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Impact Of Free Cash Flow, Capital Structure, And Company Size On Profitability (Study On Infrastructure Sector Companies In 2018-2022)

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ABSTRACT

This research is motivated by the decline in financial which has an impact on financial performance. Companies are faced with demands to achieve profits and increase their profitability. In this study there are saveral factors that can affect profitability, namely free cash flow, capital structure, company size. The purpose og the study was to determine the impact of free cash flow, capital structure, and company size on profitability. The population in this study were infrastructure sector companies listed on the Indonesia Stock Exchange (IDX) in 2018-2022. The sampling method used was purposive sampling method and obtained 15 companies with a total sample of 75 financial statements which became the object of research. The data anaysis method is quantitative analysis using multiple linear regression analysis dan hypothesis testing using the SPSS 26 Programme. The result showed that free cash flow has a positive and significant effect n profitability, capital structure proxied by debt to asset ratio has a positive and significant effect on profitability, capital structure proxied by debt to equity ratio has a negative and significant effect on profitability, company size has no effect on profitability.

INTRODUCTION

The company's good level of financial performance reflects the company's ability to run its operations consistently. If the financial performance is not good, the negative impact will be felt by the company's financial performance, one of which is using profitability (Mattiara *et al*., 2020). In this study, profitability is measured by the ROA value, where this value is very important for the company. The profits earned will be a significant resource to support the company's financial activities. Therefore, every company aims to increase profitability every period.

The data obtained from the historical performance indexes of infrastrukture in 2018-2022 obtained that in 2018 it was worth -8,70% but in 2019 it increased to a value of 5,50%. In 2020 it decreased to a value of -10,50% and again experienced an increase in 2021 so that the value was 11,20%. But it fell again in 2022 to a value of -9,40%. Based in the result of the data obtained, it can be seen that IDXINFRA has experianced a decline in corporate finance which has an impact on profitability financial performance

The company expects to see an increase in its profitability, where a consistent increase in profits is expected to enable effective and efficient asset management, resulting in high profitability in each period. Companies are faced with demands to achieve profits and increase their profitability in the long term. Therefore, it is necessary to analyze the factors that can affect profitability, some of which are free cash flow, capital structure, and company size.

Based on the phenomena that occur and complemented by the existence of several previous research gaps related to variables that affect profitability still show inconsistent result so that researchers are interested in wanting to research the factors that affect profitability with the object of research in the infrastructure sector. The existence of the gap research above and the gap between theory and facts in the field makes researchers want to research futher. Based on the explanation above, this study takes the title "IMPACT OF FREE CASH FLOW, CAPITAL STRUCTURE, AND COMPANY SIZE ON PROFITABILITY" (Study If Infrastructure Sector Companies In 2018-2022).

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Signaling theory

Signal theory explains that the sender of information or the ower of information provides a signal in the form of information about the condition of his company that is benefical to the recipient. Signal theory is an action taken by company managers in providing guidance to investors regarding the company's future growth prospects. The singnal is in the form of information that explains management's efforts to fulfill the owner's wishes (Brigham & Houston, 2011).

Agency theory

According to Jensen and Meckling (1976) an agency relationship occurs when one or more owners (principle) hire another person (agent) to do job for the benefit of the pincipal by delegating some authority and decision making to the agent. The principal in this case is the owner of the resources and the agent is the manager if the resources. Agent is the manager of the resources. Agency theory considers the relationship between company owners and company management

Free Cash Flow

Free cash flow is the excess cash flow needed to fund all projects that have a positive net present value. Free cash flow is the company's internal source of funds whose use depends on the manager's policy. The use hare is the payment of dividends, repurchase of company shares (stock repurchase or shre repurchase), invesment in fixed assets or other assets, acquisition of other companies, or other policies that theoretically cannot increase the value of the company (Jensen, 1986).

Capital Structure

According to Irham (2014), capital structure is a foreign capital design that includes the company's financial part f debt and equity in terms of financing an entity. According to Sartono (2016), capital structure is a comparison of the amount of permanent short-term debt, long-term debt, preferred stock and common stock. Capital structure is a combination of debt, preferred stock and common equity that will be the basis for raising a company's authorized capital (Brigham, 2011).

Debt to Asset Ratio
Debt to asset ratio is a debt ratio used to measure the ratio between total debt and total assets. In other words, how much the company's assets are financed by debt or how much the company's debt affects the manajement of assets (Kasmir, 2013). Debt to asset ratio is a financial metric that provides insight into how much proportion of a company's assets are funded by debt.

Debt to Equity Ratio
Debt to equity ratio is ratio used to assess debt to equity, this ratio is sought by comparing all debt, including current debt with all equity. This ratio is useful for knowing the amount off funds provided by borrowers with company owners. In other words, this ratio serves to find out every rupiah of own capital used as debt collateral (Kasmir, 2013). DER is a ratio used to maesure the size of the use of long-term debt with the company's capital.

Company Size
Company size describes the size of a company which is shown in total assets, total sales, average sales and total assets. According to Brigham & Houston (2011) explains that company size is the average total net sales for the year concerned up to several years. In this case sales are greater than variable costs and fixed costs, the amount of income before taxes will be obtained. Conversely, if sales are smaller than variable costs and fixed costs, the company will suffer losses.

Profitability
According to Brigham & Houston (2011), profitability is the end result of a series of corporate management policies and decisions. It is also defined as the company's ability to earn profits with all of its resources. Profitability reflects the met result of policies and decisions made by company management, as well as the company's ability to earn profits with its resources.

METHODS

This research uses quantitative methods with the data used comes from financial statements obtained through the IDX website and the official website of the infrastructure sector company. The method used in completing this research is purposive sampling method. The result of purposive sampling in this study were 15 companies that became research samples with periods from 2018-2022. The total samples used in this study were 75 samples.

RESULTS

Descriptive Stastiscal Test

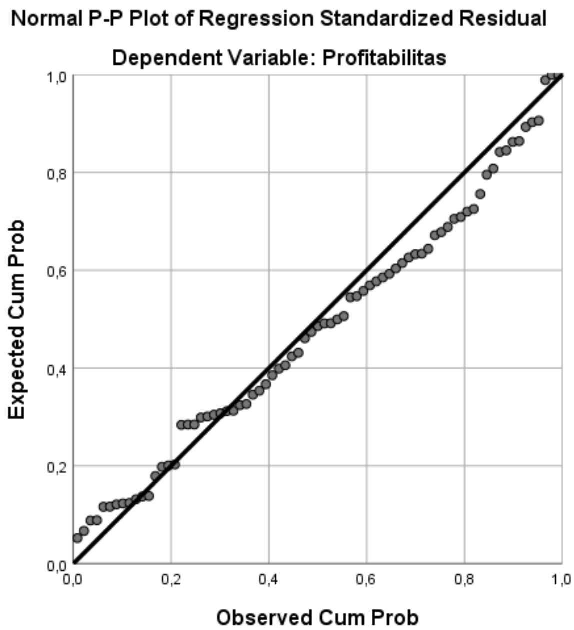
Descriptive statistics are used to describe the variables in the study. Descriptive statistics aim to explain the data description of the minimum value, maximum value, average, and standard deviation of all variables contained in the survey model, as well as the distribution and behavior of sample data (Ghozali, 2021).

Table 1. Descriptive Statistics

Variables	Indicators	Min	Max	Mean	Std. Dev
Free Cash flow	X1	-0,38	0,23	0,0023	0,09119
Debt to Asset Ratio	X2	0,10	1,10	0,4975	0,22076
Debt to Equity Ratio	X3	0,11	6,91	1,4961	1,48506
Company Size	X4	12,24	31,68	24,4049	5,87039
Return on Aset	Y	0,03	12,63	2,3584	2,01578

Source: *Author's compilation*

Normality Test



Source : ouput SPSS 26, data processed

Figure 1. Probability Plot

The normality test aims to test whether the confounding variables or residual variables in the regression model are normally distributed. The regression model is said to be normal if the data plotting follows the diagonal line. Probability plot graph shows that the points spread along the diagonal line, it can be concluded that the data tested is normally distributed.

Multicollinearity Test

Table 2. Multicollinearity Test

Variable	Collinearity Statistic		Description
	Tolerance	VIF	
Free Cash Flow	0,752	1,331	Free Multicollinearity
Debt to Asset Ratio	0,251	3,988	Free Multicollinearity
Debt to Equity Ratio	0,282	3,548	Free Multicollinearity
Company Size	0,900	1,111	Free Multicollinearity

Source : Author's compilation

Multicollinearity test result show that all independent variables have a VIF value < 10,0 and tolerance value of not less than 0,10. So it can be concluded that the variables of free cash flow, debt to asset ratio, debt to equity ratio, and company size do not occur multicollinearity. So that the model passes the multicollinearity test and can do the next test.

Heteroscedasticity Test

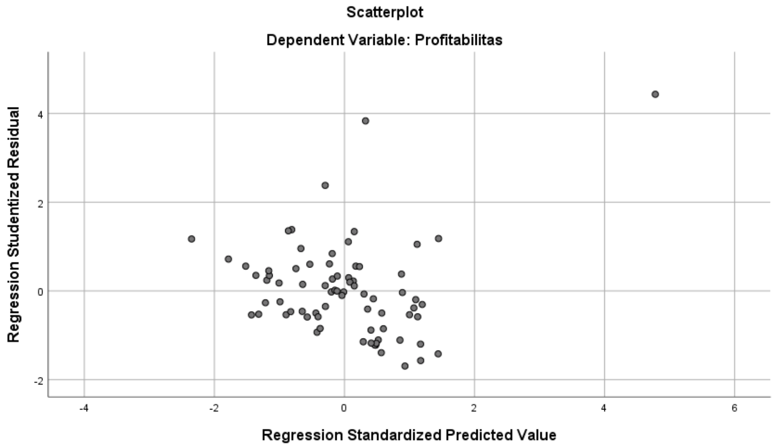


Figure 2. Heteroscedasticity Test

From the scatterplots graph above, it shows that the points spread randomly and are scattered above and below the number 0 on the Y axis. So it can be concluded that there is no heterscedasticity in the regression model.

Autocorrelation Test

The autocorrelation test in this study using the Durbin-Watson test obtained a durbin watson value is 1,919 this value is than compared with the D-W table value obtaining a value of dL=1,515 dU=1,739, then the Durbin-Watson value of 1,919 is located between dU of 1,739 and a 4-dL value of 2,485 or dU (1,739) < DW (1,919) < 4-dL (2,485). So this study does not occur autocorrelation between variables.

Coefficient of Determination (R^2)

Table 3. Coefficient of Determination (R^2)

Model	R	R Square	Adjusted R Square	Std. Error f the Estimate
1	0,402	0,162	0,114	1,89764

Source : Author's compilation

Based on the table above shows that the coefficient of determination is 0,114 or 11,4%. This shows that the variables of free cash flow, debt to asset ratio, debt to equity ratio, and company size have a significant effect on profitability by 11,4%.

Simultaneous Significance Test / F Test

Table 4. Simultaneous Significance Test / F Test

Model	Df	F	Sig	Description
1	4	3,375	0,014	Significant effect

Source : Author's compilation

The significant value in the table above shows a number of 0,014 or less than 0,05, so the regression equation obtained in this study is feasible to use. So that the F test hypothesis is accepted and it can be said that the free cash flow variable, debt to asset ratio, debt to equity ratio, company size together affect firm value.

T Test

Table 5. T Test

Model		Unstandardized Cefficients		Standardized Coefficients	T	Sig.
		B	Std Error	Beta		
1	(Constant)	-0,178	1,185		-0,150	0,881
	Free Cash Flow	7,141	2,790	0,323	2,559	0,013
	Debt to Asset Ratio (DAR)	6,838	1,996	0,749	3,426	0,001
	Debt to Equity Ratio (DER)	-0,734	0,280	-0,541	-2,624	0,011
	Company Size	0,009	0,040	0,026	0,224	0,823

Source : Author's compilation

From the test table above it can be concluded that : (a) Free cash flow variable (X1) shows significant result of 0,013 or less than 0,05 with a positive beta value of 0,323 so that the free cash flow variable has a positive effect on profitability. (b) DAR variable (X2) shows a significant result of 0,001 or less than 0,05 with a positive beta value of 0,749 so that the DAR variable has a positive effect on profitability. (c) DER variable (X3) shows a significant result of 0,011 or less than 0,05 with a negative beta value of -0,541 so that the DER has a negative effect on profitability. (d) Company size variable (X4) shows a significant result of 0,823 with an error rate greater than 0,05, a positive beta value of 0,026, it means that company size has no effect on profitability.

Multiple Regression Analysis

Based on table 5, the constant value for the multiple linear regression equation in this study is -0,178 and the coefficient value of variable X, namely free cash flow of 7,141, DAR of 6,838, DER of -0,734, and company size of 0,009.

This means : (a) when the value of the free cash flow variable increases by 1%, the profitability variable will increase by 7,141. (b) when the value of the DAR variable increases by 1%, the profitability variable will increase by 6,838. (c) if the DER variable increases by 1% then profitability will decrease by -0,734. (d) when the value of the company size variable increases by 1%, the profitability variable will increase by 0.009.

DISCUSSION

The Effect of Free Cash Flow on Profitability

The result of this study indicate that the free cash flow variable has a positive and significant effect on profitability with a significant value of 0,013 which indicates an error rate smaller than 0,05 and beta value of 0,323. So that the free cash flow variable has a positive and significant effect on profitability. This shows that the higher the free cash flow in the company, it reflects the efficiency in managing its finances and operations.

The result of this study are in line with research conducted by Augustpaosa Nariman (2020) and Rahmi (2023) showing that free cash flow has a positive and significant effect on profitability. Thus it is known that the amount of free cash flow from the company will affect the company's financial performance.

The Effect of Debt to Asset Ratio on Profitability

The result of this study indicate that the DAR variable has a positive and significant effect on profitability with a significant value of 0,001 which indicates an error rate smaller than 0,05 and beta value of 3,426. So that the DAR variable has a positive and significant effect on profitability. This means that if DAR increases, profitability will increase, and vice versa.

This research is in line with research conducted by Dwi Urip Wardoyo et al. (2022) and Puspitasari (2021) show that the DAR has a positive and significant effect on profitability. The higher the DAR, the higher teh profitability, which means that the relationship between the use of debt and the needs obtained from sales.

The Effect of Debt to Equity Ratio on Profitability

Based on the result of the hypothesis test, it shows that the DER obtained a t test value of -2,624 with a significant value of 0,011 and a beta value of -0,541. This shows that the error rate is smaller than 0,05. So that the DER variable has a negative and significant effect on profitability.

This research is in line with research conducted by Yuliani (2021) and Ernawati & Santoso (2022) showing that the DER has a negative effect on profitability. This means that if the DER increases, the company's profitability decreases due to fixed costs and also the interest of investors as shareholders that must be considered. Therefore, managers will use debt as an alternative financing.

The Effect of Company Size on Profitability

Based on the result of data processing, this study found that company size obtaineda t value of 0,224 and a significant value of 0,823 and a beta value of 0,026. This shows that the error rate is greater than 0,05, so the company size variable has no effect on profitability. This means that if the company size increases, it will not affect financial performance.

The result of this study are in accordance with research conducted by Monika & Hartono (2023) and Ernawati & Santoso (2022) showing that company size has no effect on profitability. This means that a large company size has not resulted in good company profitability. The greater the assets owned by the company, the greater the financial performance problems faced.

CONCLUSION

Based on the test result conducted, the following conclusions are obtained : (a) free cash flow variable has a positive effect on profitability. (b) the debt to asset ratio variable has a positive effect on profitability. (c) the variable debt to equity ratio has a negative effect on profitability. (d) the company size variable has no significant effect on profitability

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