

Managerial Innovations in Structure Capital and Important Decisions in Determining the Profit Management of Plantation Company: Empirical Evidence in ASEAN Countries

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Abstract. Research on the financial management of plantation company is very important, because it provides different information, especially in ASEAN countries. Several research has been conducted, but none has fully discussed how to manage its profit. Therefore, the purpose of this study is to ascertain how managerial innovation helps in deciding financial management using a profit management perspective. It is also important to strengthen financial ratios such as *Current, Total Asset Turn Over, Debt to Equity, Return On Assets, and Price Earning Ratio* towards Profit Changes for plantation companies listed on Indonesia (IDX) and Malaysia (BEM) Stock Exchange. Furthermore, this study also examines the cash flow patterns in the management of plantation companies listed on the IDX & BEM. The results shows the relationship between CR, TATO, DER, ROA, and PER on company profit management was found, both in Malaysia and Indonesia. It can be concluded that both ROA and PER have positive and negative effect on profit changes, while CR, TATO, and DER variables have no significant effect in Indonesia. However, in Malaysian companies, only the DER had a significant positive effect on profit changes.

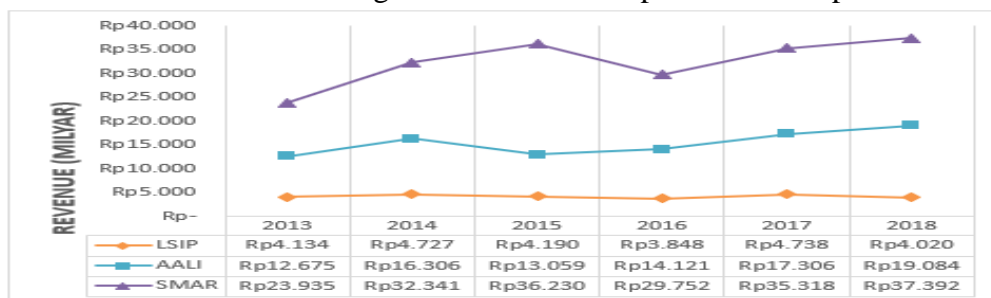
Keywords: *Current Ratio, Total Asset Turn Over, Debt to Equity Ratio, Return On Asset, Price Earning Ratio and Profit Changes.*

1. INTRODUCTION

Plantation companies are oriented towards economic and commercial operations and legally managed for profit [1] and growth (Table 1). However, it is not easy to

obtain this growth because there are many challenges in their management technically both in the sector and from its method. This is due to influence from many components such as the financial sector.

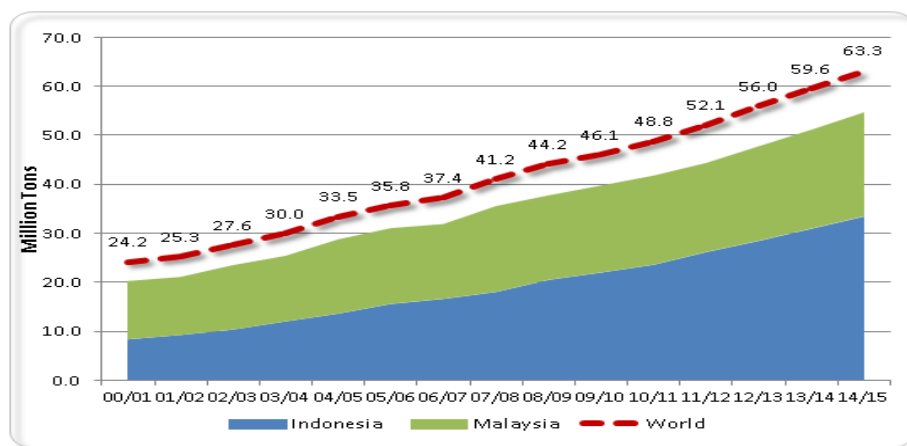
Table 1 Revenue growth from several plantation companies



Sources: idx.co.id

According to Yusuf (2014), plantation is proven to be among the sectors able to survive in global financial crisis, even in Indonesia. Until now, this sector still contributes to the country's foreign exchange. Furthermore, plantation commodities have been developed which include oil palm, rubber, cocoa, tea and more. Therefore, the business opportunities in the sector can be trusted because of its renewable characteristics.

Malaysia is the major competitor country for Indonesian palm oil. Although they have better production and quality, the export growth is expected to be held back by limited land resources and high wage workers. Meanwhile, Indonesia can still develop because the potential land support is available, and there are opportunities to increase productivity.



Sources: USDA-FAS, Office of Global Analysis, 2020

Figure 1. The Plantation Production Growth in Indonesia - Malaysia

Hutabarat (2013) reported that the profit change depends on revenue volatility from the two reporting periods, where it is affected by changes in the components of financial statements such as sales, cost of goods sold, operating expenses, interest expenses, income tax, extraordinary items, and others [3]. Furthermore, the 5 types of financial ratios can be a reference for investors which are leverage, liquidity, activity, profitability, and market value [4]. these findings will be a useful knowledge for real financial statements users, supposing the ratios can be used to predict future

profit changes. Conversely, supposing the ratio is less significant as a predictor, then this results strengthens the inconsistency evidence of the previous empirical findings [5]. Furthermore, EPS is considered as the most basic and useful information for investors, because it describes the prospects for future company earnings [6].

Therefore, this study aims to determine the financial management characteristics of plantation companies in Indonesia and Malaysia, and how managerial innovation decides after recognizing some factors that affect earnings management.

2. RESEARCH METHODS

A quantitative research method was used based on the logico-hypotheco-verificative positivism paradigm with assumptions about empirical objects. these assumptions can focus on a portion of the context in the form of certain

variables from a research object, and determined to be a problem [13].

Furthermore, the population used is the entire plantation companies listed on the IDX totaling 17 and on BEM totaling 16 companies. This research used purposive sampling, and ultimately selected 10 companies in Indonesia and 11 in Malaysia.

Table 2
Plantation Companies Criteria on the IDX included in the sample

No.	Sample Distribution		
		Indonesia	Malaysia
1.	The company listed on the IDX and has published financial statements for the period of 2013-2017.	17	16
2.	Companies which present incomplete annual statements variable data needed during the period of 2013-2017	7	5
3.	Companies which present complete financial statements variable data	10	11

Operational Definition, variable identification and indicator variables

Table 3. Operational Variables and Definitions

Dependent Variable:	Measuring instrument	Definition	Formula
- Profit Changes	Profit Changes	Is the comparison result between earnings in a certain period with the previous	$\Delta E_n = \frac{E_n - E_{n-1}}{E_{n-1}}$
Independent Variable :	Measuring instrument	Definition	Formula
- - Liquidity Ratio	CR	[4] It is used to assess a company's ability to pay its current debt using current assets.	$CR = \frac{\text{Current Asset}}{\text{Current Liabilities}}$
- - Activities Ratio	TATO	[14] Total asset turn over is a ratio used to assess the ability of funds embedded from all assets that revolve in a period or the ability of capital invested to generate "revenue".	$TATO = \frac{\text{Penjualan Bersih}}{\text{Total Aktiva}}$
- - Solvency Ratio	DER	It is used to assess how much the company is financed by debt	$DER = \frac{\text{Total Debt}}{\text{Ekuitas}}$
- - Profitability Ratio	ROA	[15] Return on assets is used to assess management's ability to obtain profitability and managerial efficiency as a whole	$ROA = \frac{\text{Laba Bersih}}{\text{Total Aktiva}}$
- - Market value Ratio	PER	[4] It is used to assess how investors examine the company's growth prospects in the future	$PER = \frac{\text{Market Price per share}}{\text{Earning per share}}$

3. RESULTS AND DISCUSSION

1) Comparative Analysis of Descriptive Statistics

INDONESIA

Table 4. Descriptive Statistics Data

	Y	CR	TATO	DER	ROA	PER
Mean	0.551994	1.897189	0.537581	1.129032	0.052449	13.94854
Median	-0.135000	1.104064	0.477799	0.959128	0.052227	15.13196
Maximum	34.65000	24.89478	1.518848	2.682620	0.141245	54.73047
Minimum	-7.740000	0.225461	0.000517	0.008036	-0.104520	-54.62725
Std. Dev.	5.199595	3.450001	0.340453	0.778027	0.043754	17.88518
Skewness	5.705714	6.115969	1.259409	0.284599	-0.698104	-1.919699
Kurtosis	38.68217	41.14536	4.599721	1.938078	4.868745	8.946500
Jarque-Bera	2923.829	3343.102	18.54907	3.024302	11.33668	104.3788
Probability	0.000000	0.000000	0.000094	0.220435	0.003454	0.000000
Sum	27.59968	94.85943	26.87905	56.45160	2.622462	697.4269
Sum Sq. Dev.	1324.754	583.2228	5.679509	29.66101	0.093806	15674.10
Observations	50	50	50	50	50	50

MALAYSIA

Table 5. Descriptive Statistics Data

	Y	CR	TATO	DER	ROA	PER
Mean	14.24005	3.574468	0.496008	0.639342	0.059957	1121.695
Median	-0.010000	2.112217	0.406389	0.610547	0.049843	688.8349
Maximum	775.0000	13.16169	1.211316	1.559618	0.232248	19178.54
Minimum	-1.700000	0.318683	0.186451	0.058984	-0.033131	-801.3903
Std. Dev.	104.4847	3.279991	0.297835	0.397881	0.045328	2560.808
Skewness	7.211478	1.384358	0.820617	0.337881	1.826831	6.569259
Kurtosis	53.00994	3.952078	2.411247	2.344541	7.841000	46.67557
Jarque-Bera	6208.160	19.64472	6.967309	2.031057	84.29786	4767.070
Probability	0.000000	0.000054	0.030695	0.362211	0.000000	0.000000
Sum	783.2025	196.5958	27.28046	35.16382	3.297648	61693.23
Sum Sq. Dev.	589521.2	580.9504	4.790107	8.548688	0.110948	3.54E+08
Observations	55	55	55	55	55	55

Table 6. Plantation Sector
INDONESIA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CR	-0.008961	0.332838	-0.026922	0.9789
TATO	-0.226154	1.039256	-0.217611	0.8305
DER	-0.036590	0.479276	-0.076344	0.9401
ROA	18.58047	7.298334	2.545851	0.0216
PER	-0.217620	0.060377	-3.604335	0.0024
C	1.330112	1.312296	1.013576	0.3259

Table 7. Plantation Sector
MALAYSIA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CR	11.19269	9.532497	1.174162	0.2475
TATO	-130.1486	131.6680	-0.988460	0.3290
DER	355.4110	69.16032	5.138944	0.0000
ROA	422.2746	355.0431	1.189362	0.2415
PER	-0.003363	0.005693	-0.590655	0.5582
C	-209.9888	84.34351	-2.489686	0.0172

4. DISCUSSION

The results showed that ROA and PER were the influential and significant ratio in the Indonesian plantation sector. This indicated that entrepreneurs were more inclined to prioritizing and maximizing their assets, meaning all its fixed assets are used with optimum process conditions and maximum capacity [16]. Therefore, the company's fixed cost will be reduced by maximizing its assets. The company will also have more opportunities to invest than to increase its assets for production.

Through investment in fixed assets, the CPO competitiveness will be supported in the international market through import-export, because it has large plantations. Furthermore, Indonesian plantation companies are oriented to plant assets effectiveness in their contribution towards the profits received by the company.

The high CPO exports in Indonesia cannot be separated from its production influence, which tends to increase, and higher than in Malaysia. This is because Indonesia has extensive land for oil palm plantation, and it increases every year. This is one proof that investment in land expansion is prioritized to support the economic growth in the sector.

Meanwhile, the research showed that only the DER ratio has a significant effect on the Malaysian plantation sector. This can be interpreted that Malaysian companies have used capital structure strategies and debt policies for productive businesses. In addition, productive debt produces a company's assets which can either increase in value or generate passive income in the future. Large Indonesian companies need more financial support

because the internal funds are sometimes insufficient to run its operations, and tend to use external funds such as a debt policy strategy. Meanwhile, small companies generally do not have a strong position on debt issues, because they have limited loan capabilities.

Furthermore, the important limitation of this study is that Malaysian companies have adopted the International Financial Accounting Standards (IFRS). Meanwhile, the financial statements of plantation companies currently listed on the Indonesia Stock Exchange still use historical cost concept (book value) to present the plant assets value (Statement of Financial Accounting Standards / PSAK No. 16). Therefore, differences in plant assets system recording directly affects the equity position in other parts.

5. CONCLUSION

Companies in different countries have management innovation because of macroeconomic situations and cultural character, including the plantation companies in Indonesia and Malaysia. Also, the management system implemented by plantation sector companies in both countries is one of the striking differences in this study. In Indonesia, the importance of large revenues is prioritized, which is used for investment and ultimately generate profits for companies. Whereas in Malaysia, external companies funds are used such as debt policy strategy. The aim of this strategy is to create productive debt that can produce a company's assets which can either increase in value or generate income in the future.

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