

Effect of Profitability and Liquidity on Firm Value

(Empirical Study On Food and Beverage Companies Listed On The Indonesia Stock Exchange)

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ABSTRACT

This study aims to explain and determine the effect of Profitability and Liquidity on firm value jointly or partially and to determine the variables that have a dominant influence on firm value in food and beverage companies listed on the Indonesia Stock Exchange. Hypothesis testing used in this research is normality test, multicollinearity test, multiple linear regression test, and hypothesis testing which is divided into f test and t test. The results of the study stated that the profitability and liquidity variables had a positive effect but not too dominant because the hypothesis test was not accepted because it did not meet the minimum requirements for F and T tables. The F-count is smaller than the F-table value ($0.923 < 4.76$) and the significance value has a number > 0.05 ($0.456 < 0.05$).

Keywords : Profitability, Liquidity and Firm Value

Introduction

Companies engaged in the food and beverage industry are part of a business that continues to increase. With the passage of time, the population in Indonesia is increasing, the high demand for food and beverages will also continue to grow. Residents in Indonesia tend to prefer to eat fast food and drinks, this is what has resulted in the growth of new companies in the food and beverage sector. So they assume that the food and beverage industry sector has promising or profitable prospects. This promising prospect attracts investors to invest their shares in food and beverage companies. The more investors who invest their shares in a company, the higher the value of the company. According to Sudana, I.M (2009:8), the value of the company is the present value of the income or cash flows that are expected to be received in the future. High company value is the desire of the owners of the company, because with high company value it will be followed by high shareholder prosperity (Brigham, 2010: 7). Factors that can affect firm value include profitability, liquidity and capital structure. Some of these factors have a relationship and

influence on the value of the company. Profitability and liquidity are benchmarks for people's decision making related to company value. The higher the value of profitability and liquidity, the higher the value of the company. Profitability and liquidity is also a measure of the success of the company's management. The first factor that affects firm value is profitability. According to Sartono (2015:122) profitability is the company's ability to earn profits in relation to sales, total assets and own capital. Then according to Harahap (2015: 304) profitability is the company's ability to earn profits through all existing capabilities and sources such as sales activities, cash, capital, number of employees, number of branches, and so on. The second factor that affects firm value is liquidity. According to Riyanto (2014 : 25) liquidity is the ability of a company to meet short-term obligations. This capability is the company's ability to continue its operations when the company is required to pay off its obligations which will reduce operational funds. Then according to Subramanyam (2017 : 43) liquidity is to evaluate the ability to meet short-term obligations. The third factor that affects the value of the company is the capital structure. The capital structure is an illustration of the form of the company's financial proportions, namely between owned capital originating from long-term liabilities and shareholder's equity which is a source of financing for a company (Fahmi, 2011: 106). Kusumajaya (2011:40) reveals that the capital structure is a balance or comparison between the amount of long-term debt with its own capital.

Literature Review

Financial Statements

The financial report according to Baridwan (2013:17) is a summary of a recording process of financial transactions that occurred during the financial year concerned. According to Munawir (2016 : 2) financial statements are basically the result of the accounting process that is used as a tool to communicate between financial data or the activities of a company. Meanwhile, according to Martani et al, (2016:36) financial statements contain financial information, the essence of which is that the information must meet qualitative characteristics. According to Kasmir (2018: 87) the purpose of making or preparing financial statements are as follows:

1. Provide information about the type and amount of assets (assets) currently owned by the company.
2. Provide information about the types and amounts of liabilities and capital owned by the company at this time.
3. Provide information about the type and amount of income earned in a certain period.
4. Provide information about the amount of costs and types of costs incurred by the company in a certain period.
5. Provide information about changes that occur to the company's assets, liabilities, and capital.
6. Provide information about the notes to the financial statements.

Firm Value

Every company that runs a business must have different values. The higher the assets owned, the company will be considered potential by many investors. The effect of a high company value is the opportunity to get investment in the future. A company must maintain good condition in various sectors. Not only the financial sector so that cash flow does not fall apart. Companies must also maintain a positive trend so that their scores can hold up well or increase. According to Brigham and Joel (2010: 150), firm value from high stock prices can be influenced by liquidity, asset management, debt management and profitability. Company value is a score owned by a company that either gets local or foreign capital. This score is obtained based on several important points that have built the company from its inception until now. Generally the score is not only determined from the number of assets or how much income is earned. However, also pay attention to some important elements such as.

1. Face value. This value is written in the company's articles of association. Usually it will be mentioned explicitly in the various balance sheets owned by the company.
2. Value in the market. Every company, especially large ones, will have shares on the stock exchange. From the increase and decrease in stock prices, the company's score can be seen by various investors.
3. Intrinsic value. This score cannot be seen directly because it is often associated with the company's ability to run its business. The higher this value, the ability to grow will be large and suitable for investment land.
4. Book value. This is the value that is considered the absolute score of the company. Though there are still other elements mentioned in the previous points. Book value shows the company's accounting whether it is making a profit or loss.
5. Liquidation value. Obtained by listing all assets owned by the company from the center to the branches. Furthermore, that value will be reduced by various dependents such as debt

Liquidity

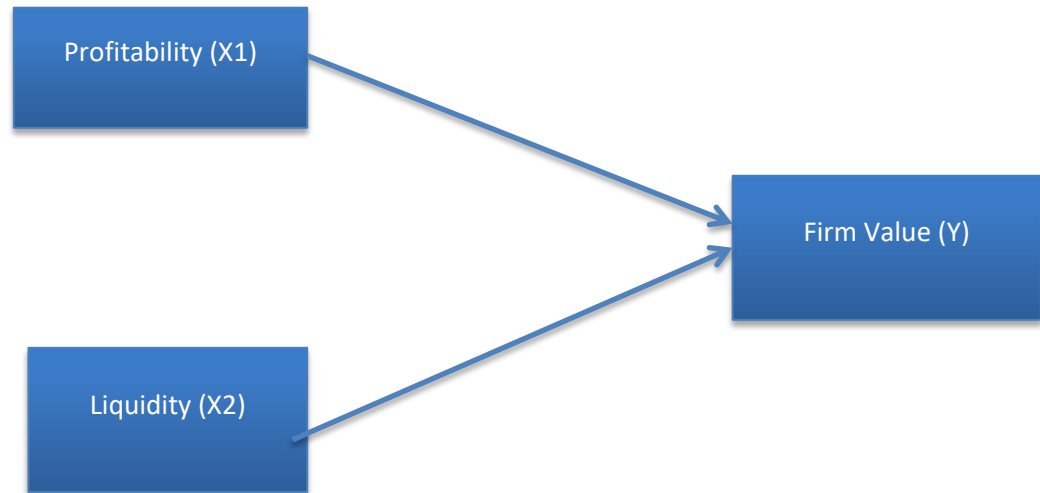
According to Horne and John (2012:167), defines the liquidity ratio as the ratio used to measure the company's ability to meet its short-term liabilities. According to Simorangkir (2014:149), in general the factors that affect the liquidity position are grouped into two, namely:

Internal factors : Factors originating from within the company itself that affect the size of liquidity fluctuations. Internal factors occur due to changes in leadership, credit period, organization/administration and purchase of fixed assets (short-term assets).

External Factors: Factors originating from outside that more or less affect the success or failure of a company in controlling its liquidity position. External factors include, among others, regulations in the economic/monetary sector, seasonal company conjunctures, community habits and relations between company offices.

Profitability

According to Sudana (2015:22), profitability is a ratio to measure the company's ability to generate profits by using its sources owned by the company. According to Brigham and Joel (2018:146), the profitability ratio shows the combined effect of liquidity, asset management and debt ratios on operating results.



Conceptual Framework

Hypothesis

- H₁: Profitability and Liquidity Affect Firm Value
- H₂ : Profitability Affects Firm Value
- H₃: Liquidity Affects Firm Value

Research Methods

This research method uses quantitative data, the data used are secondary data in accordance with the criteria of the research sample listed on the Indonesia Stock Exchange in 2014-2020. This study uses 11 samples taken from a total population of 16 food and beverage companies listed on the Indonesia Stock Exchange

Population

Sugiyono (2017:81) states that population is a generalization area consisting of objects/subjects that have certain qualities and characteristics determined by researchers to be studied and then drawn conclusions. The population in this study are food and beverage companies listed on the Indonesia Stock Exchange as many as 30 companies.

Sample

The sample is part of the population to be studied is seen as an estimate of the population, but not the population itself. According to Sugiyono (2017:81) the sample is part of the number and characteristics possessed by the population. For this reason, samples taken from the population must be truly representative. In this study, the types of samples used were 11 companies.

Research Result

Normality test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		8
Normal Parameters ^{a,b}	Mean	0E-7
	Std. Deviation	,23490410
Most Extreme Differences	Absolute	,118
	Positive	,118
	Negative	-,091
Kolmogorov-Smirnov Z		,333
Asymp. Sig. (2-tailed)		1,000

a. Test distribution is Normal.

b. Calculated from data.

Asymp significance value. Sig (2 tailed) of 1,000 is greater than 0.05 ($1,000 > 0.05$) these results can be interpreted that there is no rejection and the data is normally distributed.

Multicollinearity Test

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	,638	,215		2,971	,031	
	X1	,627	,787	,312	,797	,462	,973
	X2	-,360	,316	-,447	-1,141	,305	,973

a. Dependent Variable: Y

The results of the multicollinearity test in the table, it is known that the X1 and X2 variables have a tolerance value of 0.973 which means greater than 0.10 and the VIF value of 1.027 which means less than 10, it can be said that there is no multicollinearity problem in the regression model. Thus, these results meet the requirements for multiple linear regression testing.

Coefficient of Determination and Correlation Coefficient Test

Model Summary^b

Mode	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,502 ^a	,252	-,047	,277942

a. Predictors: (Constant), X2, X1

b. Dependent Variable: Y

Based on the results of the table above, the coefficient of determination (r square) obtained is 0.252, which means 25.2% of the firm value which is influenced by profitability and liquidity, while the rest is influenced by other variables. In addition, the value of the multiple correlation coefficient of 0.502 is also obtained, the value lies between 0.5 - 0.75 with a strong correlation category. Thus, it can be concluded that the correlation between profitability, liquidity and firm value includes a high correlation.

Multiple Linear Analysis

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics		
	B	Std. Error	Beta			Tolerance	VIF	
	1	(Constant)	,638					,215
	X1	,627	,787	,312	,797	,462	,973	1,027
	X2	-,360	,316	-,447	-1,141	,305	,973	1,027

a. Dependent Variable: Y

$$Y = 0.638 + 0.627 X1 + 0.360 X2$$

From the above equation, the coefficient of regression of the profitability variable (X1) is 0.627 and the variable (X2) is 0.360. Both regression coefficient values have positive values. This indicates that the higher the profitability and liquidity, the higher the firm value.

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
	1	(Constant)	21,193			41,869
	Total_x1	21,065	62,247	,154	,338	,749
	Total_x2	4,155	3,228	,587	1,287	,254

a. Dependent Variable: Total_Y

The results of the hypothesis test, obtained the t-count value on the Profitability variable (X1) of 1.338 with a significance level of 0.749 and the t-count value of the Liquidity variable (X2) of 1.287 with a significance level of 0.254. This shows

that the t-count value for the two independent variables is smaller than the t-table value (1,338 and 1,287 > 1,439) and the significance value for the two independent variables is > 0.05 (0.749 and 0.254 > 0.05). Thus, the first hypothesis (H1) is rejected.

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2120,785	2	1060,393	,923	,456 ^b
	Residual	5743,612	5	1148,722		
	Total	7864,398	7			

a. Dependent Variable: Total_Y

b. Predictors: (Constant), Total_x2, Total_x1

The results of hypothesis testing, obtained the F-count on the profitability and liquidity variables of 0.923 with a significance level of 0.456. This shows that the F-count value is smaller than the F-table value (0.923 < 4.76) and the significance value has a number > 0.05 (0.456 < 0.05). Thus, the conclusion can be drawn that Hypothesis 2 is rejected.

Research Discussion

Asymp significance value. Sig (2 tailed) of 1,000 is greater than 0.05 (1,000 > 0.05) these results can be interpreted that there is no rejection and the data is normally distributed, testing the variables listed with multiple linear regression test obtained the value of the regression coefficient of the profitability variable (X1) is 0.627 and the variable (X2) is 0.360. Both regression coefficient values have positive values. This indicates that the higher the profitability and liquidity, the higher the firm value. The hypothesis test is the F test, and T there are results below the table value, which means that the hypothesis made by the author is not accepted. obtained the F-count value on profitability and liquidity variables of 0.923 with a significance level of 0.456. This shows that the F-count value is greater than the F-table value (0.923 < 4.76) and the significance value has a number > 0.05 (0.456 < 0.05). Thus, it can be concluded that Hypothesis 2 is rejected. Research conducted by Safira Indrawati (2019) states that profitability has a significant positive effect on firm value. Research conducted by Evryl Claudya Tarigan states that liquidity has a positive influence on firm value.

Conclusion

1. Profitability and Liquidity have a positive influence but are not too dominant and mean that the value of the company is influenced by variables that are not examined
2. Profitability has no effect on firm value
3. Liquidity still has a relationship but is not too dominant to affect the value of the company

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