

# The Influence of Internal and External Factors on Growth Profits

## Case Study of Food and Beverage Companies listed in 2022 Indonesian Stock Exchange

*Internal Factors,  
External Factors and  
Growth Profit*

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### ABSTRACT

This study aims to determine the influence of internal and external factors on the profit growth of food and beverage companies listed on the Indonesian Stock Exchange in 2022. Internal factors are represented by the debt to equity ratio and current ratio and external factors are represented by inflation and interest rates. The population of this research is 44 companies and the research sample is 22 companies using purposive sampling technique. Data collection techniques are through documentation techniques by downloading financial reports via idx.co.id and the company website. Data analysis used descriptive statistical tests, classical assumption tests, multiple linear regression tests, coefficient of determination tests, t tests and f tests. The research results prove that partially the debt to equity ratio and inflation have a significant negative effect on growth, while the current ratio and interest rates have no effect on profit growth. Simultaneously the debt to equity ratio, current ratio, inflation and interest rates influence profit growth

**Keywords:** Debt to Equity Ratio, Current Ratio, Inflation, Interest Rate, Profit Growth

### INTRODUCTION

The influence of globalization on the industrial world today makes competition between companies increasingly tight and competitive. This situation makes every company compete to improve its performance well, one of which is by increasing profits. Profit growth is an increase in profits or a decrease in profits per year expressed in percentage form. Positive profit growth shows that the company's performance is good and attracts investors to invest continuously. Profit growth is influenced by financial ratios, company age, company size and sales level (Hanafi and Halim, 2018). However, profit growth can also be influenced by external factors such as an increase in prices due to inflation, interest rates, economic conditions and managerial freedom (Fadela, Riana and Rosa, 2020). The financial ratios that are expected to influence profit growth are the debt or leverage ratio and the liquidity ratio (Zulkifli, 2018).

The internal factors in the research are financial ratios represented by the debt to equity ratio and current ratio. Meanwhile, external factors that are considered to influence profit

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growth are the inflation rate and interest rates. Inflation in this research is measured using the Consumer Price Index (CPI). CPI is an indicator used by the government to measure inflation in Indonesia. The higher inflation will reduce people's purchasing power, so that company income will decrease. Meanwhile, the interest rate in this research is the BI Rate. The BI Rate is a reference interest rate set by Bank Indonesia and determines how investors invest their capital

Food and beverage companies are used as research objects because this industrial sector is more stable and not easily affected by seasons or economic conditions. Food and drink will always be there because they are basic needs. Seeing this condition, many companies want to enter this sector, so competition cannot be avoided. The year used for research is 2022 because it is the latest year and most of the data is attached to the Indonesian Stock Exchange. The following are the average values of financial ratios, inflation, interest rates and profit growth for companies in the food and beverage sub-sector in 2020-2022

**Tabel 1.** Average condition of financial ratios, inflation, interest rates and profit growth for food and beverage sub-sector companies in 2020-2022

	Profit Growth	DER	CR	Inflation	Interest Rate
2020	-0,06	0,79	2,39	2,04	4,25
2021	0,31	0,83	2,11	1,56	3,52
2022	0,34	0,87	2,25	4,21	4,00

[www.idx.co.id](http://www.idx.co.id) dan [www.bi.go.id](http://www.bi.go.id).

Based on the table above, in 2022 there will be an increase in the debt to equity ratio but profit growth will increase. This is not in accordance with the expert's statement which states that the higher the debt to equity ratio, the profit growth tends to decrease because the interest burden that must be paid is greater. In 2021, the current ratio will decrease but profit growth will increase. This is not in accordance with the statement of experts who state that the higher the current ratio, the higher the company's ability to cover its short-term obligations, and the easier it is to obtain funding from creditors and investors, at the same time it can carry out operational activities to increase profits. Vice versa, a low Current Ratio indicates problems in liquidation which will have an impact on reducing company profits. In 2022, inflation will increase but profit growth will increase. This is not in accordance with expert statements which state that when inflation increases, profit growth tends to decrease due to the low purchasing power of the public regarding sales of company products, causing a decline in company profits. In 2022 there will be an increase in interest rates but profit growth will increase. This is not in accordance with the expert's statement which states that the higher the interest rate, the lower the profits generated by the company, because the company's production costs are higher and the company has to pay higher interest on its loans.

Looking at the phenomenon of data on the conditions of the Debt to Equity Ratio (DER), Current Ratio (CR), inflation, interest rates and profit growth of food and beverage companies listed on the Indonesia Stock Exchange in table 1, it is interesting to conduct research on the influence of the Debt to Equity Ratio (DER), Current Ratio (CR), inflation and interest rates on profit growth. Studies on profit growth that have been carried out have results that are inconsistent with each other

## **LITERATURE REVIEW**

### **Profit Growth**

Profit according to the Indonesian Accounting Association (IAI) in the financial accounting standards book (SAK) 1 September 2017 is as a performance measure or as a basis for other measures such as investment returns or earnings per share. According to Ardianto, (2019) Profit is the excess of total income compared to total expenses, also called net income or net earnings. Harahap (2017) believes that a company's ability to increase net profit compared to previous years is called profit growth. Hanafi and Halim (2018) state that profit growth is an increase in profits or a decrease in profits per year expressed as a percentage.

### **Debt to Equity Ratio**

According to Hery (2018) Debt to Equity Ratio is a ratio used to measure the proportion of debt to capital. The higher the Debt to Equity Ratio, this indicates the higher the use of debt used to fund the company. A high Debt to Equity Ratio poses a big risk for the company when the company is unable to pay off its obligations. This will also have an effect on increasing the company's interest expense which is not optimal, this will reduce the company's profits, and profit growth will also decrease.

### **Current Ratio**

According to Fahmi (2018) Current Ratio is a ratio used to measure a company's ability to fulfill its short-term obligations which are due soon using the total available current assets. The higher the Current Ratio, the higher the company's ability to cover its short-term obligations, the easier it is to obtain funding from creditors and investors to carry out operational activities which can increase profits. Vice versa, if this ratio is low, it indicates problems in liquidation which will have an impact on reducing company profits

### **Inflation**

According to Putong in Fadela, et al., (2020) the inflation rate is a process of continuous increase in general prices. Inflation can cause a decrease in people's purchasing power because real income levels also decrease. Low purchasing power has an effect on sales of the company's products, with decreasing sales it will cause a decrease in company profits

### **Interest Rate**

According to Sunariyah in Nur, et al., (2020) The interest rate is the price of a loan which is expressed in the form of a percentage of the principal per unit, like other prices, the interest rate is determined by the interaction of supply and demand. Interest rates greatly influence company profits, because the higher the interest rate, the lower the profit generated by the company. Rising interest rates push a company's production costs higher, and companies have to pay higher interest on their loans

### **Citation style**

Citation system is used for assessment. Please find the following samples for reference:

1. The author's last name and date, with commas, in parentheses: for example, (Ward, 2012);
2. Works with two authors: (Tirdasari & Dhewanto, 2012);
3. Works with more than two authors: (Alias et al., 2016);
4. Works with more than one source cited together: (Ward, 2012; Tirdasari & Dhewanto, 2012);
5. Two or more works by one author: (Common, 2004, 2017a);
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## METHODS

There are four independent variables and one dependent variable in the research. The independent variables consist of Debt to Equity Ratio, Current Ratio, Inflation and Interest Rates, while the dependent variable is profit growth. The population of this research is 44 food and beverage companies listed on the Indonesian Stock Exchange. Sample selection used a purposive sampling method based on certain criteria (Sugiyono, 2018). Then a sample of 22 companies was obtained.

This research uses secondary data, the data collection technique used in this research is through documentation techniques by downloading financial report documents via [www.idx.co.id](http://www.idx.co.id) and the company website. This research media uses an SPSS-based application. Data analysis can be tested using descriptive statistical tests, classical assumption tests, multiple linear regression analysis tests, coefficient of determination tests, t tests and f tests.

## RESULTS

According to Ghozali (2018), the characteristics of the data described can be seen from the minimum (lowest), maximum (highest) and mean (average) values of each variable. The results of the Descriptive Statistics Test in the table contain independent and dependent variables with relatively stable data distribution because the Mean value > Standard Deviation. Testing classical assumptions is a prerequisite in multiple regression analysis. According to Basuki and Prawoto (2017), the classical assumption tests used in linear regression include the normality test, autocorrelation test, multicollinearity test and heteroscedasticity test. The results of the analysis prove that it has been free from the classical assumption test, so it can be continued with the next test. The results of the analysis can be seen that partially the debt to equity ratio and inflation have an effect on profit growth, the current ratio and interest rates have no effect on profit growth. Meanwhile, simultaneously debt to equity Ratio, Current Ratio, Inflation and Interest Rates influence profit growth

### Presenting tables and figures

Tabel 2 Descriptive statistics

	Min.	Max.	Mean	Std. Deviation
Debt to Equity Ratio	0,16	2,61	0,8705	0,71345
Current Ratio	0,54	4,85	2,2491	1,15674
Inflation	2,06	5,95	4,2058	1,39499
Interest Rate	3,50	5,50	4,0000	0,75378
Profith Growth	-2,51	4,89	0,3377	0,25702

Source : SPSS

Tabel 3 Classic Assumption

Assumption	Criteria	Results	Information
Normality	Asymp value Sig. (2-tailed) > 0,05	Asymp value Sig. (2-tailed) : 0,200 > 0,05	Free
Multicollinearity	VIF value < 10, value tolerance > 0,01	X <sub>1</sub> : Tol 0,544 > 0,01 VIF 1,840 < 10 X <sub>2</sub> : Tol 0,558 > 0,01 VIF 1,791 < 10 X <sub>3</sub> : Tol 0,420 > 0,01 VIF 2,380 < 10 X <sub>4</sub> : Tol 0,467 > 0,01 VIF 2,143 < 10	Free
Autocorrelation	DW -2 - +2 = there is no autocorrelation	DW 1,807	Free
Heteroscedasticity	There is no pattern such as widening or narrowing	The dots are spread out and do not form a particular pattern	Free

Tabel 4 Multiple linear regression

Model	Unstandardized B	Coefficients Std. Error
1 Constant	-,323	,946
Debt to Equity Ratio	-,911	,271
Current Ratio	,013	,152
Inflation	-,888	,249
Interest Rate	,386	,265

Source : SPSS

$$Y = a + bX_1 + bX_2 + bX_3 + bX_4$$

$$Y = -0,323 - 0,911X_1 + 0,013X_2 - 0,888X_3 + 0,386X_4 + e_i$$

**Table 5** Coefficient of determination, T test and F test

	<b>Results</b>	<b>Conclusion</b>
Adjusted R Square	0,780	78% of the variation in variable Y can be explained by variations in variable X. While the remaining 22% is explained by other variables outside the research
Debt to Equity Ratio	Sig. 0,012	Influence on profit growth
Current Ratio	Sig. 0,936	No effect
Inflation	Sig. 0,006	Influence on profit growth
Interest Rate	Sig. 0,188	No effect
Anova	Sig. 0,019	0,019 < 0,05 have a join effect

Source : SPSS

## DISCUSSION

The results obtained from the research show that the Debt to Equity Ratio (DER) has a negative influence on profit growth. This is proven by the analysis results that the Debt to Equity Ratio (DER) has a regression coefficient of -0.911 and a significance value of 0.012. This significance value is less than the error tolerance, namely  $\alpha = 0.05$ , so it can be concluded that the Debt to Equity Ratio (DER) has a negative and significant effect on profit growth. This means that the higher the Debt to Equity Ratio (DER) value, the lower the company's profit growth. This shows that the company's capital structure is more dominated by debt than company capital. The intensity of the company's debt will certainly have an impact on the survival of the company, of course it will have an impact on profit growth. The results of this research also show that a large Debt to Equity Ratio (DER) value will have a negative influence on profit growth. It can be seen that the greater the Debt to Equity Ratio (DER) value obtained, the greater the value of funding provided by capital owners. and will have a negative impact on company performance and of course will reduce profit growth

The results obtained from the research show that inflation has a negative influence on profit growth. This is proven by the analysis results that inflation has a regression coefficient of -0.888 and a significance value of 0.006. This significance value is less than the error tolerance, namely  $\alpha = 0.05$ , so it can be concluded that inflation has a negative and significant effect on profit growth. Based on the research results, it can be seen that when inflation increases, there will be a decrease in profit growth. This condition is in line with the theory that the higher inflation will reduce people's purchasing power for company products. This is because product prices are getting higher. A decrease in people's purchasing power will result in a decrease in company income followed by a decrease in company profits

Based on the results of the F test which has been carried out on the influence of Debt to Equity Ratio (DER), Current Ratio (CR), inflation and interest rates together on Profit Growth with a significance value of  $0.019 < 0.05$ , meaning it can be concluded that Debt to Equity Ratio (DER), Current Ratio (CR), inflation and interest rates simultaneously influence Profit Growth. This can predict that if the Debt to Equity Ratio (DER), Current Ratio (CR), Inflation and interest rates are increased or decreased simultaneously, there will be an increase or decrease in the profits of food and beverages companies.

## CONCLUSION

This section not only shows the main shortcomings and limitations of studies that can reduce the validity of writing, thus raising the question of the reader (whether, or in what way) the limits in his study might have influenced the results and conclusions. The author can provide answers to possible questions that arise, for example: Is this a problem caused by an error, or in the method chosen, or its validity, or vice versa?

Based on research and analysis that has been carried out, the highest Debt to Equity Ratio (DER) condition is owned by PT Sentra Food Indonesia Tbk (FOOD) and the lowest is owned by PT Siantar Top Tbk (STTP). The highest Current Ratio (CR) value

belongs to PT Siantar Top Tbk (STTP) and the lowest belongs to PT Sentra Food Indonesia Tbk (FOOD). The lowest inflation value was 2.06 in February and the highest was 5.95. The lowest interest rate is 3.50 in January-July and the highest is 5.50 in December. The lowest profit growth condition is owned by PT Sentra Food Indonesia Tbk (FOOD) and the highest is owned by PT Prima Cakrawala Abadi Tbk (PCAR).

Debt to Equity Ratio (DER) partially has a negative and significant effect on profit growth. Current Ratio (CR) partially has no significant effect on profit growth. Inflation partially has a negative and significant effect on profit growth. Interest rates do not have a significant effect on profit growth. Debt to Equity Ratio (DER), Current Ratio (CR), Inflation and Interest Rates simultaneously influence profit growth.

The advice in this research is that if companies still want their business activities to run smoothly so that they can increase profits, it is recommended that the amount of debt to finance the company not be too large, in fact it is better if the company's existing capital/equity can be utilized for the company's activities. For investors who want to invest their capital in food and beverage companies, investors should pay more attention to internal and external factors that can influence profit growth, especially the debt to capital ratio, Debt to Equity Ratio (DER), current ratio or Current Ratio (CR). , Inflation and interest rates are known to simultaneously have a significant effect on profit growth. For further research, it is recommended to use other research variables that are broader in scope so that the results are more accurate and it can be understood that there are still many other internal and external factors that can be used as indicators that can influence a company's profit growth, such as profitability ratios, activity ratios and conditions economy

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