Research Article

Effect of Sales Growth, Firm Size, Profitability on Earning Per share

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Abstract: The purpose of the research is to prove the implementation of the concept of sales growth, firm size, profitability, and Earning Per Share (EPS) in manufacturing companies listed on the Indonesia Stock Exchange. Research method using data analysis techniques using path analysis, variable independent used more than one variable and among independent variables, there is a causal relationship. The results of the study found sales growth affects profitability in manufacturing companies, larger companies will tend to have higher profitability, profitability affects earnings per share. This research proves the concept of sales growth, size, profitability, and EPS occurs in manufacturing companies listed on the Indonesia Stock Exchange.

Keywords: sales growth, firm size, profitability, Earning Per Share.

1. Background

Earning per share (EPS) is one way to be an attractive investment, with a high level of Earning Per Share can affect investor confidence to invest (Kusumah, Ramdhani, & Aryanti, 2021). While the fact that occurred in the Multi-Industry Sector in Indonesia there was a decrease of 16.05% Earning Per Share during 2015-2019 and garment industry stocks that gave a big influence. The fundamental performance of textiles and garments is presented in table 1:

Table 1.
Fundamental Performance of Textiles and Garments

Company	Emiten	Total Asseta (Milliar Rp)	Profit (Milliar Rp)	Profit (% YoY)
PT. Sri Rejeki Isman	SRIL	20,118	894,39	12,29
PT. Indo-Rama Synthetics	INDR	10,898	498,90	49,97
PT. Pan Brothers Tbk.	PBRX	8,998	119,83	77,56
PT. Tifico Fiber Indonesia	TFCO	4,496	1,86	-85,35
PT. Asia Pasific Investama	MYTX	3,946	-134,37	-29,76
PT. Asia Pasific Fibers	POLY	3,365	-54,36	Turning Loss

Souces: www.cnbcindonesia.com

Table 1 shows six textile issuers with the largest asset holdings experienced an alarming profit performance throughout 2019 in the first half (Ayuningtyas, 2019).

EPS is considered as the basis for measuring the most popular and most widely used financial performance, EPS is also considered as the key to EPS is considered as the basis for measuring the most popular and most widely used financial performance, addition EPS is also considered as the key to taking a desperation strategy for example in the provision of incentive schemes, merger and acquisition negotiations. The advantage of EPS is that it is easy to calculate, usually, management is rewarded for positive EPS (Wet, 2013). Sales growth is calculated as the number of sales this year minus the number of sales last year divided by sales this year (Sartono, 2001).

Earnings per share is a summary that can definitively communicate sufficient information about the company's performance. The calculation of earnings per share differs for two types of capital structures - simple and complex. A simple capital structure is a structure consisting of "only common shares or does not include potentially used convertible securities, options, warrants, or other rights that after conversion or execution may aggregate dilution of earnings per share. The complex capital structure includes additions to common items such as convertible stocks and bonds, stock options and warrants, participating securities and two-class stocks, and contingent shares potentially equivalent to common shares (Belkaoui, 1999).

Sales growth is used to measure the extent of the success of the sales department in obtaining its sales targets, often used as an indicator as a sign of the company's survival and financial growth. If the sale grows well then the increase in profit will occur and the division of profit per share can increase (Sivathaasan & Rathika, 2013). Profitability is the most influential criterion for a company's financial performance (Fazli, Sam, & Hoshino, 2013). The influence of the size of the company on profitability is still a debate so further studies are needed (Dang, (Frank) Li, & Yang, 2018; Mnguni, 2019).

2. Theoretical Framework

The empirical study of the relationship between growth and profitability was first conducted by (Mueller, 1977) focusing on the theory of the company's growth and company performance. (Jang & Park, 2011) researches the relationship of growth and profitability that past profitability has a positive effect on current growth, and past growth harms growth rates, a concept that is affirmed important for entrepreneurs to maintain an appropriate profit level because profit can lead to growth (Lee, 2014). Profitability is an important condition for future growth, the study of banking, banks that maintain high capital-asset ratios (liquidity) tend to record relatively low profitability (Goddard, Molyneux, & Wilson, 2004). Profitability is the ability of the company to profit from sales, total assets as well as capital (Purwohandoko, 2017).

The results of this paper also revealed liquidity, leverage, profitability, company size, and dividends affect the share price, while growth positively affects the share price, revealing that several qualitative factors namely corporate goodwill; market sentiment; company announcements; GMS; unforeseen circumstances; analyst reports; technical influence; print and electronic media; sensation; changes in government policy; international situation; political turmoil as well as some quantitative factors such as dividends; market capital; price/revenue ratio; EPS; income limit; return on investment; saved income; incorporation; stock split; margin loans; stock demand & supply; inflation; interest rates; exchange rate affects the share price.

The size of the company is important to be reviewed related to the main factors that will shape the profit, the larger the size of the company will be easier to obtain capital from outside parties with a large amount and become an attraction for investors to invest in the company (Sjahrial, 2012). The size of the company shows the extent to which a company can offer its products or services to customers (Dang et al., 2018). The size of the company through the capital structure becomes an important factor in determining profitability, a study conducted (Doğan, 2013) found there is a positive relationship between the size of the company and the profitability of the company. Research examining the relationship between company size and profitability is explained by the log asset initiator, sales, and the number of employees having a positive influence on profitability formulated with the ratio of revenue to total assets, these findings conclude companies are most likely to gain high profitability (Aydın Unal, Unal, & Isık, 2017). Investors are more interested in companies that can provide a large return than those investors can invest their capital. The availability of capital from investors can make it easier for companies to take advantage of investment expansion (Kartikasari & Merianti, 2016). Research (Kartikasari & Merianti, 2016) concluded that total assets affect the profitability of manufacturing companies in Indonesia. The size of the company as measured by total assets, sales, number of labor, and others, the larger the size of the company, the greater the capital invested, the greater the total sales, the greater the turnover (Purwohandoko, 2017).

Earning Per Share (EPS) is considered the most popular performance assessment tool, and is often used for strategic decision making such as stock valuation, management performance incentive schemes, and acquisition merger negotiations (Wet, 2013). Profitability, as measured by return on assets, is used in this study to look at the ability of the manufacturing industry in utilizing its assets. High return on assets indicates efficiency in asset wealth management and its impact on high returns (Kartikasari & Merianti, 2016).

Hypothesis 1: Sales growth affects profitability.
Hypothesis 2: The size of the company affects profitability.
Hypothesis 3: Sales growth affects EPS.
Hypothesis 4: The size of the company affects EPS.
Hypothesis 5: profitability affects EPS.
Hypothesis 6: Sales growth mediated with profitability to EPS.
Hypothesis 7: Size of companies mediated with profitability against EPS.

3. Data Analysis Methods

The data used is secondary data financial statements obtained from the web www.idx.go.id . The type of data used is panel data which is a combination of times series (time series) and cross-section data (cross). Various

industry companies listed on the Indonesia Stock Exchange are the population of 2015-2019 observation year as many as 51 companies. Sampling techniques are used purposive sampling.

Data analysis techniques using path analysis, variable independent used more than one variable and among independent variables, there is a causal relationship. According to Foster, et al (2006:90), path analysis examines the structural causal relationship of independent variables to dependent variables taking into account the interrelationship between independent variables and model complexity. The following are presented the results of data analysis in the form of a stretch of sales growth (X1), and the size of the company (X2) on profitability (Y1), and its impact on earnings per share (Y2).

1. *Sales Growth* = $\frac{Sales\ (t)-Sales\ (t-1)}{Sales\ (t-1)}$ x 100%
2. Size = Ln (total assets)
3. Profitability (Return on Asset) = $\frac{Earning\ after\ Tax}{Total\ Asset}$ x 100%
4. *Earning per share* (Y_2). (EPS) = $\frac{Earning\ after\ Tax}{Outstanding\ Share}$ x 100%

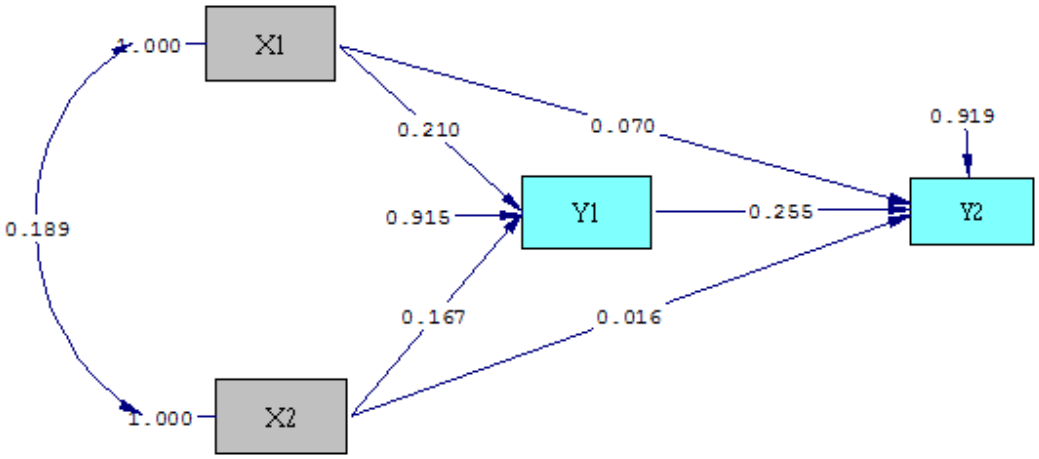

Figure 1. Path Coefficient

Data analysis using Lisrel 8.7 software with robust maximum likelihood estimation method with the full model path of sales growth, company size to profitability, and impact on earnings per share (Foster, Barkus, & Yavorsky, 2006). The coefficient in Figure 1 forms the following structural models.

Table 2. Structural Model Summary for Hypothesis Testing

Path	Koefisien	$t_{statistic}$	R-Square
X_1 ➔ Y_1	0,210	2,475	0,0854
X_2 ➔ Y_1	0,167	1,974	
X_1 ➔ Y_2	0,070	0,807	0,0811
X_2 ➔ Y_2	0,016	0,185	
Y_1 ➔ Y_2	0,255	2,910	
X_1 ➔Y_1 ➔ Y_2	0,054	1,872	
X_2 ➔Y_1 ➔ Y_2	0,043	1,621	

Through the R-square value, it can be known that sales growth and the size of the company have an influence of 8.54% on profitability. Then sales growth, company size, and profitability influenced 8.11% on earnings per share (Cooper & Schindler, 2014).

Table 2. Hypothesis testing uses at-statistical value, if the value is greater than t-critical then the Ha hypothesis will be accepted. The effect of sales growth on profitability, with the X1 line - Y1 obtaining a t-statistic of 2,475 means that sales growth affects the profitability of manufacturing companies listed on the Indonesia Stock

Exchange. Empirically proving that manufacturing companies with good sales growth tend to gain increased profitability.

The effect of company size on profitability, X2 → Y2, T-statistic = 1.974 means the size of the company affects profitability. The results of this study provide empirical evidence that larger companies will tend to have higher profitability.

The effect of sales growth on EPR, X1→ Y2, T-statistic = 0.807 means that sales growth does not affect EPR in IDX-listed manufacturing companies. Company size to EPS, X2 → Y2, T-statistic = 0.185, meaning the size of the company does not affect EPS. The effect of profitability on EPS, Y1 → Y2, T-statistics = 2,910, meaning profitability affects earnings per share in manufacturing companies on the Indonesia Stock Exchange. The results of this study provide empirical evidence that companies with higher profitability tend to have greater earnings per share.

The indirect effect of sales growth on EPR, with line X1 →Y1→ Y2, T-statistic = 0.807, means sales growth mediated by profitability does not affect EPS. Meanwhile, the indirect influence of the company's size on EPS with line X2 →Y1 → Y2, T-statistic = 0.807 means that the size of the company mediated by profitability does not affect earnings per share in manufacturing companies on the Indonesia Stock Exchange.

Empirical that occurs in the manufacturing sector as experienced by PT. Sri Rejeki which is a garment-textile company that distributes dividends per share of only Rp1 or a total of Rp20.45 billion for net profit in the fiscal year 2019. Meanwhile, net profit growth was 3.67 percent per hour. There was a 1.62 percent decrease in dividend payments compared to the previous year of 5 percent. The decrease in dividend distribution is one of them because PT. Sri Rejeki maintains its liquidity during the pandemic period (Laoli, 2020).

PT. Indofarma's shares increased 103.64% along with a 21.28% increase in revenue but suffered a loss of 2.66 billion. However, INAF will still expand to raise medical devices such as Teledoc, Emergency Ventilator, Mask, hand sanitizer, hemodialysis tool because this is a market opportunity during pandemic (Rahmawati, 2020).

PT Astra recorded a 68% decrease in net profit from the group's automotive business to Rp2.7 trillion in 2020, a decrease due to a significant decrease in sales from sales of replacement parts and export segments (Tjondro, 2021). Based on Indonesia Stock Exchange (IDX) data, PT Astra's shares rose 4.04% at Rp5,150/share (Saleh, 2020). The same thing happened to PT Goodyear Indonesia, there was a suspension and at the time of opening by IDX it turned out that the shares had decreased to touch the lower auto rejection limit (ARB) by 6.93% to a position of Rp2,820 /share (Fernando, 2021). Some empirical occurs in manufacturing companies listed on the Indonesia Stock Exchange, decreased dividend distribution, earnings per share due to decreased performance, decreased sales, other external factors such as the condition of Covid-19.

4. Conclusion

Based on the phenomenon, the frame of mind and the results of the study concluded that earnings per share of manufacturing industry companies listed on the Indonesia Stock Exchange decreased due to a decrease in sales/profit generation. While profit generation is determined by sales growth factors and the size of the company. Some manufacturing companies listed on the Indonesia Stock Exchange experienced a decrease in the share price due to a decrease in profitability, lower profitability due to slow sales growth, and minimal assets.

5. Recommendations

Empirical findings and phenomena found that other factors determine profits in manufacturing companies listed on the Indonesia Stock Exchange, especially during the Pandemic. Other fundamental factors include environmental uncertainty, government uncertainty, organizational structure, environmental culture. These factors can be used as independent variables for further research.

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