The Effect of Operating Cash Flow and Profit Management on Company's Profitability and Growth: Study at PT Baturaja Multi Usaha

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Abstract---*This study aims to determine the effect of operating cash flow on profitability and the effect of earnings management on corporate growth. Operating cash flow is measured by the growth of operating cash flow, while profitability is measured by return on assets (ROA). Earnings management is measured through discretionary accruals, and growth is measured through asset growth. Research conducted at PT. Baturaja Multi Usaha with a monthly research period from 2019-2021. The research uses quantitative methods, simple linear regression data analysis techniques, and hypothesis testing. The results showed that operating cash flow had a positive and significant effect on profitability (ROA), while earnings management significantly affected company growth.*
Keywords---*company growth, earnings management, operating cash flow, profit management, profitability.*

Introduction

A country's high economic growth is followed by good infrastructure growth. Reasonable and adequate infrastructure supports the economic sector and attracts investment in the real sector. The support from adequate infrastructure will accelerate the wheels of economic rotation. The development of roads, bridges, toll roads, airports, and ports will expedite the distribution of goods between cities or countries. In infrastructure development, many materials and tools are needed, such as steel, concrete, and stone: cement, sand, machinery, heavy equipment, and others. Cement is one of the most essential elements in a permanent building. The Indonesian Cement Association (ASI) assesses that the market increase is in line with the pace of the national economy and the acceleration of infrastructure and property projects. There was a Covid-19 pandemic in early 2020. It is resulting in a decrease in cement demand during 2020.

The cement market share in Sumbagsel, especially in the provinces of South Sumatra and Lampung, is very tempting; this is due to the rampant infrastructure development, such as toll roads, national roads, bridges, buildings, and housing in the two provinces, so that many big cement players and their supporting industries are busy. They

penetrated to seize market share in the two provinces. According to the theory of the firm, the company is an organization whose operational activities aim to generate profits. Profit is a company measuring tool whether the company can win the competition or not. In addition, profit is also a projection tool to see the future of the company whether it can survive or not. The company's ability to generate profits or so-called profitability (profitability) is fundamental in the analysis carried out by investors to see the company's strength. In addition, earnings management is also essential for the company in increasing the company's growth. Research by Alam (2022) found earnings management to affect growth significantly. Research by Olagunju et al. (2022); Jagadish & Sharmila (2021); Odo & Ohazuluike (2021); Rajapaksha & Weerawickrama (2020); Abughniem et al. (2020); Rahman & Sharma (2020); Savira et al. (2020); Wadesango et al. (2019); Ali et al. (2018); Sitepu et al. (2018); Kamran et al. (2017) found that cash flow has a positive and significant effect on the profitability or profitability of the company. While research Sari et al. (2021); Danniah & Rusqiati (2020); Liman & Mohammed (2019); Sasongko & Apriani (2016) found that cash flow did not have a significant effect on profitability.

Research Methods

This study uses a quantitative descriptive method, which aims to measure the performance of each independent research variable and its impact on the dependent variable. The data used is secondary data—the source of data obtained through the company's financial statements. Sugiyono (2015) states that the population is a generalized area consisting of objects/subjects with specific qualities and characteristics determined by researchers to be studied and then draw conclusions. The population in this study is PT Baturaja Multi Usaha which is a subsidiary of PT Semen Baturaja (Persero) Tbk, with a research period from 2019-2021; where this period is exciting to study because it is related to the year before the Covid 19 pandemic (2019), when the pandemic (2020) and the recovery era after the Covid 19 pandemic ended (2021). The selection of PT Baturaja Multi Usaha as the object of research is because this company is still relatively new, and many improvements must be made to become more advanced and developed. In this study, the saturated sample technique was used. Because the population is less than 30 companies, it is determined that the entire population is a sample (Sari et al., 2021; Sasongko & Apriani, 2016; Raditya & Utami, 2021; Yaşar et al., 2020).

Research Variables

This study's dependent variable is the company's profitability and growth. The dependent variable profitability is measured through *return on assets* (ROA); ROA is the ratio most often used as a proxy for profitability. *Return on assets* (ROA) is a profitability ratio that describes a company's ability to profit from existing assets (Gunawan et al., 2022).

$$ROA = \text{Net Profit/Total Assets}\ldots\ldots\ldots \text{ (Riyanto, 2014)}$$

Company growth can be measured in many ways, one of which is by measuring asset growth. Asset growth is measured by comparing current assets with past assets.

$$\text{Growth} = \frac{Aset_t - Aset_{t-1}}{Aset_{t-1}} \ x \ 100\%$$
$$\text{(Herispon, 2018)}$$

The independent variables used in this study are operating cash flow and earnings management. Operating cash flow is measured by the growth of the operating cash flow itself by comparing the current cash flow to the previous cash flow.

$$\text{Operating cash flow} = \frac{Operating \ cash \ flow_t - Operating \ cash \ flow_{t-1}}{Operating \ cash \ flow_{t-1}} \ x \ 100\%$$
$$\text{(Kumayas et al., 2018)}$$

Earnings management is measured by *discretionary accruals* (DA) from the modified Jones model. In existing research on earnings management, the use of discretionary accruals as a proxy for earnings management is commonly used. *Discretionary accruals* (DA) are measured using the Jones-modified model (Jones, 1991). The steps for calculating *discretionary accruals* (DA) are as follows:

Calculate total accruals

$$TA_{it} = NI_{it} - CFO_{it}$$

Where:
TA $_{it}$ = Total accruals of the company I in year t
NI = net profit (net income) of the company I in year t
CFO $_{it}$ = Cash from operations (cash flow from operations) company I in year t

Total accruals are estimated using the OLS (Ordinary et al.) regression equation; this step is to find the slope or beta value of the equation to be used for the next step.

$$\frac{TA_{it}}{A_{it-1}} = \beta_1 \left(\frac{1}{A_{it-1}}\right) + \beta_2 \left(\frac{\Delta Rev_{it}}{A_{it-1}}\right) + \beta_3 \left(\frac{PPE_{it}}{A_{it-1}}\right) + \varepsilon$$

Where:
An $_{it-1}$ = Total assets of the company I in year t
ΔREV $_{it}$ = Change in Revenue of company I in year t
PPE $_{it}$ = fixed assets of the company I in year t
β1, β2,β3 = Regression coefficient

Calculating *non-discretionary accruals* (NDA)

$$NDA_{it} = \beta_1 \left(\frac{1}{A_{it-1}}\right) + \beta_2 \left(\frac{\Delta Rev_{it}}{A_{it-1}} - \frac{\Delta Rec_{it}}{A_{it-1}}\right) + \beta_3 \left(\frac{PPE_{it}}{A_{it-1}}\right)$$

Where:
NDA = non-discretionary accruals of the company I in year t
ΔREC $_{it}$ = Change in Receivables of the company I in year t

The last step is to calculate the Discretionary Accruals (DA)

$$DA_{it} = \frac{TA_{it}}{A_{it-1}} - NDA_{it}$$

Where:
Da $_{it}$ = Discretionary accrual of the company I in year t

Data Analysis Techniques

This study uses a simple linear regression data analysis technique to examine the relationship of each variable. Descriptive statistics are used in this study to describe each variable. This research has passed the classic assumption test by transforming it into an inverse form so that the data is uniform. This study also uses a hypothesis test, namely the individual parameter significance test or the t-test. The t-test itself is used to assess how far one independent variable influences the independent variable (Ghozali, 2018). The regression equation made in this research is:

$$Y_{\text{profitability}} = \beta\,0 + \beta\,1\,X_{\text{operating cash flows}} + ei$$
$$Y_{\text{growth}} = \beta\,0 + \beta\,1\,X_{\text{profit management}} + ei$$

Where:
Y = dependent variable (profit & growth)
X = independent variables (operating cash flow & earnings management)

β 0   = Constant
β 1-2 = Intercepts
ei   = Regression Residual

Result and Discussion

Descriptive Analysis Results

Descriptive statistics are a part of statistics that focuses on presenting and summarizing data using numerical or graphical methods. The primary function of descriptive statistics is to provide a deeper understanding of the nature and patterns of existing data.

Table 1
Descriptive Statistics

Variable	N	Minimum	Maximum	Means	std. Deviation
Operating Cash Flow		-321.4%	1742.04%	66.67%	348.67%
ROA	36	-0.71%	0.69%	-0.0013%	0.24%
DA		0.13	0.21	0.17	0.018
Growth		-8.46%	7.89%	0.366%	3.65%

Source: SPSS output data processing results

The table above presents a description of each variable with its respective value. It can be seen from the table that all variables except DA have data distribution that is far from the average based on the average value, which is smaller than the standard deviation (Liman & Mohammed, 2018; Pranesti & Kusuma, 2021; Santoso et al., 2017).

Simple Linear Regression

Regression equation to see the movement of changes in one variable to the dependent variable. The output of a simple linear regression equation is presented in the table below:

Table 2
Regression Equation of Operating Cash Flow Against Profitability (ROA)

		Coefficients [a]				
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	std. Error	Betas	t	Sig.
1	(Constant)	-4914.558	1470,897		-3,341	002
	Operating Cash Flow	3054603	913,921	.497	3,342	002
a. Dependent Variable: ROA						

Source: SPSS output data processing results

Table 2 above shows the output of a simple linear regression where the regression equation can be made as follows:

$$Y_{ROA} = -4914.558 + 3054.603_{\text{Operational Cashflow}} + e$$

In the regression equation Table 2 above, each number can be interpreted or explained as a known constant value of -4915.588, and the beta value of the regression equation is 3054.603. Based on the regression equation, it is known that the beta value or slope is positive, indicating that operating cash flow is in the same direction as ROA (Connelly et al., 2011; Alamudi et al., 2016; Danniah & Rusqiati, 2021; Chelindiva & Osesoga, 2021; Irawati, 2018).

Table 3

Profit Management Regression Equation (*Discretionary Accruals*) Against Growth

	Coefficients [a]				
	Unstandardized Coefficients		Standardized Coefficients		
Model	B	std. Error	Betas	t	Sig.
1 (Constant)	.120	.050		2,408	022
DA	-.675	.287	-.374	-2,350	.025
a. Dependent Variable: Growth					

Source: SPSS output data processing results

Table 3 above shows the output of a simple linear regression where the regression equation can be made as follows:

$$Y_{growth} = 0.120 - 0.675_{DA} + e$$

The regression equation in Table 3 above each number shows that the constant value is 0.120 with a beta regression coefficient of -0.675. Beta values or negative coefficients show the opposite direction of earnings management (DA) to growth.

Test of Significance of Individual Parameters (t-test)

The t-test is used to measure the effect of the independent variables individually on the dependent variable. The results of the t-test for the effect of operating cash flow on profitability (ROA) can be seen in the output table below:

Table 4

T-test Results Effect of Operating Cash Flow on Profitability (ROA)

	Coefficients [a]				
	Unstandardized Coefficients		Standardized Coefficients		
Model	B	std. Error	Betas	t	Sig.
1 (Constant)	-4914.558	1470,897		-3,341	002
Operating Cash Flow	3054603	913,921	.497	3,342	002
a. Dependent Variable: ROA					

Source: SPSS output data processing results

Based on Table 4 above, it can be seen that the significance value of the operating cash flow variable is smaller than the established significance level, which is 0.002 <0.05. These results indicate that the operating cash flow variable significantly affects the profitability variable (ROA). Table 4.4 also shows the direction of significance, which can be seen from a positive slope or beta coefficient. This result is in line with the proposed hypothesis 1, where operating cash flow significantly positively affects the company's profitability (ROA) (McNichols, 2000; Lo, 2008; Luo, 2008; Cheng et al., 2020).

The results of the t-test for the effect of earnings management (*discretionary accruals*) on growth can be seen in the output table below:

Table 5

Results of the t-test Effect of Earnings Management (*Discretionary Accruals)* on growth

	Coefficients [a]				
	Unstandardized Coefficients		Standardized Coefficients		
Model	B	std. Error	Betas	t	Sig.
1 (Constant)	.120	.050		2,408	022

DA	-.675	.287	-.374	-2,350	.025

a. Dependent Variable: Growth

Source: SPSS output data processing results

Table 5 shows that the individual significance of earnings management (DA) variables is below the specified level, 0.025 <0.05. Based on these results, earnings management (DA) significantly influences growth, and a negative coefficient indicates a negative direction. So, the results found do not align with the hypothesis even though the variables have a significant effect. However, the variables have a negative, not positive, effect, as the hypothesis proposed (Begley, 1995; Vosloban, 2012).

Based on the results of the study, it was found that operating cash flow has a significant positive effect on profitability (ROA). This result aligns with the proposed hypothesis, which predicts that operating cash flow will increase or have a positive and significant effect on profitability (ROA). This result also aligns with several previous studies which found a positive influence on operating cash flow, such as research by Rahman & Sharma (2020); Wadesango et al. (2019). Positive and robust operating cash flow often signifies effective cost control. Effective cost control can increase business profitability, which in turn can increase ROA. Good flow signals good company management and leads to increased returns or profits. Sufficiently strong operating cash flow also allows corporations to invest in new valuable assets or business expansion. Investing wisely can increase sales and profits, which can ultimately impact ROA (Euske & Riccaboni, 1999; Morgan et al., 2009).

This research shows that earnings management, as measured by *discretionary accruals,* has a negative and significant effect on company growth. This result does not align with the proposed hypothesis that earnings management (DA) significantly positively affects growth. The results show that the company's action with earnings management only sometimes increases the company's growth. Earnings management refers to strategies businesses use to falsify their financial reports to appear more successful than they really are. Unhealthy asset growth may result from excessive earnings management. For example, a business may delay investing in creating new assets or replacing assets it has neglected to increase immediate revenue. As a result, business assets can lose value, hindering long-term expansion. Based on Table 1 in the descriptive statistics, it is shown that the company is making efforts to increase profits, as can be seen from the average DA variable of 0.17 (positive). In contrast, the growth variable in data fluctuates or fluctuates, indicating that earnings management does not positively increase the company's asset growth (Bernhardt et al., 2000; LeBaron, 1999).

Conclusion

Based on the results of the research and discussion, it can be concluded that:

a. Operating cash flow has a significant positive effect on the profitability of PT Baturaja Multi Usaha in 2019-2021.
b. Profit Management has a significant positive effect on the Growth of PT Baturaja Multi Usaha in 2019-2021.

Acknowledgments

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