

# Effect of Company Performance on Inflation During the Beginning of the COVID 19 Pandemic (Empirical Study of Transportation Sector Companies Listed on the Indonesia Stock Exchange for the Period 2019-2020 (Quarter I))

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## Abstract

*This study aims to empirically examine the effect of Company Performance on Inflation during the beginning of the Covid-19 pandemic. The independent variable in this study is Company Performance which consists of Profitability (Return on Investment) as X1 and Liquidity (Current Ratio) as X2. The dependent variable is Inflation as Y. This type of research takes all-time series data including Company Performance and Inflation for the period 2019-2020 (Quarter I). The number of research samples using saturated sampling techniques was obtained 32 samples. The data analysis used was the t-test (partial) using SPSS 25. The results showed that simultaneously the Return on Investment and Current ratio affected Inflation. It shows that the profitability ratio variable (Return on Investment) has a significant effect on inflation, the Liquidity ratio (Current Ratio) variable has no significant effect on inflation.*

**Keywords:** *Company Performance, Return on Investment, Current Ratio, Inflation.*

## Introduction

In investing, investors certainly expect benefits in the form of short-term and long-term income. The income that investors are expected to receive is dividend yield and capital gain. The dividend yield is the percentage of periodic cash receipts against the investment price of a certain period of an investment. The greater the dividend yield, the more attractive the stock is to investors. The dividend yield is the percentage of dividends against the stock price of the previous period (Djogiyanto, 2000).

The importance of the profitability ratio to be examined is to measure or calculate the profit earned by the company in a certain period to see the level of the company's profitability is good or not good.

The importance of careful liquidity ratios is to measure the company's ability to pay obligations or debts that are due immediately upon collection to find out whether the company's liquidity level is good or not good.

According to the Senior Economic Researcher at the Strategic Studies Institute (IKS), Eric Alexander Sugandi said the low inflation in May 2020 was due to weakening public demand. Based on data from the Central Statistics Agency, inflation is still occurring due to the increase in some of the index for the expenditure group, namely clothing and footwear; housing, water, electricity and household; health; transportation; and information, communication, and financial services ([www.ekonomi.bisnis.com](http://www.ekonomi.bisnis.com)).

Inflation in 2020 is under control and low in the target range of  $3 \pm 1\%$ . Based on the results of the BPS release, the Consumer Price Index (CPI) inflation in April 2020 was recorded at 0.08% (mm), or 2.67%, lower than Bank Indonesia's forecast. This shows that the low demand factor has begun to reduce pressure on inflation which is influenced by the measures to deal with the COVID-19 pandemic which has caused lower human activity related to mobility restrictions, PSBB, and so on. This condition also affects the forecast for inflation during Ramadan and Eid Al-Fitr, which is lower than the historical data. Bank Indonesia believes that by the end of 2020, inflation will be under control and low within the target range of  $3 \pm 1\%$  ([www.bi.go.id](http://www.bi.go.id)).

Inflation can be defined as a process of increasing prices prevailing in an economy. With high inflation, the company's operating costs will increase, so that the company's profits will decrease and have an impact on investors who are less interested in investing in the company, thus this condition will cause the stock price to decline (Sadono, 2008).

Muhammad Zulkifli Hasibuan's research results state that inflation does not moderate the relationship between financial ratios and stock returns. Research on financial statement analysis has been done in Indonesia, including I.G.K.A. Ulupui (2007) who examined the effect of liquidity ratios, leverage, activity, and profitability on stock returns. The study was conducted in 13 food and beverage companies listed on the IDX from 1999-2005. Tika Maya Pribawanti (2007) researched the effect of financial ratios on stock returns carried out in manufacturing companies listed on the IDX. The study was conducted at 30 manufacturing companies listed on the IDX.

## **Literature Review**

### **Efficient Market Value**

#### **Definition of Efficient Capital Market**

An efficient market is a place in which the prices of all traded securities reflect all available information (Saudi, 2018). In this case, the available information may include all available information, both past information, and current information, as well as information that is a rational opinion or opinion circulating in the market that can affect changes in share prices (Tandelilin, 2010).

### **Financial Statement**

A financial statement is a testing tool for the accounting work used to determine or assess the company's financial position. The financial report is also a summary of the calculation process for each bookkeeping that is used to view the company's development (Mulyawan, 2015).

### **Financial Statement Analysis**

Financial statement analysis is the decomposition of financial report items into smaller units of information and looks at the relationship that is significant or has meaning between one another,

namely between quantitative data and non-quantitative data which aims to determine financial conditions in the process of producing the right decisions (Mulyawan, 2015).

### **Financial Ratio Analysis**

From an investor's point of view, forecasting the future is the essence of real financial analysis, whereas, from a management point of view, financial statement analysis is used to help a starting point for planning actions that will affect future events (Brigham & Houston 2013).

In analyzing a financial report, it is necessary how the ratio provides an overview of the company's situation. The ratio is a description of the company's situation at a certain time so that it can be seen the trend (trend) of the company's situation in the future through movements that have occurred in the past to the present.

### **Inflation**

#### **Definition of Inflation**

According to Murni (2006), inflation is defined as an increase in prices in general and continuously. Inflation describes an unhealthy economic condition. Measurement of the Inflation Rate is a price increase in inflation can be measured using a price index.

### **Research Hypothesis**

According to Purwanto and Sulistyatuti (2007):

“Hypothesis is a statement or accusation that all research problems are still true (not necessarily true) so they must be tested empirically.”

Based on the thought framework stated above, the hypothesis is formulated as follows:

H1 = Profitability Ratio has a significant effect on inflation in sector companies Transportation listed on the Indonesia Stock Market 2019-2020 (Quarter I).

H2 = Liquidity Ratio has an effect on inflation in sector companies Transportation listed on the Indonesia Stock Exchange 2019-2020 (Quarter I)

H3 = Profitability Ratio and Liquidity Ratio have a significant effect on inflation at Transportation Sector Companies listed on the Indonesia Stock Market in 2019-2020 (Quarter I).

### **Methodology**

#### **Types of research**

The type of research in this thesis is explanatory research with a quantitative approach with an observation period from 2019 to 2020 (Quarter I). Where is the definition of explanatory research according to Singarimbun and Effendy (1995), "Explanatory research is explanatory research that highlights the causal relationship between research variables and tests the previously formulated hypotheses."

### **Research Population**

The population in this study was the Transportation Companies listed on the Indonesia Stock Market for the period 2019-2020 (Quarter I), totaling 41 companies.

### **Research Samples**

According to Edison (2018), determining the sample from the population must be done carefully, so that the sample used is an appropriate source of information by the nature and characteristics of the population. A good sample is a sample that has a low level of bias to uncertainty and if there is an error it does not have an impact on the overall sample members.

According to Sugiyono (2010), purposive sampling is a technique for determining research samples with several considerations that aim to make the data obtained more representative. The criteria used to take samples of banking companies listed on the Indonesia Stock Market for the period 2019-2020 are as follows:

1. Transportation sector companies listed on the Indonesia Stock Exchange.
2. Going public before 2019.
3. Companies that publish their financial reports during the research period, namely from 2019-2020.
4. The sample has a value not included as a sample, it is related to the data containing extreme values for the period 2019-2020.

### **Operationalization of Variables**

According to Sugiyono (2012), research variables are anything in the form that is determined by the researcher to be studied so that information about it is obtained, then the conclusion is drawn. Based on the title of this research, namely "The Effect of Profitability and Liquidity Ratios on Inflation (Empirical Study of Transportation Sector Companies Listed on the Indonesia Stock Exchange 2019-2020 (Quarter I)), the research variables to be used are:

1. Independent Variable (X)

This study has two independent variables, namely Profitability (X1) and Liquidity (X2).

2. Dependent Variable (Y)

The dependent variable is a variable that concerns researchers because the dependent variable is often considered an important problem in research (Nuryaman & Christina, 2015). The dependent variable in this study is inflation (Y).

### **Research Instrument**

According to Arikunto, a research instrument is a tool selected and used by researchers in carrying out their activities to collect data so that these activities become systematic and made easier by them.

### **Data analysis technique**

According to Nuryaman and Christina (2015), data analysis aims to answer research problems that have been formulated so that the results of data analysis can be used as a basis for making conclusions and recommendations for users. To calculate whether there is an influence of the independent variable on the dependent variable either simultaneously or partially on each variable. This study uses the SPSS 25 program in the data management process.

### **Descriptive Analysis**

According to Nuryaman and Christina (2015), descriptive analysis is to describe the characteristics of the research variables being observed. The descriptive analysis provides an explanation of the specific characteristics of the research variables, explaining how the behavior

of individuals (respondents or subjects) in the group. One of the methods that can be used for descriptive analysis is descriptive statistics.

According to Edison (2018), descriptive statistics is a test tool used to describe and explain the object being studied. Statistical data are used to describe the characteristics, circumstances, conditions of the object under study using values; frequency, central tendency, disperse, and other measurements.

### Partial Hypothesis Test (T-Test)

According to Edison (2016), the partial test is used to test the effect of each independent variable on the dependent variable. Partial hypothesis testing is by the framework outlined in the research conceptual model, where each independent variable is assessed for its effect on the dependent variable. Proving the theoretical hypothesis using a statistical hypothesis with the following conditions:

1. Testing is done by setting a significant level of 95% or  $\alpha =$  error 5% (0.05). If the significant value greater than 0.05 exceeds the error value, then the test cannot be performed.
2. Testing is done by setting a significant level of 95% or  $\alpha =$  error 5% (0,05).

If the significant value less than 0.05 is less than the error value, then testing can be carried out. Statistical t test with a significant condition of 0.05 with the provisions of the direction (1-tailed).

The t test is a partial hypothesis test by comparing:

1.  $t \text{ count} < t \text{ table}$  Ho is accepted and Ha is rejected.
2.  $t \text{ count} > t \text{ table}$  Ho is rejected and Ha is accepted.

Hypothesis Partial:

$H_01 \neq \beta$  Profitability has no effect on Inflation

$H_a1 = \beta$  Profitability has no effect on Inflation

$H_02 \neq \beta$  Liquidity has no effect on Inflation

$H_a2 = \beta$  Liquidity affects Inflation

Determine the value of T count to find out whether the correlation coefficient variables are significant or not. Simultaneous significant test using the t test can be formulated by:

$$t = \frac{r \sqrt{n-2}}{\sqrt{1-r}}$$

### Determination of Significance

Level The significant level specified in the study is 5% or 0.05 because it is considered sufficient to test the relationship between the variables tested to show that the correlation between variables is quite significant. The significant level of 0.05 means that the result of the conclusion has a probability of 95% or an error tolerance of 5%.

### Data Validity

According to Sugiyono (2007), the validity of the data is carried out to prove whether the research carried out is really scientific research as well as to test the data obtained. The data validity test in qualitative research includes tests credibility, transferability, dependability and confirmability.

### **Result and Discussion**

The data in this study were obtained from website of Bank Indonesia, and the Indonesia Stock Market in the first quarter of 2019 and 2020. namely by using criteria adapted to the circumstances of the study. These criteria are:

- Companies that make Quarterly Financial Statements
- Companies that classify Asset and Liability into Current and Noncurrent

From these criteria, only 32 transportation companies are listed on the Indonesia Stock Exchange for the first quarter of 2019 and 2020.

### **Regression Results**

The regression equation that explains the effect of liquidity and profitability on inflation in companies is as follows:

$$Y = -0,028 - 0,079 X1 - 0.008 X2$$

The values contained in the regression equation above can be explained as follows:

- A constant of 0.028 indicates a prediction of the average growth of the company if the CR and ROI are simultaneously 0 (zero).
- The regression coefficient for ROI is -0.008 with a coefficient that is negative, which shows that every time there is an increase in the ROI ratio and the other independent variables are assumed to be constant, it is predicted that it will decrease the company's profit growth by 0.008%.
- The regression coefficient for CR is -1.0799 with a coefficient that is negative, which shows that every time there is an increase in the CR ratio and the other independent variables are assumed to be constant, it is predicted that it will reduce the company's profit growth by 1.0799%.

### **Statistical Result**

#### **a. Test F Statistical Test (Simultaneous)**

The F test is used to determine whether the independent variable used in the regression model, namely the Profitability Ratio (ROI) and the Liquidity Ratio (Current Ratio), is able to explain the dependent variable, namely inflation. The results obtained from the F test performed using IBM SPSS can be seen from the ANOVA table. The results of the F test show that the independent variables together have an effect on the dependent variable if the p-value (contained in the significant column) is smaller than the level of significance, namely 5%.

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,000	2	,000	2,344	,104 <sup>b</sup>
	Residual	,000	61	,000		
	Total	,000	63			

a. Dependent Variable: Inflasi

b. Predictors: (Constant), Current Ratio, Return On Investment

Based on SPSS Data Processing

Analysis from the table above, the p-value is 0.104. This means it shows that the p-value is greater than the level of significance predetermined of 5%. It means that the profitability ratio (ROI) and the liquidity ratio (Current Ratio) simultaneously do not have a significant effect on inflation.

b. Partial Test (t-test)

The test is used to show how far the influence of one independent variable individually in explaining the variation of the dependent variable. This means explaining the Profitability Ratio (ROI) and the Liquidity Ratio (Current Ratio) separately can affect inflation. The results of the T test performed with IBM SPSS can be seen in the table Coefficients, the relationship of each independent variable to the dependent variable can be seen from the p-value. The p-value that meets the standards is less than 5%.

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	,028	,000		146,589	,000		
	Return On Investment	-,008	,004	-,264	-2,124	,038	,986	1,014
	Current Ratio	-1,079E-5	,000	-,020	-,164	,871	,986	1,014

a. Dependent Variable: Inflasi

Based on SPSS Data Processing

Analysis from the table above, the profitability ratio (ROI) that the p-value  $< \alpha$  shows (0.038  $<$  0.05), which means 0.038 is smaller than 0.05, which means significant. Thus, it can be concluded that the profitability ratio (ROI) partially has a significant effect on inflation. As for the Liquidity Ratio, it is known that the p-value  $> \alpha$  (0.871  $>$  0.05) means that 0.871 is greater than 0.05. Thus, it can be concluded that the Liquidity Ratio (Current Ratio) partially does not have a significant effect on inflation.

**Conclusion**

**Conclusion**

From the analysis of the research conducted, it can be composed that:

1. Simultaneously, Profitability and Liquidity have an effect on inflation.

2. The Profitability has a significant effect on inflation.
3. The liquidity has no significant effect on inflation.

### **Suggestions**

As for some suggestions that can be given by researchers in this study are:

1. For further researchers, they should increase the length of time of the study by a larger number. The addition of variables is also expected for future research, because it is not enough to only use two variables in this study, namely Return On Investment (ROI), Current Ratio (CR). Other variables should also be considered as independent variables so that the research can be more accurate.
2. For investors, the results of this study are expected to provide useful information to make informed decisions. Investors are also expected to pay attention to external factors that affect company performance, such as global economic conditions outside the company so that investments can be made more profitable.
3. Transportation sector companies listed on the Indonesia Stock Exchange are expected to improve company performance, so that they can generate high profits, especially increasing the value of Return on Investment. Because investors will be attracted by the company's high ROI, which means it shows a high rate of return for investors.

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