assets, sales and own capital (Sartono, 2010). Meanwhile, according to Arifianto and Chabachid (2016) Profitability is a picture of how a company can generate profits from the assets or capital they have. The higher the profitability, the higher the profits obtained, this can affect the company's growth.

H1: Company growth has a positive and significant effect on profitability.

Effect of Liquidity on Profitability

According to Kasmir (2014 : 135) *Current Ratio* is a comparison between current assets and current liabilities. The higher the value of the *current ratio* in a company, the meaning is both good and bad. A high *Current Ratio* value can be interpreted as good because it has high liquidity so that it can indicate that the company is able to pay its short-term debt, otherwise it is considered bad because a high *Current Ratio* value indicates that the company is not able to manage its current assets for investments that are more profitable.

H2: Liquidity has a positive and significant effect on profitability.

Effect of *Good Corporate Governance* Against Profitability

Agency theory can explain how participants behave in a company because their interests are fundamentally different. Because of this difference in benefits, there is a potential conflict between the agent and the principal. The resulting conflict of interest is known as an agency conflict. Basically , the separation of ownership and control of a company creates an agency conflict. The existence of this conflict requires *checks and balances* to reduce the potential for abuse of power by management.

Good Corporate Governance as a mechanism to direct and manage the company with the aim of reducing the interests of shareholders and other stakeholders. The principles and mechanisms of *Good Corporate* Governance minimize conflicts of interest between managers and investors. And can prevent managers from expropriating. A good system provides effective safeguards to ensure that shareholders get their investment back fairly and efficiently. Based on agency theory, you can monitor *Corporate Governance* managers well and reduce agency points. Theoretically, if the practice is *Good Effective and efficient corporate governance* , the entire process of business activities can be successful, further improve the company's financial performance and reduce the risk of abuse of power.

H3: *Good Corporate Governance* has a positive and significant effect on profitability.

The Influence of Company Growth, Liquidity, and Good Corporate Governance on Profitability.

Many factors affect profitability both internally and externally. Among them are company growth, liquidity and *good corporate* these variables greatly affect profitability. The better the growth of the company, the better the resulting profitability. The more liquid a company is, the better the company is in meeting current obligations. Companies that implement *Good Corporate* well, the better the company's profitability.

H4 = Company growth, liquidity, and *Good Corporate Governance* simultaneously affect profitability.

METHODS

This research is a type of quantitative research. The data used in this study is secondary data, namely the annual financial statements of various industrial sector companies listed on the Indonesia Stock Exchange for the 2019-2021 period. The obtained financial report data is then processed using SPSS. The population in this study is the various industrial sector companies listed on the Indonesia Stock Exchange. The technique used for sample selection is purposive sampling. The research sample is 40 companies in the various industrial sectors listed on the Indonesia Stock Exchange for the 2019-2021 period. This data collection technique uses the documentation method. For this research, data collection is taken from the annual financial report which can be accessed at www.idx.co.id.

RESULTS AND DISCUSSION

Table 1. Descriptive Statistical Analysis

Descriptive Statistics

	N	Minimum	Maximum	mean	Std. Deviation
GROWTH	120	-.44	1.51	.0270	.19750
CR	120	.06	312.79	7.4103	39.36644
GCG	120	.20	.67	.4046	.11045
ROE	120	-2.26	2.71	.0371	.49578
Valid N (listwise)	120				

Based on the results of descriptive statistical analysis table 1 shows that the 120 companies that were used as research samples during the 2019-2021 period with the dependent variable profitability (ROE) had a minimum value of -2.26 at Panasia Indo Resource Tbk and a maximum value of 2.71 at the company Sri Rejeki Isman Tbk. Meanwhile, the average value is 0.0371 and the standard deviation is 0.49578. The independent variable company growth (Growth) has a maximum value of 1.51 found in primarindo Asia Infrastructure Tbk and a minimum value of -0.44 at Sat Nusapersada Tbk, and an average value of 0.0270 and a standard deviation of 0.19750. the liquidity variable (CR) has an average value of 7.4103 and a standard deviation of 39.36644, while the minimum value is 0.06 at the company Panasia Indo Resources Tbk. and a maximum value of 312.79 at the company Buana Artha Anugerah Tbk. The independent variable *Good Corporate Governance* (GCG) has a minimum value of 0.20 found in the company Indo-Rama Synthetics Tbk. and a maximum value of 0.67 at the Primarindo Asia Infrastructure Tbk company, while the average value is 0.4046 and the standard deviation i is 0.11045.

Table 2 Normality Test 120 Samples
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		120
Normal Parameters a,b	mean	,0000000
	Std. Deviation	,49365931
Most Extreme Differences	Absolute	,278
	Positive	,271
	negative	-,278
Test Statistics		,278
asymp. Sig. (2-tailed)		,000 c

Based on the results of the normality test above with 120 samples of data, it can be seen that the value of Kolmogorov Smirnov is 0.278 with a Significant Asymp value of 0.000. These results indicate that the value of Asymp. Sig. (2-tailed) is smaller than the significance level (0.00 < 0.05) so it can be concluded that the data are not normally distributed. Because the data is not normal, then data outliers are performed. The cause of the emergence of data outliers in this study is because there are data that have extreme values of 34 samples. So the sample used in this study was 86 samples.

Table 3 Normality Test 86 Samples
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		86
Normal Parameters a,b	mean	.0000000
	Std. Deviation	.06012014
Most Extreme Differences	Absolute	.090
	Positive	.090
	negative	-.051
Test Statistics		.090
asymp. Sig. (2-tailed)		.080 c

Source: SPSS data processing

The results of the normality test after outliers with 86 samples showed the Asymp value. Sig.(2-tailed) of 0.080. The significance value is greater than the significance level, i.e. 0.080 > 0.05, then the data is normally distributed.

Table 4 Multicollinearity Test

Coefficients a

Model		Collinearity Statistics Tolerance	VIF
1	GROWTH	.977	1.023
	CR	.974	1.027
	GCG	.993	1.007

a. Dependent Variable: ROE

The results from the table above show that there is no independent variable that has a Tolerance value of less than 0.10 with a Tolerance value of each Company Growth variable of 0.977, a Liuidity variable of 0.974, and a Good Corporate Governance variable of 0.993. While the results of the calculation of the value of the variance inflation factor (VIF) show the same results, namely the absence of the VIF value of the independent variable that has a VIF value of more than 10. The VIF value is still an independent variable, namely the Company Growth variable of 1.023, the Liquidity variable of 1.027, and the variable Good Corporate Governance is 1.007. Based on the table, it can be concluded that there is no multicollinearity between the independent variables in the regression model.

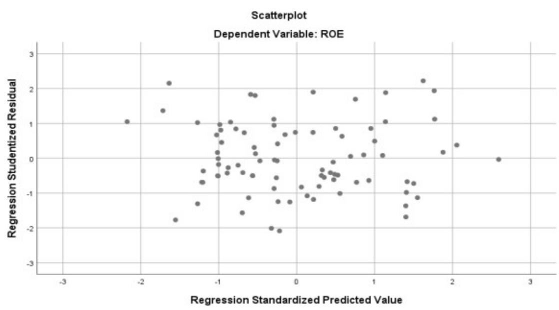

Figure 2 Heteroscedasticity Test

Based on the *scatterplot pattern* , it can be seen that the points spread randomly both above and below the number 0 on the Y axis and there is no clear pattern in the spread of the data. So it can be concluded that the data in the regression model does not experience symptoms of heteroscedasticity .

Table 5 Autocorrelation Test

Model Summary b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.598 a	.357	.334	.06121	1,612

Based on the results of the autocorrelation test in the table above, it shows that the Durbin-Watson value is 1.612 while the Durbin-Watson table with a significance of 0.05, the number of samples is 86, and dl is 1.5780 and du is 1.7221. There is no autocorrelation if du < dw < 4-du, then in this study it can be proven that the value of dw lies between dl and du, data du is 1.7221 so dl is 1.5780, the result is 1.7221 <1.612 <2.277. Based on these tests, it can be concluded that the regression model in this study has no decision making.

In addition to using Durbin Watson, the correlation test can also be done with a run test. Run test as part of nonparametric statistics is used to test whether there is a correlation between the residuals, it is stated that the residuals are random or random. If the significance value of the Run test is greater than the 0.05 significance level, it can be interpreted that there is no autocorrelation in the linear regression model.

Table 6 *Run Test*

Runs Test

	Unstandardized Residual
Test Value [a]	-.00569
Cases < Test Value	43
Cases >= Test Value	43
Total Cases	86
Number of Runs	35
Z	-1.953
asymp. Sig. (2-tailed)	.051

Based on the results of the Run Test, it shows that the significance value of 0.051 is greater than the 0.05 significance level, which means that there is no autocorrelation in the linear regression model.

Table 7 Multiple regression analysis

Coefficients [a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-.046	.027		-1,699	.093
	GROWTH	.284	.056	.453	5.056	.000
	CR	.011	.005	.197	2.198	.031
	GCG	.186	.063	.262	2,955	.004

a. Dependent Variable: ROE

Based on the test results above, the following multiple linear regression equation was compiled:

$$\mathbf{ROE = -0,046 + 0,284\ PP + 0,011\ CR + 0,186\ GCG + e}$$

1. The constant coefficient is -0.046 , this means that profitability (ROE) will be worth -0.046 if each variable of Company Growth, Liquidity, and *Good Corporate Governance* is worth 0.
2. The Company Growth variable has a regression coefficient of 0.284. This shows that for every one unit increase in the Company's Growth variable, assuming other variables are fixed, profitability will increase by 0.284 units.
3. The liquidity variable has a regression coefficient of 0.011 with a positive value. This shows that for every one unit increase in the liquidity variable, assuming other variables remain constant, profitability will increase by 0.011 units.
4. The GCG variable has a regression coefficient of 0.186 with a positive value. This shows that every one unit increase in the GCG variable, assuming other variables remain, will increase profitability by 0.186 units.

Table 8 Test of Partial Significance (Test Statistical t)

Coefficients [a]

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
1 (Constant)	-.046	.027		-1,699	.093
GROWTH	.284	.056	.453	5.056	.000
CR	.011	.005	.197	2.198	.031
GCG	.186	.063	.262	2,955	.004

a. Dependent Variable: ROE

Based on the table above , the influence of company growth and *good corporate governance* on profitability can be explained as follows:

Company Growth (*Growth)*

Based on the results of the t-test that has been carried out, it can be seen that the variable 1 growth of the company has a t-value of 5.056 while the significance level is greater than 0.05 with a significance value of 0.000 for company growth. Based on this explanation, partially the company's growth variable has a significant positive effect on profitability.

Liquidity (CR)

Based on the results of the t-test that has been done, it can be seen that the liquidity variable has a t-value of 2.198 while the significance level is greater than 0.05 with a profitability significance value of 0.031. Based on this explanation, partially the Liquidity variable has a significant positive effect on Profitability.

***Good Corporate Governance* (GCG)**

Based on the results of the t test that has been done, it can be seen that the *Good Corporate Governance variable* has a t value of 2,955 while the significance level is less than 0.05 with a significance value of 0.004 for *Good Corporate Governance* . Based on this explanation, partially the *good corporate governance variable* has a significant positive effect on profitability

Table 9 Simultaneous Significance Test (Statistical Test F)

ANOVA [a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	171	3	.057	15,197	.000 [b]
	Residual	.307	82	.004		
	Total	.478	85			

Based on the results of the F test above, the F value is 15,197 and the significance value is 0.000. It means that the significant value is smaller than the significant level (0.000 <0.05), based on this explanation, it is concluded that the independent variable simultaneously has a significant effect on the dependent variable.

Table 10 Coefficient of Determination Test

Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.598 [a]	.357	.334	.06121	1,612

Based on the table above, the adjusted R Square value is 0.334 or 33.4%. This shows that profitability (ROE) is influenced by company growth, liquidity, and *good corporate governance* with a determination of 33.4%, while 66.6% is influenced by other factors outside this research model.

The effect of company growth on profitability

Based on the hypothesis test, it was found that the company's growth as proxied by growth assets partially had a significant positive effect on profitability. This shows that when the company's growth increases, the company's profitability also increases. Profitability is a picture of how a company can generate profits from the assets or capital they have. The higher the profitability, the higher the profits obtained, this can affect the company's growth. Company growth is a picture of a company's performance as well as a benchmark for investors to make investment decisions.

This is in line with the research of Novelasari (2021) which found that company growth had a significant positive effect on profitability. Novyanny et al's research (2019) found that company growth has a positive effect on profitability. However, it is inversely proportional to the research of Veronica et al (2021) finding that company growth has no effect on profitability.

Effect of Liquidity on Profitability

Based on the hypothesis test, it was obtained that the liquidity proxied by the current ratio partially had a significant positive effect on profitability. Liquid companies affect the company's profit. The smaller the value of the current ratio, the greater the company's ability to meet short-term obligations. *Current Ratio* (CR) is a current ratio that shows the extent to which current liabilities are expected to be converted into cash in the near future

This result is in line with research by Stefani et al (2015) who found that the current ratio has a significant positive effect on profitability. Wahyuliza and Dewita's research (2018) finds that liquidity has a positive effect on liquidity. However, it is inversely proportional to Sukmayanti's research (2019) finding that liquidity has no effect on profitability.

The Effect of *Good Corporate Governance* on Profitability

Based on the hypothesis test, it was obtained that *Good Corporate Governance* proxied by the independent board of commissioners partially had a significant positive effect on profitability. *Good Corporate Governance* is a system that regulates the organizational structure so that it is carried out properly. The implementation of *good corporate governance* will help the decision-making process run better and lead to optimal decisions. It can also promote a healthier workplace culture. The more the company runs smoothly, the better the company can make a profit.

This result is supported by the research of Rumapea, M. (2017) which shows that *good corporate governance* proxied by an independent board of commissioners has a significant positive effect on profitability. The research of Wirdani, et al (2020) found that *good corporate governance* has a significant positive effect on profitability. However, this is contrary to the research of Zahra, et al. (2016) which shows that *good corporate governance* proxied by independent commissioners has a negative and significant effect on profitability.

The Influence of Company Growth, Liquidity, and Good Corporate Governance on Profitability

Based on the research results show that the independent variables of company growth, liquidity, and good corporate governance simultaneously have a significant effect on profitability. Profitability has an important role in the development of various industrial sector companies, besides that profitability is also a reference for investors to invest funds in a company. The greater the company's profitability, the better the company's performance.

Growth is expressed as growth in total assets where past asset growth will reflect future profitability and future growth. The better the growth of a company, the better the profitability of the company. According to Anwar (2019), liquidity is a ratio that shows the company's ability to meet its short obligations. The higher the liquidity ratio indicates the company is increasingly able to meet all its short-term obligations which can be a positive signal for investors to invest and increase the value of the company. On the other hand, the lower the liquidity ratio, the more illiquid the company is, which means that the company lacks capital to pay its debts.

The performance of a company is determined by how serious the company is in implementing *good corporate governance* . In theory, if the practice of good corporate governance runs effectively and efficiently, the entire process of company activities will run well which in turn can improve the company's financial performance, and reduce the risk of abuse of office.

This is supported by previous research by Wibowo & Wartini (2012) showing that liquidity simultaneously affects profitability. Jayanti & Sukarno's (2020) research shows that the company's growth simultaneously affects profitability. And Putra's research (2020) shows that *good corporate governance* simultaneously affects profitability.

CONCLUSION

This study aims to examine the effect of company growth, liquidity, and good corporate governance on profitability in various industrial sectors listed on the Indonesia Stock Exchange for the 2019-2021 period. The growth of the company as proxied by *Growth assets* partially has a positive and significant effect on the profitability of the various industrial sectors listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period. Liquidity as proxied by the current ratio partially has a positive and significant effect on the profitability of the various industrial sectors listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period. *Good Corporate Governance* as proxied by the independent board of commissioners partially has a positive and significant effect on the profitability of the various industrial sectors listed on the Indonesia

Stock Exchange (IDX) for the 2019-202 period. Company growth, liquidity, and *good corporate governance* simultaneously affect the profitability of various industrial sectors listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period.

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