Operating costs and profitability to company value

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ABSTRACT

Increasing economic growth makes competition tighter in the business world, especially in the food and beverage business. This study investigates the interaction between operational costs, profitability, and company value in Indonesia's food and beverage sector. The aim is to gain insight into how these factors interact and affect the overall value of companies in the Indonesian region. This analysis uses quantitative methods based on financial data and relevant metrics for a sample of Food and Beverages companies operating in Indonesia, as many as 24 companies, with purposive sampling techniques of 17 companies sampled for 2020 – 2022. This study examines the relationship between firm cost, profitability, and value through statistical analysis and linear regression modelling techniques with SPSS version 26. The results showed that operational expenses had a significant effect on the value of the company. Profitability has a substantial impact on the value of the company. Then, operating costs and profitability have a considerable effect on the value of the company. The findings contribute to the existing literature on company valuations by providing empirical evidence specific to Indonesia’s Food and Beverages sector. 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

Increasing economic growth makes competition tighter in the business world, especially in the food and beverage business. The increasing and unlimited food needs of the community, followed by technological advances and the growth of the business world, caused increased competition for food and beverage companies to meet the community's needs. In improving and streamlining the business, the company will strive to develop its business and carry out activities to obtain funds to become smoother. The development of entrepreneurs' activities certainly requires greater funds. This sector always innovates to provide the best service to improve the quality of service for the public, absorb high consumer demand, and attract investors to invest in this sector (Lestari & Suhardi, 2020). Increasing economic growth makes competition tighter in the business world, especially in the food and beverage business. The increasing and unlimited food needs of the community, followed by technological advances and the growth of the business world, caused increased competition for food and beverage companies to meet the community's needs. In
improving and streamlining the business, the company will strive to develop its business and carry out activities to obtain funds to become smoother. The development of entrepreneurs' activities certainly requires greater funds. This sector always innovates to provide the best service to improve the quality of service for the public, absorb high consumer demand, and attract the attention of investors to invest in this sector (Samuim et al., 2022).

Financial statements are a source of information needed as one of the tools to assess the success of management is expected to be able to provide information about the progress and development of a company (Gu et al., 2023, 2024; Lasabuda, Pellieng 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 convey information to support the policy (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 is payable in the relevant financial statements (Hasan, 2023). Economic performance has many aspects, but economists usually only focus on three main elements: 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 number of inputs of a bonus nature are avoided so that no resource is unused and wasted (Wenda & Ditiebit 2021). Financial performance is an achievement achieved by a company in a certain period that reflects the company's health level. 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 (Buntu 2023).

Operating costs to operating income influence return on assets. Working costs to operating income is the ratio between operating expenses and operating income. The lower the ratio level of operating costs to active income, the better the performance of bank management because it is more efficient in using resources (Fauji et al., 2022; Hamzah et al., 2022; Safitri et al.,2021). The bank's efficiency level in its operations affects its income or earnings. If operational activities are carried out efficiently (in this case, the ratio of operating costs to operating income is low), then the revenue generated by the bank will increase. In addition, the high proportion of operating expenses to operating income is also due to the high cost of funds raised and the low-interest payment from investment (Fauji et al., 2022; Muthusamy & Kalpana, 2019; Riadi, 2018).

The profitability ratio is used to measure or assess the ability of a company to seek profit. This ratio also provides a measure of the level of effectiveness of a company's management as indicated by profits generated from various banking products and investment income, and the point is that this ratio shows the company's efficiency. Profitability ratios can be used by comparing multiple components in the financial statements, especially balance sheets and profit and loss (Gu et al., 2024; Gu et al., 2023; Gunawan et al., 2022). Ratio analysis is a ratio to measure the company's ability to meet Long-term liabilities of the company, besides 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). 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 resources such as capital or sales. Profitability ratios often include return on investments, equity, 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 aims to ensure management’s effectiveness in 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 the success of management in generating maximum profit for the company (Hariyanto, 2022).

Company value is the company's performance reflected by stock prices formed by demand and supply in the capital market, which reflects the public's assessment of the company's performance. Company value can be seen from the company's stock price; if the company's stock price is high, the company's value will increase (Gu et al., 2024; X. Gu et al., 2023; Julia, 2019). Measurement of company value based on book value and market value of equity is less representative (Nguyen et al., 2023; Zhang et al., 2023). Therefore, investors can consider other company performance measurements as a basis for valuing the company (Supsermpol et al., 2023; Zhang et al., 2023). One alternative measurement of company performance that can be used is to combine the book value and market value of equity, namely through Tobin's Q ratio. This ratio is measured from the market value of equity plus the book value of total liabilities, then divided by the book value of total assets (Hariati & Rihatiningtyas, 2016).

The purpose of this study is to empirically investigate the effect of operating costs and profitability on company value. By examining these factors partially and simultaneously, we aim to contribute to the existing literature and provide practical implications for decision-makers in these companies, theoretically contributing in the context of financial 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. However, researchers use data from an institution whose data has been published. The population in this study is 24 food and beverages sector companies in Indonesia listed on the Indonesia Stock Exchange. In sampling, the author uses purposive sampling techniques in as many as 17 food and beverages sector companies in Indonesia listed on the Indonesia Stock Exchange, which have been published following the research variables that the author analyzes from 2020 to 2022. 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 sector companies in Indonesia and the Indonesia Stock Exchange website http://www.idx.co.id. The companies sampled in this study were 17 companies from 2020 – 2022. 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 and simultaneous -f tests to test the hypothesis. The author formulates a research hypothesis, namely:

H1: Operating costs have a significant effect on the value of the company.
H2: Profitability has a significant effect on the value of the company.
H3: Operating costs and profitability have a significant effect simultaneously on the value of the company.

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 2 below.
Table 1. One-sample kolmogorov-smirnov test

<table>
<thead>
<tr>
<th>Unstandardized Residual</th>
<th>Normal Parameters</th>
<th>Most Extreme Differences</th>
<th>Test Statistic</th>
<th>Asymp. Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>51</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Normal Parameters</td>
<td>Mean</td>
<td>Std. Deviation</td>
<td>Absolute</td>
<td>Positive</td>
</tr>
<tr>
<td></td>
<td>.0000000</td>
<td>49458.45974250</td>
<td>-.335</td>
<td>.335</td>
</tr>
<tr>
<td>Most Extreme Differences</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Test Statistic</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
<td>.087c</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 1 shows the magnitude of Kolmogorov-Smirnov's normality; the 2-tale significance normality test is Unstandardized Residual 0.087, 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

<table>
<thead>
<tr>
<th>Model</th>
<th>Collinearity Statistics</th>
<th>Tolerance</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Operational Costs</td>
<td>.998</td>
<td>1.002</td>
</tr>
<tr>
<td></td>
<td>Profitability</td>
<td>.998</td>
<td>1.002</td>
</tr>
</tbody>
</table>

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. Regression test

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Constant)</td>
<td></td>
<td></td>
<td>.348</td>
</tr>
<tr>
<td></td>
<td>Operational Costs</td>
<td>.001</td>
<td>.320</td>
<td>2.591</td>
</tr>
<tr>
<td></td>
<td>Profitability</td>
<td>.265</td>
<td>.289</td>
<td>2.340</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Company Value

The positive constant 2.809 means that if the variable value of operating costs and profitability equals zero, then the level or magnitude of the company's value is still 2.809. The regression coefficient of the operating cost variable has a positive value of 0.001, which means that if the variable value of operating costs increases one hundred per cent, then the variable value of the company rises 0.001 times. The value of the regression coefficient of the profitability variable is positive by 0.256, and this explains that if the value of the profitability variable increases by one hundred per cent, then the variable value of the company increases by 0.265 times. The following analysis results in hypothesis testing are presented in Table 4.

Table 4. Hypothesis test

<table>
<thead>
<tr>
<th>Variable</th>
<th>T-value</th>
<th>P-values</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>OC → CV</td>
<td>2.591</td>
<td>0.012</td>
<td>Accepted</td>
</tr>
<tr>
<td>P → CV</td>
<td>2.340</td>
<td>0.023</td>
<td>Accepted</td>
</tr>
<tr>
<td>OC &amp; P → CV</td>
<td>6.373</td>
<td>0.003</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

Source: Results of research data processing

Shella Yuliana, Operating costs and profitability to company value
Following hypothesis testing, the first finding shows that statistically variable operating costs significantly affect company value; this follows the hypothesis that the author has proposed, namely, operating costs have a substantial effect on company value. Operating expenses to operating income compares operating costs and active income. The lower the ratio of operational expenses to operating income, the better the management performance because it is more efficient in using resources (Fauji et al., 2022; Hamzah et al., 2022; Safitri et al., 2021).

The second finding in this study shows statistically, profitability has a significant effect on the value of the company. This follows the hypothesis the author proposed; the theory is accepted. The profitability ratio is used to measure or assess the ability of a company to seek profit. This ratio also provides a measure of the level of effectiveness of a company’s management as indicated by profits generated from various banking products and investment income, and the point is that the use of this ratio shows the company's efficiency. Profitability ratios can be used by comparing various components in the financial statements, especially balance sheets and profit and loss (Gu et al., 2024; Gu et al., 2023; Gunawan et al., 2022). Ratio analysis is a ratio to measure the company’s ability to meet Long-term liabilities of the company, besides profitability is a ratio used to measure the company’s ability to generate profits generated from sales (Noordiatmoko, 2020).

The third finding in this study shows that simultaneously the variables of operating costs and profitability have a significant effect on company value. The bank's efficiency level in its operations affects its income or earnings. If operational activities are carried out efficiently (in this case, the ratio of operating costs to operating income is low), then the revenue generated by the bank will increase. In addition, the high proportion of operating expenses to operating income is also due to the high cost of funds raised and the low-interest payment from investment (Fauji et al., 2022; Muthusamy & Kalpana, 2019; Riadi, 2018). At the same time, profitability is the net result of various policies and decisions, where this ratio is used as a measure of the company’s ability to profit from every rupiah 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, including reinvestment assets, equity, profit margin ratio, and basic earnings, are often used as 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 the success of management in generating maximum profit for the company (Hariyanto, 2022).

4. CONCLUSION
From our research and discussion results, the author drew a conclusion for the first hypothesis, showing a significant influence of operating costs on company value. The second hypothesis suggests the substantial effect of profitability on the company's value. Then the third hypothesis is that operating costs and profitability variables can simultaneously affect the company's value. Policymakers can leverage these findings to develop policies that facilitate access to financing, encourage initiatives to increase corporate value and promote a liquid market environment. For companies the management of food and beverage companies should be able to maintain optimal profit income from the current period to the next period. Because the profits obtained can increase the value of the company. For investors, investors should not judge the company on the size of the debt owned but must pay more attention to how the company's ability to manage funds derived from debt added value for the company, For companies, companies should be able to supervise the management of assets owned, so that the profits generated can have a major effect on increasing company value. For investors, it is better to pay attention to how the company manages the assets owned when investing because good asset management will benefit the investor. The authors hope this research can theoretically contribute to this context's financial and banking management literature.
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Sheila Yuliana, Operating costs and profitability to company value


