The Effect Of Profitability, Liquidity, Capital Structure And Investment Decision On Company Value

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Abstract. This study aims to prove the effect of profitability, liquidity, capital structure and investment decisions on firm value. A manufacturing business in the food and beverage sector that was listed on the Indonesia Stock Exchange (IDX) for the years 2018 through 2020 served as the sample in this study. The sampling technique used was purposive sampling and a sample of 95 was obtained which met the criteria. The analysis technique used is multiple regression analysis. Disclosure of company value in this study is measured by PBV (Price to Book Value). Based on the study's findings, it can be said that while liquidity has little bearing on business value, profitability, capital structure, and investment decisions do.

Keywords :firm value, profitability, liquidity, capital structure, investment decisions

Introduction

A company that runs a business certainly has a number of goals to be achieved by its managers. Entrepreneurs want to get the most out of their business. Because every company owner wants the capital invested in his company to flow back quickly[11]. The company's main goal is to make a profit by running its business, the company does not only have the goal of making a profit, The company's objective is to raise the company's worth. According to [8], according to investors' perceptions the success of a company is how successful it is in managing company resources. The high value of the company will attract investors to invest their capital.
The value of the company is very important, the high share price will be followed by an increase in the value of the company. The high value of the company is the desire of the company owner, because the high value of the company shows the wealth of the shareholders is also high [3]. Companies with high value certainly have many advantages for the company itself, one of which is easy access to financing through the capital market or financial institutions, or the company gets a high selling price if the company is sold or merged. [4].The firm's value, which investors consider to be the company's top priority, is a representation of the company's health and serves as an illustration of excellent or bad company performance. Several factors, including profitability, liquidity, capital structure, and market conditions, can affect the value of a firm.

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Profitability is something that can be used to find out how a company has the ability to generate profits from the company's performance in a certain period. The greater the profitability generated by its commercial activities, the welfare and prosperity of investors will be maintained because they get returns that are commensurate with the investments made (Purnama et al, 2021).Profitability and corporate value are connected because the more a firm tries to increase earnings, the more valuable the company becomes. [4] argue that profitability has a positive and significant influence on firm value.

The second element that influences a company's value is liquidity. The speed at which assets can be turned into cash without losing value is known as liquidity.Liquidity is often understood to refer to a company's capacity to make immediate payments or meet short-term financial obligations. The relationship between liquidity and a company's worth is that it increases as liquidity increases [9]. [15] argue that liquidity has a positive influence on firm value.

Capital structure is the third factor that affects the value of the company. The mix or mixture of debt, preferred shares, and common shares that a firm needs for its capital structure is known as the capital structure. According to capital structure theory, corporate policy is utilized to set the capital structure (debt-equity mix) in order to maximize firm value. Capital structure is related to company value because the good and bad of a company's capital structure can affect the company's financial condition in such a way that it affects company value [15]. [1] states that capital structure has a positive influence on company value.

The last factor is the investment decision. Investment decisions refer to the allocation of funds by financial managers to investment companies in order to provide benefits in the future. Investment decisions are long-term in nature, so it is important to consider long-term risks when making investment decisions. Investment decisions are related to company value, because if the company's investment management is going well and can generate profits through the efficient use of resources, the company can gain the trust of investors, so that it can increase company value (Putri, 2020). Putri (2020) found that investment decisions have a positive effect on firm value.

This study focuses on manufacturing firms that will be listed on the Indonesia Stock Exchange (IDX) between 2016 and 2020 in the food and beverage consumer goods industry subsector. The success of a company's management is seen from the company's value, if the company's value is high, it can increase the trust of shareholders and the fulfillment of the welfare of shareholders is a reflection of the high value of the company [15]. This study seeks to ascertain how profitability, liquidity, capital structure, and investment choices affect firm value in this manner.

Literature Review

Signaling Theory

Spence (1973) put forward the first time about signal theory which explains that one or more signals in the form of information sent by the owner of the information can reflect the state of the company, which is beneficial for Beneficiaries (Investors): According to Brigham Houston

(2011), signal theory describes management's perceptions of future growth of the company, which will affect how potential investors respond to the company.

IInformation is a signal that explains management's efforts to meet the wishes of the owner. In making decisions, information is the main indicator for investors and business people. Signal Theory Explains why companies try to disclose financial reporting information to external parties (Putri, 2020).

Profitability's impact on a company's value

Profitability is the prolonged maintenance of a company, because profitability evaluates the extent to which a company has good prospects for the company in the future [1].
Profitability has a positive effect on firm value. High company value has high profits. The high profit will be followed by an increase in the value of the company.Because the company has promising future possibilities and can generate significant profits, investors view high profitability as a positive indicator [2].
H1 :Positive effects of profitability on firm value

The Effect of Liquidity on Firm Value

It can be said that companies that have good liquidity generate good returns from investors. The greater the liquidity, the more effectively the business can raise money to pay dividends to its shareholders [15]. Liquidity has a positive effect on goodwill because the more companies are able to pay off debt, the better the goodwill.
H2: Liquidity has a positive effect on firm value

Capital Structure's Impact on Firm Value

Because the benefits and drawbacks of the capital structure directly affect the company's financial health, which in turn affects the value of the firm, the capital structure has the ability to cause the company anxiety[15].
Capital structure has a positive effect on the value of a company. The higher the level of well-managed capital structure, the greater the value of the company. It can be said that the capital structure (DER) has a significant positive effect, meaning that an increase in debt increases the value of the company in the hope that there will be an increase in income, so that profits will increase, so that the company can increase dividends. By attracting investors to invest, because high company value will increase company value, investor interest will lead to the perception that profits will be high [14].
H3: Capital structure has a positive effect on firm value

The Influence of Investment Decisions on Firm Value

Investment decision is a decision made by a manager regarding the allocation of assets from various assets for income or profit in the future. The better the investment decisions taken by a company, the more profit the company can get through the efficient use of company resources, therefore the company gains the trust of potential investors to buy shares, thus increasing the demand for the company [16].

H4: Investment decisions have a positive effect on firm value

Research methods

Samples and Data

Manufacturing businesses in the consumer goods industry's subsector of food and beverage from 2016 to 2020 make up the study's population and sample. The data is taken from the company's financial reports through the official website of the Indonesia Stock Exchange (IDX), namely idx.co.id. The sampling technique used in this study was purposive sampling. Based on the sample criteria selected in this study, 95 data were collected. In this study the data analysis technique used was the classical assumption test and multiple linear regression tests.

Operational Definition and Variable Measurement

The value of the company

Firm value is proxied in PBV in this study [11].

$$\text{PBV} = \frac{Harga\ Per\ Lembar\ Saham}{Nilai\ Buku\ Per\ Lembar\ Saham} \qquad (1)$$

Profitability

Profitability is proxied in The study's return on assets (ROA)[10].

$$\text{ROA} = \frac{Laba\ Bersih}{Total\ Asset}\ X\ 100\% \qquad (2)$$

Liquidity

Liquidityproxied using the Current Ratio (CR) in this study [10].

$$\text{CR} = \frac{Aktiva\ Lancar}{Pasiva\ Lancar}\ X\ 100\% \qquad (3)$$

Capital Structure

Debt to Equity Ratio (DER), used in this study, serves as a proxy for capital structure [11].

DER =$\frac{Total\ Hutang}{Total\ Ekuitas}\ X\ 100\%$

(4)

Investation decision

Investment decisions are proxied by the Price Earning Ratio (PER) in this study[7].

PER =$\frac{Harga\ Saham}{EPS\ (laba\ per\ lembar\ saham)}$

(5)

Data analysis

Data analysis of data obtained from observations in the form of numbers that can be measured and obtained from a list of questions. Formula :

$$\boxed{NP = \alpha + \beta 1\ Prof + \beta 2\ Lik + \beta 3\ SM + \beta 4\ KI + e}$$

(6)

Information:

NP :The value of the company

α :Constant

β :Regression coefficient

Prof :Profitability

Like :Liquidity

BC :Capital Structure

KI :Investation decision

e :error

Results and Discussion

Descriptive data analysis

When characterizing study variables, descriptive statistics are used to examine quantitative data in order to present an overview as seen from the average value (mean), standard deviation, variance, maximum, and minimum. As a result, the reader may easily understand it in its context. Table 1 displays the findings of the descriptive statistical analysis.

Table 1. Results of Descriptive Statistical Analysis

	N	Minimum	Maximum	Means	std. Deviation
PROF	95	0.05	59.90	10.2009	10.56116
LIK	95	67.95	1582.23	283.4116	276.82535
BC	95	13.01	275.26	87.0274	62.10079
KI	95	1.60	168.72	30.6517	30.64617
NP	95	0.34	4486.36	196.6132	828.15443
Valid N (listwise)	95				
Source: data analysis					

According to Table 1, NP, or Firm Value, has a mean value of 196.613. Profitability has an average value of 10.2009, then liquidity has a mean value of 283.4116. Capital structure has an average value of 87.0274 and investment decisions have an average value of 30.6517.

Normality test

The normality test results in an Asymp. Sig. (2-tailed) of 0.200 > from a significance value of 0.05, demonstrating the normal distribution of the significance values for the variables in this study.

Multicollinearity Test

In the multicollinearity test the tolerance value produced for the variables Profitability (Prof), Liquidity (Lik), Capital Structure (SM), Investment Decision (KI) is 0.579; 0.590; 0.439; 0.804 meanwhile, the VIF value generated for the variables Profitability (Prof), Liquidity (Lik), Capital Structure (SM), Investment Decision (KI) is 1.726; 1.695; 2.279; 1,244. Based on the multicollinearity test,The inferences made demonstrate that none of the independent variables in the regression equation model exhibit multicollinearity.

Heteroscedasticity Test

The results of the heteroscedasticity test using Spearman show that the variables Profitability (Prof), Liquidity (Lik), Capital Structure (SM), and Investment Decision (IC) have a significance value of 0.642 respectively; 0.771; 0.195 and 0.258. All independent variables have a significance value of > 0.05 so that the conclusions drawn show that there is no heteroscedasticity problem in the regression model.

Autocorrelation Test

the autocorrelation test's findings using Durbin-Watson showed that the resulting Durbin-Watson value was 1.769. After comparing with the results from the Durbin Watson table, it can be determined that dU < dW < 4-dU or 1.733 < 1.769 < 2.267 which indicates that the data does not have autocorrelation.

Analysis of multiple regression

To ascertain how the independent factors affect the dependent variable, multiple regression analysis is performed. Table 2 displays the outcomes of the multiple regression analysis.

Table 2. Multiple Regression Analysis's findings

Model		Unstandardized Coefficients		Standardized Coefficients	Q	Sig.
		B	std. Error	Betas		
1	(Constant)	-3,866	0.604		-6,398	0.000
	PROF	0.379	0.028	0.886	13,416	0.000
	LIK	-0.001	0.001	-0.076	-1,157	0.252
	BC	0.016	0.003	0.427	5,623	0.000
	KI	0.119	0.008	0.818	14,587	0.000

Source: data analysis

The regression equation's constant value is -3.866. That is, the company value is -3.866 if the factors of profitability, liquidity, capital structure, and investment decisions are all 0. The profitability variable's regression coefficient is 0.379, which means that if profitability increases by 1 unit, the variable value of company value will rise by 38%. The firm value variable will decline by 0.1% if firm size is increased by 1 unit, according to the regression coefficient of the liquidity variable, which is -0.001. The capital structure variable's regression coefficient is 0.016, meaning that if capital structure is increased by one unit, the firm value variable's value will rise by 2%. The investment choice variable has a regression coefficient of 0.119, which means that for every unit increase in investment decisions, the company value variable will score 12 times higher. The following is an example of a multiple linear regression equation model:

$$NP = -3{,}866 + 0{,}379\,Prof - 0{,}001\,Lik + 0{,}016\,SM + 0{,}0119\,KI + e$$

Model Feasibility Test

Coefficient of Determination (Adjusted R2)

The adjusted R square value of 0.831 yields the coefficient of determination, which indicates that 83% of the variance in firm value is explained by profitability, liquidity, capital structure, and investment decisions, with the remaining 17% being impacted by other factors that were not included.

Table 3. Coefficient of Determination (Adjusted R2)

Model	R Square	Adjusted R Square
1	0.841	0.831

Source: data analysis

Model Fit Test (F Statistical Test)

The Fcount value is found in the table to be 83.206 with a probability value (sig) of 0.00. Profitability, liquidity, capital structure, and investment decisions all have a significant impact on firm value simultaneously because Fcount (83.206) > Ftable (2.75) and sig. smaller than the probability value of 0.00 or the value of 0.00 0.05.

Table 4. Statistical Test Results F

Model	F	Sig.
Regression	83,206	0.000b

Source: data analysis

Individual Parameter Significance Test (Statistical Test t)

If the value of tcount > ttable or probability (sig value) level of significance (Sig 0.05), then Ha is accepted and Ho is rejected, or vice versa, and the hypothesis is approved. Profitability, liquidity, capital structure, and investment decisions all had sig values of 0.000, 0.252, 0.000, and 0.000, respectively, as shown in table 1. This demonstrates that while liquidity has little impact on company value, profitability, capital structure, and investment choices all affect the dependent variable.

Discussion

Effect of Profitability on Firm Value

Profitability (Prof) has a sign value of 0.000 and a tcount of 13.416 more than a ttable of 1.668, or 13.416 > 1.669. The sig value is less than 0.000 0.05, which is the probability value of 0.05, then Ha is accepted and Ho is rejected. So it can be concluded that partially Profitability has a significant influence on Firm Value.The high profitability for investors is a good signal to invest their shares in the company so that the company's value will increase. The results of this study have similarities with research that has been conducted by Lubis, et al (2017) which says that profitability has a positive effect on firm value becausepositive and significant profitability on firm value reflects company management that has succeeded in maximizing company performance so that profits increase so that there is also an increase in company value.

The Effect of Liquidity on Firm Value

Liquidity (Lik) has a sign value of 0.252 and a tcount of -1.157 less than a ttable of 1.669, or -1.157 1.669. Ha is rejected and Ho is approved when the sig value is higher than the probability value of 0.05, or when a value of 0.252 > 0.05. Therefore, it may be said that Liquidity partly has no discernible impact on Firm Value. Show If capital consists of cash, credit and inventory, this means that the company has idle assets, meaning that the company cannot use capital optimally, hindering growth for its shareholders. To add value to the company, the company must be able to prosper its shareholders.
Research findings also support the findings of this investigation from Fatmawati (2018) which states that problems in liquidation are usually indicated by a low current ratio.

Effect of Capital Structure on Firm Value

The capital structure (SM) has a tcount value of 5.623, higher than the ttable value of 1.669, or 5.623 > 1.669, and a sig value of 0.000. If the sig value, or value of 0.000 0.05, is less than the probability value of 0.05, then Ho is rejected and Ha is approved. Therefore, it can be said that Firm Value is significantly influenced by Capital Structure to a lesser extent. The effect of capital structure on firm value indicates that the increase in firm value is influenced by the high or low capital structure.The results of this study are also supported by the results of research from Gayatri and Mustanda (2014) which suggests that the importance of decisions in determining the capital structure so that it can increase firm value.

The Influence of Investment Decisions on Firm Value

The investment decision (IC) has a tcount of 14.587 greater than a ttable of 1.669, or 14.587 > 1.669 and the capital structure has a sig value of 0.000. The sig value is smaller than the probability value of 0.05, or the value of 0.000 <0.05, then Ha is accepted and Ho is rejected. So it can be concluded that partially investment decisions have a significant effect on firm value. Show thatwhere the company's capital expenditure in optimizing the value of the company is very important. Because this type of investment provides a signal about the future growth of a company's earnings, it can increase stock prices which are used as an indicator of company value. The results of this study are also supported by the results of research from Gayatri and Mustanda (2014) which explain that investment decisions for companies are related to how companies optimize company value where capital outflow activities will greatly affect increasing company value which has an impact on company growth in the future.

Conclusions and recommendations

The findings discussed provide the following conclusions:
(1) Profitability affects firm value
(2) Firm value is unaffected by liquidity.
(3) Capital structure influences firm value
(4) Investment choices have an impact on a company's worth.

The researcher offers ideas for more research based on the findings and consequences discussed above:

1. Re-examine the effect of Liquidity on Firm Value by expanding the research sample from several company sectors.

2. Adding several other independent variables that can affect company value such as Dividend Policy and Company Size.

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