

The Strategy of Strengthening the Earning Per Share

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Abstract: The purpose of this study is a strategy for strengthening earning Per Shares through some of the variables. Research conducted included the type of quantitative research with the associative approach that is meaning relationship between two or more variables. The population used is a Garment and Textile companies recorded in Indonesia Stock Exchange, sampling technique using purposive sampling. The results of the analysis of any variable found the influence between the capital structure current ratio effect significant to earnings per share, but the net profit margin has not influence significantly. Based on the results of the statistical analysis are variables capital structure, and the current ratio has ability to strengthening Earning Per Shares. Decrease on the ratio capital structure will be increased income, then improve earnings per shares, and other hand stability on the current ratio will effect to the cash flow and then improve to the income. Implication this research is the strategy of strengthening EPS through capital structure and current ratio.

1 INTRODUCTION

The form of the granting of benefits provided to shareholders of any shares owned or commonly referred to as earnings per shares (Fahmi, 2012). To obtain a high EPS is not as easy as it says (Bens, 2003), because there are several factors that can affect the value of EPS. EPS value is influenced by several things, including capital structure, capital structure arrangements i.e. through combining permanent source of funding and debt, through this way, then is expected to expected to maximize the value of the company (Weston and Copeland, 2010 and Sriyono, 2017). Conversely, if private equity is greater than the long-term debt, meaning the majority of the cost of fixed assets financed by private equity and the level of security risk and more small businesses in the long run (Sunyoto, 2013). As in research Saprina, 2014 conveys that the structural capital has significant influence to Capital, any change from the DAR will have an effect on EPS.

Financial leverage can increase earnings per share, however, as the debt ratio or debt-equity ratio increases the risk of leverage also increases, and changes in these situations can cause a negative impact (Basu, 1977). If the company's return on equity is reduced, it still has to cover the cost of interest on debt, which could mean a more prominent

decline in EPS than if there is less leverage (Nagalakshmi, 2015 pp 25-28).

Another factor that is, the Net Profit Margin. With the business profit the company can measure the level of profit achieved was linked with sales or known by the term Profit Margin. According to Syamsuddin (2011), the net profit margin is the ratio between the net income, i.e. the sale after deducting with the entire load including tax compared with a sale. Net Profit Margin reflects the company's ability in generating profit from each sale neto (Murhadi, 2013). The magnitude of the gains from the sale of influential significantly to EPS, for it companies seeking to increase profits (Paramudita, 2016).

Current Ratio is the ratio of the measure to the company's ability in repaying short-term obligation or debt immediately due upon billing in its entirety. From the results of measurements of the ratio, if the current ratio is low, it can be said that the company is lacking the capital to pay the debt (Sriyono, 2017). However, if the high ratio of measurement result, not necessarily conditions the company is good. The extreme low liquidity ratio is good, then it will have an effect on EPS, high corporate earning then liquidity getting better and this will have an effect on EPS (Susilawati, 2014).

The purpose of this research is how doing the strategy of strengthening, through the strengthening

of EPS then investors will be interested in buying the company's shares.

2 LITERATURE REVIEW

The high capital structure is not only a factor of risk for investors, because according to the Brigham (2001) stated capital structure policy involves equalization (trade-offs) between risk and rate of return using more debt means enlarging the risks borne by the shareholder (Rajan, 1995), using more debt also magnifies the expected rate of return. The relationship between DAR and EPS are significantly influential to EPS (Chelmi., 2013)). Net Profit Margin (NPM) is a ratio used to show the capabilities of the company in generating a net profit after tax. The higher the ability of companies, resulting in a profit then it will effect significantly to EPS (Hanafi dan Halim, 2007),the higher the current ratio, the company considered to be increasingly able to pay off the obligation. While according to Fahmi (2012), the current ratio is a measure commonly used over short term solvency, the ability of a company to meet the needs of debt when due. The ability of a company to handle the company's liquidates then it will have an effect on EPS. This also means there is a sufficiency of funds in cash flow used to pay short-term debt is also mean the company has sufficient funds. (Susilawati, 2014).

3 METHOD

The type of research used include type of quantitative research with associative research approach or relationship, an approach that aims to find out the

a. Normality Test

Result of Normality Test show in the Table 2:

Table 2: Result of Normality Test, One-Sample Kolmogorov-Smirnov Test.

		X1_DAR	X2_NPM	X3_CR	Ln_Y_EPS
N		30	30	30	30
Normal Parameters ^a	Mean	.55881	.06708	151.192	349.447
	Std. Deviation	.237840	.191326	.843636	4.020.294
Most Extreme Differences	Absolute	.177	.420	.183	.114
	Positive	.177	.420	.183	.093
	Negative	-.125	-.363	-.136	-.114
Kolmogorov-Smirnov Z		.969	2.302	1.001	.623
Asymp. Sig. (2-tailed)		.305	.000	.269	.833

relationship between two or more variables. (Sugiyono, 2009). The population used in this research is a company manufacturing sectors of various industries that have been listed on the Indonesia stock exchange from year 2010 up to 2015. The sampling technique used was purposive sampling, after the desired criteria determined by the researchers will then retrieved the number of companies that meet these criteria (Ghozali, 2009). Multiple regressions testing done before the research analysis, then advance to do a classic assumption test. This study uses multiple linear regression formula is as follows:

$$Y = \beta_0 + \beta_1 \text{DAR}_1 + \beta_2 \text{NPM} + \beta_3 \text{CR} + e$$

4 RESULT AND DISCUSSION

4.1 Object Research

Result of Descriptive data research show in the Table 1:

Table 1: Descriptive Statistics.

	N	Min	Max	Mean	Std. Deviation
X1_DAR	30	.212	1.569	.55881	.237840
X2_NPM	30	.000	1.015	.06708	.191326
X3_CR	30	.403	3.863	151.192	.843636
Ln_Y_EPS	30	-4.252	10.628	349.447	4.020.294
Valid N (listwise)	30				

The results of the test of normality (Kolmogorov-Smirnov test) the table 2 shows that the value of Asymp. The SIG of 0.422, this indicates that the value of the the sig is bigger than value trust level ($\alpha =$

0.05), therefore it can be concluded that H_a is a rejected and received H_o so that residual data is Gaussian.

b. Multicollinearity Test

Result of Multicollinearity Test shows in the Table 3:

Table 3: Result of Multicollinearity Test. Coefficients^a

Model	Unstandardized Coefficients		Collinearity Statistics	
	B	Std. Error	Tolerance	VIF
(Constant)	-3.477	2.234		
X1 DAR	6.590	2.952	.873	1.145
X2 NPM	1.897	3.636	.890	1.124
X3 CR	2.091	.791	.966	1.035

Test results multicollinearity on Table 3 the above shows that the value of tolerance more than 0.1 and the value of the VIF is less than 10, so that it can

be concluded that there is no regression model multicollinearity symptoms.

c. Autocorrelation Test

Result of Autocorrelations Test is shown in the Table 4:

Table 4: Result of Autocorrelations Test. Model Summary^b

Model	R	R Square	Adjusted R Square	Change Statistics					Durbin-Watson
				R Square Change	F Change	df1	df2	Sig. F Change	
1	.554 ^a	.307	.227	.307	3.845	3	26	.021	1.984

Autocorrelation test results in the above tables retrieved value DW = 1,984 at 5% significance level with n = 30, because the value of DW = 1,984 are at intervals or at intervals up in the category does not

contain autocorrelation both positive and negative. Results from this analysis it can be concluded that the regression models contain no autocorrelation.

4.2 Result of Hypothesis Test

4.2.1 Regressions Analysis

Table 5: Determination Test Result.

Model	R	R Square	Adjusted R Square
1	.554 ^a	.307	.227

Based on Table 5 it can be seen that the DAR, NPM, CR, have low ties to the earning per shares reflected on the R value of 0.554. And the big contribution of DER, NPM, CR to earning per shares equal to 30,7%.

4.2.2 Simultaneous Test / F Test

The statistical test F (F-test) or simultaneous test is used to find out whether the independent variables included in the model have an effect simultaneously

on the dependent variable. The significant test of F can be seen based on the following Table 6.

Table 6: Result of Simultaneous Test.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	144.037	3	48.012	3.845	.021 ^a
	Residual	324.683	26	12.488		
	Total	468.720	29			

Based on Table 6 result use values 0,001 significant meaning more small of 0, 05 ($\rho < 0.05$), then H_0 is rejected. If H_0 is rejected, then variable debt to asset ratio, net profit margin, current ratio has a simultaneous significant effect on stock prices.

4.2.3 Partial Test / t Test

Based on Table 7, model used multiple regression to predict great relationship and the influence of the independent variable on the dependent variable. The results of measurements of multiple regression, can be seen from the results as follows:

Table 7: Result of Partial Test. Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	-3.477	2.234		-1.556	.132
	X1_DAR	6.590	2.952	.390	2.232	.034
	X2_NPM	1.897	3.636	.090	.522	.606
	X3_CR	2.091	.791	.439	2.643	.014

a. Dependent Variable: Ln_Y_EPS

The result equation model as follows:

$$\ln Y = -3,477 + 6,590 X_1 + 1,897 X_2 + 2,091 X_3$$

4.3 Discussion of Research Results

Assessment of EPS for one company can be done through comparison every 4 months (Bagnoli, 1999:27-59), through this way then the development of EPS can be known. Earnings per Share (EPS) is the level of the analysis tools Profitability Company that uses the concept of a conventional profit. EPS is one of two commonly used measurement tool to evaluate common stock in addition to PER (Price Earnings Ratio) in financial circle. Beside that earnings per share has found to be a very strong forecaster of the market price of the share, while the price earnings ratio impact significantly on the prediction of market price of share of select companies of auto sector as whole (Kumar, 2017)

Based on the results of the Test t in Table 4.8 indicates that when the value of the DAR go up then it will be followed by a rise of the value of the EPS result of research is supported by the research of Megastya, Tiara and Siti Maimunah Sinta (2015). The

results of the statistics give information meaning that capital structure described by the DAR, published in the financial statements is quite informative to investors in predicting earning per share (Durre, A and Gioat, P 2007). But here there is a theory that supports the high capital structure that is not only a factor of risk for investors (2002), because according to Brigham (2010) said capital structure policy involves equalization (trade-offs) between the risk and the level of Returns, using more debt The enlarging the risk borne by the shareholder the shareholders, using more debt also magnifies the expected rate on return (Mohammed, A.,2007). The Capital structure is a comparison between long-term debts with a capital on its own. The higher the ratio of capital structure indicates that long term debt used higher than their own capital as funding companies. Basically the company started funding with debt or private equity. With the high capital structure which means the use of increasingly high debt will improve the risk of losses for the company due to its high debt

interest expense arising from the debt will be higher. Higher Interest on the debt will reduce the profits received. But when companies are able to maximize the benefits of the debt, which means the benefit of debt is higher than the interest rate debts then profit per shares received will be getting high or increases.

The net profit margin of influential variables are not significantly to earnings per shares. Other studies conducted the show also that capital structure also gives significant positive influence against EPS (Sivathaasan and S. Rathika. 2013). The higher the Net Profit Margin then earning per shares will be higher. Net Profit Margin indicates a high performance company that increasingly productive and the better the company ability to earn high profit. This is due to the High Net Pro (Syamsuddin, 2001:62). Thus the Net Profit Margin is high will including taxes. If the net profit Margin is low then it needs to be seen whether the selling price specified companies do already what yet, because the selling price that is too low will effect net profit margin (Sutejo, 2009). The current Ratio is one of the most common ratio is used to measure the liquidity or the company's ability to meet its short term obligations without facing difficulties. The larger the current ratio shows the higher the company's ability to meet short-term obligations (including obligations to pay cash dividends are payable).

Elements which affect the value of the current ratio is current assets and short-term debt. In this case the current assets consist of cash money and also securities include debt recognition letters, money orders, shares, securities, bonds, credit derivatives, or any of the securities or other interests or an obligation of the issuer, the common forms are traded in the money market and the capital market. On the other hand can either be short term debt owed on a third party (bank or other lender).

Current Ratio in effect significantly to earning per shares. This means that if the Current Ratio profit up each sheet shares also rose, the results of the study supported the research results of Ratnasari (2014). from the results of measurements of current ratio it can be said that the company is lacking the capital to pay the debt. However, if the high ratio of measuring results, not necessarily conditions the company is good. This can occur because the cash was not used as best as possible (Paramudita, 2016 and Ismai et al, 2016). The company's liquidity levels will affect the earnings per shares of the company due to too high a level of liquidity which caused a large number of current assets. It makes the company experienced constraints in play as working capital current assets which have an impact on the resulting profits little.

The results of research that States that do not affect significantly to earnings per shares because the company has as well because the number of mines. The results of this research are supported by research Anggun (2016), which found that there is a weak relationship between liquidity with EPS.

5 CONCLUSION

Based on the results of the analysis of data that have been described, then the research can be conclusions that strengthening EPS can be done through DAR, CR, but Net profit margin has no impact.

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