IJAFIBS, 11 (4) (2024) pp. 899-905
Published by: TRIGIN Publisher
International Journal of Applied Finance and Business Studies
Journal homepage: www.ijafibs.pelnus.ac.id

# The company's value is influenced by profitability and liquidity

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**ARTICLE INFO**

***Article history:***

Received Jan 10, 2024
Revised Jan 11, 2024
Accepted Feb 01, 2024

***Keywords:***

Company Value;
Liquidity;
Profitability;
Regression Analysis.

**ABSTRACT**

This study investigates the interaction between capital structure, net profit margin, and company value in the manufacturing sector in Indonesia. The goal is to gain insight into how these factors interact and affect the overall value of a company in a particular region and industry. This analysis uses quantitative methods based on financial data and relevant metrics for a sample of food and beverage sector companies operating in Indonesia from 2019 – 2023, with sample data of 15 companies having been used. This study examines the relationship between profitability, liquidity, and company value through statistical analysis and linear regression modeling techniques with SPSS version 26. The results showed that profitability had a significant effect on the value of the company. Liquidity does not affect the value of the company. Profitability and liquidity simultaneously affect the value of a company. The findings contribute to the existing literature on company valuations by providing empirical evidence specific to the food and beverage sector listed on the Indonesia Stock Exchange. The research has implications for policymakers, investors, and managers, as it offers valuable insights into the factors that drive corporate value in the industry, helping stakeholders make decisions and strategies to improve performance and competitiveness. Provide benefits in the context of financial management.



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## 1. INTRODUCTION

Financial statements are a source of information needed as one of the tools to assess the success of management, which is expected to provide information about a company's progress and development (Gu et al., 2023; Lasabuda et al., 2019). Financial statements are a very important tool to obtain information concerning the wishes of certain parties interested in the financial statements. Financial statements will be more meaningful to interested parties if analyzed further to obtain information to support the policies taken (Nguyen et al., 2023; Winarno, 2017; Zhang et al., 2023). Financial statements are the final part of the accounting process that plays an important role in measuring and evaluating a company's performance. Companies in Indonesia, especially those that go public, must make financial statements periodically (Mujari 2019; Supsermpol et al. 2023; Zhang et al. 2023).

Financial performance is work performance in the financial field that has been achieved by the company and stated in the company's financial statements. Meanwhile, according to Munawir, financial performance is "Work performance that has been obtained by a company in a certain period and is owed in the relevant financial statements (Hasan 2023). Financial performance has many aspects, but economists usually only focus on three main aspects: efficiency, technological advancement, and balance in distribution. In simple terms, the calculation of efficiency is to produce maximum value with a certain number of inputs, both quantitatively physical and economic (price). In short, it can be explained that a certain amount of inputs of a bonus nature is avoided so that no resource is unused and wasted.(Wenda and Ditilebit 2021). Financial performance is an achievement achieved by a company in a certain period that reflects the company's level of health. This is in contrast to Fahmi, who stated that financial performance is an analysis carried out to see the extent to which a company has implemented financial implementation rules properly and correctly. So, it can be concluded that financial performance is a picture of financial condition, which is a measure of success or achievement achieved by the company in maintaining health and stability in the financial sector by using financial implementation rules properly and correctly during a certain period (deadlock 2023).

Ratio analysis is a ratio used to measure the company's ability to meet the Long-term liabilities of the company, and profitability is a ratio used to measure the company's ability to generate profits generated from sales (Noordiatmoko, 2020). Profitability is the net result of various policies and decisions, where this ratio is used as a measure of a company's ability to profit from every dollar of sales generated (Widarjo & Setiawan, 2009). The results of the profitability ratio can be used as an illustration of the effectiveness of bank performance in terms of net profit obtained compared to the cost of revenue. (Fernos, 2017). The profitability ratio measures a company's ability to profit using its resources, such as assets, capital, or sales. Profitability ratios that are often used include return on assets (ROA), return on equity (ROE), profit margin ratio, and basic earning power (Jajuli et al., 2023).

The profitability ratio is a ratio used to measure a company's ability to generate profits from its normal business activities. Besides determining the company's ability to generate profits during a certain period, this ratio also measures management's effectiveness in conducting company operations. The profitability ratio can be used as a tool to measure the level of effectiveness of management performance. Good performance will be shown through management's success in generating maximum profits for the company (Hawaldar et al., 2022). The company's main goal is to maximize profits or wealth, especially for its shareholders, manifested in the form of efforts to increase or maximize the market value of the company's stock price. This goal is outlined because, in practice, it is always influenced by financial decisions. Profitability is used to measure the effectiveness of overall management as indicated by the large level of profit obtained from sellers and investments (Hidayat & Khotimah, 2022). A higher quick ratio (QR) indicates that the company has a good liquidation rate so that it can increase the company's value in the eyes of investors and provide a positive perception of the company's condition (Sukarya & Baskara, 2018).

The liquidity ratio is a company's ability to meet short-term obligations. The liquidity ratio measures the company's short-term liquidity capability by looking at its current assets relative to its current debt (debt, in this case, is the company's obligation). The current Ratio (CR) is a ratio that measures a company's ability to pay short-term obligations or debts that are immediately due when collected as a whole (Gunawan et al., 2022). The leverage ratio is used to measure a company's ability to meet its short-term and long-term obligations if, at any time, the company is liquidated. This ratio shows how much of a company's assets are funded from debt. With the high debt owned by the company, the company is forced to generate more income to pay its debt and interest. Therefore, it is estimated that there is a positive relationship between the leverage ratio and financial distress. (Goddess, Endiana, & Arizona, 2019).

Company value can not only be described on a company's stock price; measuring the company's high value can be done in various ways, and one of the measuring tools that can be used is price-to-book value. Price to book value (PBV) is a financial ratio that compares stock prices with book value per share. If the higher the PBV value, the greater the level of prosperity of shareholders, so the company is said to have achieved one of its goals (Hariati & Rihatiningtyas, 2016; Faith & Righteousness, 2023; Sulistyo et al., 2020). Company value is the assessment given by investors for the company's success and performance, which is reflected in the stock price in the market. The company's values formed through stock price indicators in the market will indicate good investment opportunities. The existence of these investment opportunities can provide positive signals to investors about the prosperity that investors will get and the company's prospects in the future so that this can increase the company's value (Karmilah et al., 2023; Supriandi & Masela, 2023; Yuvia &; Wijaya, 2023).

The purpose of this study is to empirically investigate the variables of profitability, liquidity, and company value in food and beverage sector companies for the period 2019 – 2023. By examining these factors partially and simultaneously, we aim to contribute to the existing literature and provide practical implications for decision-makers in the industry, theoretically contributing in the context of financial and banking management.

## 2. RESEARCH METHOD

This study used a descriptive quantitative research method with a causal approach. The source of the retrieved data is secondary data. The researcher receives secondary data and directly measures the object under study. The method we use in this study is quantitative; we use secondary data taken from the Indonesian stock exchange website and the company site we researched. The population in this study is represented by food and beverage sector companies listed on the Indonesia Stock Exchange, especially in 2019-2023. We use quantitative research methods because this research is suitable for researching obvious problems, has a wide population, and intends to test hypotheses. In addition, we want this research to run systematically so that this research runs objectively. Systematic means the process used in this study uses certain sequential steps. However, researchers use data from an institution whose data has been published. The population in this study is food and beverage sector companies listed on the Indonesia Stock Exchange, totaling 18 companies. In sampling, the author uses purposive sampling techniques to take only 15 companies in the food and beverage sector listed on the Indonesia Stock Exchange that have been published following the research variables that the author analyzes from 2019 – 2023. Data is collected by observation. Observations are made on all data sources following the unit of observation/analysis determined in the study. Data sources for the study were obtained from websites such as food and beverage industry sector companies listed on the Indonesia Stock Exchange http://www.idx.co.id and companies sampled in this study. This data analysis method makes it easier for researchers to manage and analyze data with the help of the SPSS version 26 program. This data was tested by descriptive analysis followed by classical assumption tests, including data normality, heteroscedasticity, diversity, and autocorrelation. Then, the authors continued with multiple linear regression tests. The author uses the -t test and the -f test test to test the hypothesis. The author formulates research hypotheses, namely
H1: profitability has a significant effect on company value.
H2: liquidity has a significant effect on company value.
H3: profitability and liquidity have a significant effect simultaneously on company value.

## 3. RESULTS AND DISCUSSIONS

Before conducting linear regression and moderating regression analyses, table 1 regarding data normality with One-Sample Kolmogorov-Smirnov Test. The following are the results of the classic assumption test from normality data that are proven to be normally distributed data, as seen in Table 1 below.

**Table 1.** One-Sample Kolmogorov-Smirnov Test

| One-Sample Kolmogorov-Smirnov Test | | Unstandardized Residual |
|---|---|---|
| N | | 68 |
| Normal Parametersa,b | Mean | .0000000 |
| | Std. Deviation | 1.33514943 |
| Most Extreme Differences | Absolute | .104 |
| | Positive | .104 |
| | Negative | -.088 |
| Test Statistic | | .104 |
| Asymp. Sig. (2-tailed) | | .064c |

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Table 1 shows the magnitude of Kolmogorov-Smirnov's normality; the 2-tale significance normality test is Unstandardized Residual 0.064), which is residual data having a significance value greater than 0.05. It can be concluded that the data is normally distributed. The following multicollinearity test results can be seen in Table 2 below.

**Table 2.** Multiklonieritas Test

| Tableicients[a] | | | |
|---|---|---|---|
| Model | | Collinearity Statistics | |
| | | Tolerance | VIF |
| 1 | Profitability | .898 | 1.113 |
| | Liquidity | .898 | 1.113 |

a. Dependent Variable: Company Value

The multicollinearity test obtained a Variance Inflation Factor (VIF) value of > 10 and a Tolerance value of > 10. The result of the decision for the multicollinearity test is that if the tolerance value < 0.10 and VIF < 10, it can be interpreted that there are no symptoms of multicollinearity, so it can be concluded that the model used does not contain symptoms of multicollinearity. The results of linear regression analysis can be seen in Table 3 below.

**Table 3.** RegresRegressionr Test

| **Coefficients a** | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1.459 | .467 | | 3.121 | .003 |
| | Profitability | .799 | .312 | .319 | 2.561 | .013 |
| | Liquidity | -.042 | .069 | -.077 | -.617 | .539 |

a. Dependent Variable: Company Value

A positive constant of 1.459 means that if the variable value of profitability and liquidity equals zero, then the level or magnitude of the variable value of the company is fixed at 1.459. The regression coefficient of the profitability variable has a positive value of 0.799, which means that if the profitability value increases one hundred percent, then the company's value increases by 0.799 times. The value of the regression coefficient of the liquidity variable is negative by -0.042. This explains that if the value of the liquidity variable decreases by one hundred percent, then the variable value of the company decreases by -0.042 times. The following analysis results in hypothesis testing are presented in Table 4.

**Table 4.** Hipotesis Test

| Variable | T-value | P-values | Result |
|---|---|---|---|
| P ⟶ CV | 2.561 | .013 | Accepted |
| L ⟶ CV | -.617 | .539 | Rejected |
| P & L ⟶ CV | 3.302 | .043 | Accepted |

Source: Results of research data processing

Table 4 shows the first hypothesis accepted; in other words, the profitability variable significantly influences the company's value. Profitability is the net result of various policies and decisions, where this ratio is used as a measure of a company's ability to profit from every dollar of sales generated (Widarjo & Setiawan, 2009). So that the results of the profitability ratio can be used as an illustration of the effectiveness of bank performance in terms of net profit obtained compared to the cost of revenue (Fernos, 2017). The profitability ratio measures a company's ability to profit using its resources, such as assets, capital, or sales. Profitability ratios that are often used include return on assets (ROA), return on equity (ROE), profit margin ratio, and basic earning power (Jajuli et al., 2023).

The findings that became the second hypothesis in this study rejected hypotheses that did not match the hypothesis proposed by the author; in other words, the liquidity variable did not have a significant effect on the company's value. The liquidity ratio is a company's ability to meet short-term obligations. The liquidity ratio measures the company's short-term liquidity capability by looking at its current assets relative to its current debt (debt, in this case, is the company's obligation). The current Ratio (CR) is a ratio that measures a company's ability to pay short-term obligations or debts that are immediately due when collected as a whole (Gunawan et al., 2022).

The third finding in this study is that profitability variables significantly influence company value. The profitability ratio is a ratio used to measure a company's ability to generate profits from its normal business activities. Besides determining the company's ability to generate profits during a certain period, this ratio also measures management's effectiveness in conducting company operations. The profitability ratio can be used as a tool to measure the level of effectiveness of management performance. Good performance will be shown through management's success in generating maximum profits for the company (Hawaldar et al., 2022). The company's main goal is to maximize profits or wealth, especially for its shareholders, manifested in the form of efforts to increase or maximize the market value of the company's stock price. This goal is outlined because, in practice, it is always influenced by financial decisions. Profitability is used to measure the effectiveness of overall management as indicated by the large level of profit obtained concerning sellers and investments (Hidayat & Khotimah, 2022). A higher quick ratio (QR) indicates that the company has a good liquidation rate so that it can increase the company's value in the eyes of investors and provide a positive perception of the company's condition (Sukarya & Baskara, 2018). At the same time, the leverage ratio is a ratio used to measure the company's ability to meet its obligations both short and long-term if, at some point, the company is liquidated. This ratio shows how much of a company's assets are funded from debt. With the high debt owned by the company, the company is forced to generate more income to pay its debt and interest. Therefore, it is estimated that there is a positive relationship between the leverage ratio and financial distress. (Goddess et al., 2019).

## 4. CONCLUSION

From our research and discussion, the author concludes, among others, that the first hypothesis is the significant influence of profitability on company value. The second hypothesis suggests the absence of a significant liquidity effect on the company's value. Then the third hypothesis is that profitability and liquidity variables can simultaneously affect the company's value. To increase the company's value through the management of capital structure, profitability, and liquidity, the company must pay attention to the optimal composition of the capital structure, the level of profitability, and financial liquidity. Some things that can be done are increasing the company's profitability by increasing revenue, maintaining financial ratios so that the company's value becomes high, and paying attention to the optimal composition of the capital structure. The research has practical implications for managers, emphasizing the importance of making informed capital structure decisions, increasing profitability through operational efficiency, and driving market liquidity to increase company value. In addition, investors can leverage these findings to assess the factors driving a company's value in the manufacturing industry and make informed investment decisions. Policymakers can also leverage these findings to develop policies that facilitate access to financing, encourage profitability-enhancing initiatives, and promote a liquid market environment. The authors hope this research can theoretically contribute to this context's financial and banking management literature.

## ACKNOWLEDGEMENTS

The author would like to express my deepest gratitude for the expression and dedication of the entire team. The International Journal of Applied Finance and Business Studies has reviewed the article and published the author's paper. In addition, the author also expressed his gratitude to all peer reviewers who have collaborated and supported the preparation of this article so that it can be successful and published in the International Journal of Applied Finance and Business Studies.

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