THE INFLUENCE OF CAPITAL EXPENDITURE TOWARDS COMPANY'S PROFITABILITY

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Abstract

This research aims to find the influence of capital expenditue investment on company's profitability. For major business investment projects, capital expenditure have an important role in financial statement. One view is that capital expenditure announcements provide information about a firm's earnings prospects. The research population covered go-public companies from manufacturing, telecommunication and Oil that listed on Indonesia Stock Exchange for periods, 2012-2016. The method used for selecting the samples is purposive sampling method. Samples used in this research is 27 companies, 135 Data from Manufacturing, Telecommunication and Oil Companies. The research result reveals that Capital Expenditure have a significant influence towards profitability. Keywords: Capital Expenditure, Profitability, Company Financial Performance

Abstract

Penelitian ini bertujuan untuk menemukan pengaruh dari biaya modal terhadap laba perusahaan. Untuk projek investasi, biaya modal memiliki peran penting di dalam laporan keuangan. Pelaporan biaya modal bisa dijadikan penilaian dalam membuktikan prospek pemasukan perusahaan. Populasi dari penelitian ini adalah perusahaan manufaktur, telekomunikasi dan perminyakan yang telah go-public Dan listing di Bursa Efek Indonesia dalam periode 2012-2016. Sampel penilitian dipilih dengan teknik purposive sampling. Sampel penelitian adalah 27 perusahaan, 135 data yang terbagi dalam perusahaan manufaktur, telekomunikasi dan perminyakan. Hasil penilitian menunjukan bahwa biaya modal memiliki pengaruh positive terhadap laba secara signifikan. Kata kunci: Biaya Modal, Laba, Performa Keuangan Perusahaan

INTRODUCTION

A company have the aim of making progress. Therefore the company runs the business with the purpose to be achieved. Profitability is the important one factor that the company can run the business. Kasmir (2012) explains that profitability is the ratio to assess the ability of companies in the search for profit. If the company can not meet the purpose to be achieved the company can not grow (growth), going concern, and social responsibility (corporate social responsibility).

Profitability is a measure for the performance of a company, the profitability of a company shows a company's ability to generate earnings for a certain period at a rate of sales, assets and certain capital stock. Profitability of a company can be assessed through a variety of ways depending on the income and assets or capital to be compared one with the other.

Nowadays, Companies have an huge opportunity to gain high return and spending the market by AEC (Asecan Economic Community). The integration increasing the economic market and give an opportunity to gain profit. The conditions explained above, Indonesian firms still have a possibility to make more profit and have a good performance.

According to Indonesian Stock Exchange (2016), profitability rate have not increased in period 2012-2016. It seems on NPM (Net Profit Margin) that Net Profit Margin get stagnant in 5 years for 2012-2016 periods. Becoming higher on NPM, the company's performance will be more productive and will increase investor confidence to invest in the company. This ratio shows how much percentage of net profit earned from each sale.

Companies need to increasing their performance if the companies aims to increasing their profit and income to enlarge their business. In its development, a company should have long term strategies in developing their business and winning global competition

To maintain a very competitive edge over global market, a company needs better strategy to support its knowledge about internal and external aspects. To increasing their performance and profitability, companies should have to an effective investment decision. The important management strategy is to evaluate the capital expenditure

The same notion is expressed by Wild et. al (2005) that by evaluating current capital expenditure, investor/management can get information about 1) managerial effectiveness, 2) profitability, 3) profit forecast, and 4) planning and controlling. It concluded that capital expenditure have a role with profitability. According to the discussion above: Authors would like to conduct a research entitled: **"The Influence of Capital Expenditure Towards Company's Profitability"**

REVIEW OF RELATED LITERATURE Research Based View

Resource Based View (RBV) analyzes and interprets resources of the organizations to understand how organizations achieve sustainable competitive advantage. The RBV focuses on the concept of difficult-to-imitate attributes of the firm as sources of superior performance and competitive advantage (Barney, 1986; Hamel and Prahalad, 1996). According to RBV, an organization can be considered as a collection of physical resources, human resources and organizational resources (Barney, 1991; Amit and Shoemaker, 1993). Resources of organizations that are valuable, rare, imperfectly imitable and imperfectly substitutable are main source of sustainable competitive advantage for sustained superior performance (Barney, 1991).

The resource-based view (RBV) emphasizes the firm's resources as the fundamental determinants of competitive advantage and performance. It adopts two assumptions in analyzing sources of competitive advantage (see for instance Barney, 1991 and Peteraf and Barney, 2003). First, this model assumes that firms within an industry (or within a strategic group) may be heterogeneous with respect to the bundle of resources that they control. Second, it assumes that resource heterogeneity may persist over time because the resources used to implement firms' strategies are not perfectly mobile across firms (i.e., some of the resources cannot be traded in factor markets and are difficult to accumulate and imitate).

Capital Expenditure

Capital Expenditures are long-term commitments of resource to realize future benefits. Budgeting capital expenditures is one of the most important managerial decisionmaking functions. Facility improvements and expansions must be geared to a limited supply of funds from internal operations and external sources. The magnitude of funds involved in each expenditure and the length of time required to recover the investment call for careful analysis and judgment. Decisions about current operations can always be changed, but because substantial funds and long time periods are involved in a capital project, errors can be extremely costly (Carter, 2006).

Capital expenditure is spending money for the long term results would obtained in the next few years. The expenditure includes expenditures money among others for the purchase of fixed assets, waste management costs, promotional costs, and research and development costs. Capital expenditure included in the policy area investment, and directed for development or expansion of business for the company to remain exist in the face of every competition.

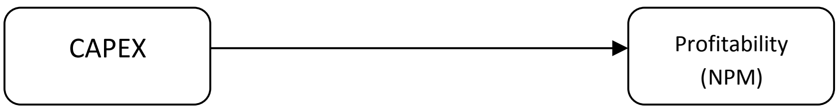
Investment on CAPEX

According to Brailsford and Yeoh (2004), typically new investment arises through either capital expenditure or business acquisitions. One view is that capital expenditure announcements provide information about a firm's future earnings prospects that is not provided by current earnings. In this sense, capital expenditure announcements convey a signal regarding the firm's available projects. Hence, a significant positive relation between investment information and stock returns is expected.

Profitability

Profitability is the company's ability to earn profits from business activities it does (Ghost, et al., 2000). According to Weston and Brigham (2006), companies with high levels of profitability generally use debt with a relatively small amount. If the company uses large amounts of debt, it will not affect the capital structure, because the company's ability to pay interest is also high due to high profits. High returns make it possible to finance most of the funding needs with internally generated funds.

Conceptual Framework



RESEARCH METHOD Population and Sample

The population of this research is Indonesian Telecommunication Firms, Manufacturing Firms, Oil & Gas Firms listed in Indonesia Stock Exchange (IDX), firms listed in IDX passing certain qualifications to assure firms performance and accountability, and their stocks are traded in the stock market makes the data are available. Companies have spent Capital Expenditure more than five hundred billion rupiah or spending more than 25% of their revenue to Capital Expenditure. Population in this research is companies listed in Indonesia Stock

Exchange year 2012 until 2016. Based on the criteria, the study obtained 27 companies with 5 years period from 2012 to 2016. Thus the amount of data used is 135 observation data.

Data Collection Method

The data used for this research are secondary data. The secondary data used in this research is the combination of time series and cross section data. Time series data are gathered from the observation of one or several variables during certain periods or years. The cross section is the data collected from multiple sample units or entities in the same time. Sampling technique conducted by purposive judgment sampling. Purposive judgment sampling is a sample technique with basic criteria that are set for specific purpose. In analyzing the data, this study uses SPSS 21 software. The analysis consists of normality test, descriptive statistics, and simple regression analysis for hypothesis testing.

FINDINGS AND DISCUSSION

Descriptive Statistic Table
1.
Variable Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
RCAPEX	135	-36.446	14.073	-0.443	5.837
NPM	135	-104.350	31.160	4.158	18.368

Linear Regression Table
2.
Linear Regression Test

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-1.618	1.612		-1.004	0.317
CAPEX	0.339	0.105	0.269	3.215	0.002

Table 3.
Coefficient Determinant

R	R Square	Adjusted R Square
0.269	0.072	0.065

Table 4.
F-Test

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	80.88836	1	80.888	10.339	0.002
Residual	1040.562	133	7.824		
Total	1121.451	134			

Table 5.
T-Test

	t	Sig.
(Constant)	-1.004	0.317
CAPEX	3.215	0.002

Discussion Of Study Result

The result of hypothesis testing regression coefficient variables of CAPEX (X1) is significant at 0.002. The statistical value of t_{count} test is greater than t_{table} (3.215 > 1.978) and the significant value is smaller than $\alpha = 0.05$. This test shows that H0 is rejected and Ha is accepted, it can be concluded that CAPEX (X1) variable has significant effect on profitability (Y) variable.

From the results of hypothesis testing on regression coefficient variables CAPEX (X1), H0 is rejected and Ha is accepted, it can be concluded that CAPEX (X1) variable has significant effect to Profitability (Y) variable. This research supports the previous researches from Eisner (1978) and Firli (2015) who found that capital expenditure function as the current and past sales change, current and past profits. Increases in demand are likely to increase sales and input. Change in demand will be felt first in utilization of existing capital.

Capital expenditure also depends of the need to replace the portions of existing capital and the measure may be found in depreciation charges. Profitability of investment may be captured in current and past profits. The full role of sales changes includes their positive relation with profits and positive relation with capital expenditure.

Khan and Jain (2007) stated capital expenditure management includes additions, disposition, modification and replacement of fixed assets. Capital expenditure decision has its effect over a long time span and inevitability affect the company's future cost structure. Capital expenditure decisions are of considerable significance as the future success and growth of the firms depends heavily on them.

There are some difficulties to invest on Capital Expenditure: the benefits from the investment are received in some future period and the future is uncertain and element of risk is involved and at least need 15 year forecast. A failure makes a big error that only give expense. The future revenue should be consideration things based on market product or expected share for the company and also the time value of money when the cash inflow come from the long future.

Amadi (2005) found a very significant positive relationship. The relationship of capital expenditure and profitability justified by previous research conducted by Sudiyatno et al (2012). It's very difficult to calculate the benefit related to the cost. Investing decision has two types; those which expand revenues and reduce costs.

Expand revenue means that it gives additional revenue for the company. Investment decisions reducing costs is in which company should take decision whether continue with the existing assets or replace them to the new one by consideration that new machine give less expanse than the existing assets. In this case, capital expenditure as an important investment on fixed assets that can generate Profitability. This reseach resulted explained that capital expenditure spending have a significance influence for companies. Three industry which the highest spending, can get a significance influence from Capital Expenditure to Profitability.

Brailsford and Yeoh (2004) also stated that capital expenditure announcements provide information about a firm's future earnings prospects that is not provided by current earnings. In this sense, capital expenditure announcements convey a signal regarding the firm's available projects. Hence, a significant positive relation between investment information and stock returns is expected.

Gitman (2009), CAPEX is an outlay of funds by the firm that is expected to produce benefits over a period of time greater than one year. Carter and Usry (2002), CAPEX is a cost or fund intended to benefit future periods and is reported as an asset. In this research, capital expenditure suggest future benefits and can also generate income because investor believes about the future prospect for this companies.

From 3 industries with the highest amount of Capital Expenditure spending, it reflects that capital expenditure influences profitability. Capital Expenditure influence will not be affected significantly by corporate financial performances, because corporate believes that capital expenditure's effect to produce benefits over a period of time greater than one year.

CONCLUSION AND SUGGESTION Conclusion

This study was conducted to determine the effect of CAPEX on Profitability with moderating variable, ROA. The conclusions is that CAPEX has a significant affect on the Level of Profit, so that by increasing the CAPEX value, it will provide a significant increase to the Profitability. This reseach resulted explained that capital expenditure spending have a significance influence for company's profitability.

Suggestion

For future research, researcher can examine capital expenditure variable on more industries, use other moderate variable, and other research objects.The periods to calculate capital expenditure can be more vary and longer because capital expenditure has long terms effect that can be calculated for more than 5 years.

Research Limitation

The study is limited in sampling. The population in this study was limited to three industry; Manufacturing Companies, Telecommunication Companies, Oil and Gas Companies which have the highest spending on Capital Expenditure. The study is limited in the observation periods. The periods in this study was five yeas on 2012-2016.

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