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PROFITABILITY AS THE MAIN DETERMINING FACTOR OF THE FIRM VALUE

PROFITABILITAS SEBAGAI FAKTOR PENENTU UTAMA NILAI PERUSAHAAN

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A B S T R A C T

This research finds out how profitability plays to the firm value, both as a factor that directly affects and also as a factor that can mediate the structure of capital, the growth of the company and the size of the company to the value of the company. The research population is a food and beverage sub-sector company registered in the IDX Period 2015-2019. Using the purposive sampling method, the research sample used 12 companies and there were 60 observed data. This study used regression analysis of panel 2 SLS data. Results show GLS (Generalized Least Square) with Random Effect Model as the best estimates model. Results showed that profitability affects the value of the company while the capital structure, company's growth and size have no effect on the firm value. Profitability can mediate the influence of capital structure and size on the firm value, but profitability does not mediate the influence of a company's growth on the firm value.

Kata Kunci:* *Pertumbuhan, Profitabilitas, Struktur Modal, Ukuran Nilai.

A B S T R A K

Tujuan dari penelitian ini untuk menguji bagaimana peran profitabilitas terhadap nilai perusahaan, baik sebagai faktor yang secara langsung mempengaruhi dan juga sebagai faktor yang dapat memediasi struktur modal, pertumbuhan perusahaan, dan rasio ukuran pada nilai perusahaan. Populasi yang digunakan adalah perusahaan pada sub sektor Makanan dan Minuman yang listing di Bursa Efek Indonesia (BEI) periode 2015-2019. Dengan menggunakan metode purposive sampling, sampel penelitian ini terdiri dari 60 data observasional. Adapun alat analisis yang digunakan adalah analisis regresi data panel 2 SLS. Hasil uji model menunjukkan Model Fixed Effect merupakan model yang fit untuk digunakan dalam menguji pengaruh struktur modal, pertumbuhan perusahaan, dan rasio ukuran terhadap profitabilitas. Hasil penelitian menunjukkan struktur modal, petumbuhan perusahaan dan ukuran perusahaan tidak berpengaruh terhadap profitabilitas. Sementara itu pengujian model terhadap faktor yang mempengaruhi nilai perusahaan, GLS (Generalized Least Square) merupakan model yang fit. Hasil uji menunjukkan bahwa profitabilitas berpengaruh terhadap nilai perusahaan dan profitabilitas dapat memediasi struktur modal, pertumbuhan perusahaan dan ukuran perusahaan terhadap nilai perusahaan. Penelitian ini memberikan bukti pengujian empiris atas firm value theory dan signaling theory.

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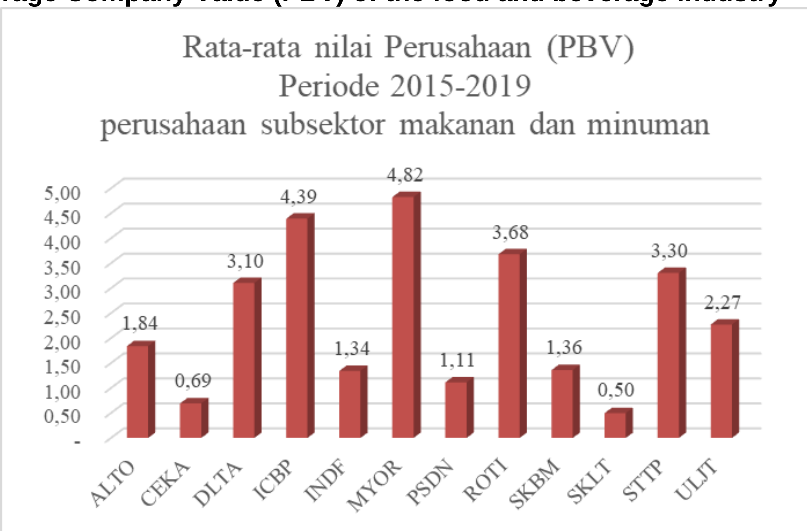
1. Introduction

Profitability shows a company's performance and that performance can create a positive response from investors through an increase in the stock price (Manurung, Suhadak, & Nuzula, 2014). Large profits can make the value of the company higher and make investors dare to invest in the company (Tahu & Susilo, 2017). It is also supported by research (Sucuahi & Cambarihan, 2016) that shows that high profitability can provide an added value for the company. Thus, profitability is considered because of business performance.

Companies in the food and beverage sector that listing in the IDX in 2015-2019 showed fairly good revenue and profit growth. This means that the business prospects of this sector are very good and will certainly affect the value of the company. The third quarter of 2019 still recorded fairly good revenue and profit growth. This shows that the prospects of this business are very good and will certainly affect the value of the company.

Picture 1
Average Company Value (PBV) of the food and beverage industry



Sumber: www.idx.co.id

The achievement of the company's value needs to be supported by the right source of funding. Research (Singh & Bagga, 2019), proves the positive influence of capital structure on the value of the company (Singh & Bagga, 2019), but it is not supported by (Charles & Veronica, 2018) which states the capital structure negatively affects the value of the company. The reduction in interest on debt on the calculation of taxable income will reduce the proportion of tax expense, thus affecting the proportion of net income. The disconnection of the capital structure dynamically affects the value of the company and is an unavoidable part of the shareholders' goal of maximizing wealth. Panellation (Modigliani & Miller, 1958) proves that the value of a company is not influenced by its capital structure. how a company will fund its operations will mean nothing, so the decision of the capital structure is irrelevant to the value of the company. (Maneerattanarungro, 2018).

The company's assets show past decisions of use of funds and are resources that have the potential to provide economic benefits to the company in the future. The growth of the company's assets is a factor that can affect the value of the company (Hestinoviana, Suhadak, & Handayani, 2012). It is also supported by (Astakoni, Swaputra, Harwathy, & Ratini, 2019) which states that the growth of the company has a significant positive effect on profitability (Astakoni, Swaputra, Harwathy, & Ratini, 2019). But (Paminto, Setyadi, & Sinaga, 2016). (The Ministry of Industry, 2019) stated that the growth of the company has a negative and significant effect on the profitability and value of the company. (The Ministry of Industry, 2019) stated that the food and beverage industry became one of the manufacturing sectors that contributed to national economic growth. The achievement of its performance so far has been consistently positive, ranging from its role in increasing productivity, investment, exports to labor absorption. Industry food and beverage nationally able to breakthrough product innovation. This effort is to meet the tastes of domestic and foreign consumers. Implementing industry 4.0, with the use of the latest technology, is considered producing quality and competitive products.

The company describes the smallness of a company. Companies that have a large corporate size have easy access to get external funding, because judging from high sales have better business prospects that show the company is growing than a small company. The size of the company has a significant influence on the value of the company (Estiasih, Yuniarsih, &Muh, 2019). It is also supported (Sondakh, 2019), (Lumapow & Tumiwa, 2017), (Husna & Satria, 2019), (Goh & Simanjuntak, 2017). Larger companies can produce goods at a much lower cost compared to smaller companies. The size of the company also positively affects the profitability of the company (John &Adebayo, 2013), however (Doğan, 2013) concludes that there is no indicative relationship between the size of the company and the profitability of the company. Other results showed that the measure did not have a major impact on the profitability of Sri Lankan-listed manufacturing companies (Niresh & Velnampy, 2014).

Based on the description above, there is a gap in the results of research factors that can affect the profitability and value of the company. The need to prove factors that can affect profitability that impact the value of the company, so that good financial performance can be a good news signal for investors. Thus, research is expected to make empirical contributions in firm value theory and signaling theory.

2. Library Review

2.1 Firm Value Theory

The main purpose of the company, according to the theory of the firm, is to maximize the wealth or value of the company (Salvatore, 2005). Maximizing the value of the company is very important for a company, because by maximizing the value of the company means also maximizing the prosperity of shareholders, which is the primary goal of the company (Tahu &Susilo, 2017). The value of the company is the price that will be paid by prospective buyers if the company is sold (Husnan, 2000). The value of the company is the selling price of a company considered viable for potential investors (Husna & Satria, 2019). The higher the value of the company, the higher the return got, and the higher the return on shares, the more prosperous the shareholders (Husna & Satria, 2019).

2.2 Signaling theory

Signaling theory (Spence, 1973) explains that the sender (owner of information) provides a signal or signal as information that reflects the condition of a company that is beneficial to the recipient (investor). The shareholder view of the company's opportunities in increasing the value of the company in the future, where the information is provided by the company's management to shareholders (Brigham &Houston, 2104). Signaling theory explains why companies have the urge to provide financial statement information to external parties. The company's drive to provide information because there is an information asymmetry between the company and outsiders because the company knows more about the company and the prospects to come than outsiders (investors, creditors). One way to reduce asymmetry information is to give signals to outsiders, one of which is financial information that can be trusted and will reduce uncertainty about the company's upcoming prospects (Jogiyanto, 2013). Thus, the information released by the company has an important meaning to investment decisions. Information presents a description of records and images of the past, present and future for companies and capital markets. Complete and relevant and accurate and timely information is needed by capital market investors as a tool to analyze before deciding on investing.

2.3 Research Hypothesis

Profitability is a metric that shows a business' capacity to generate revenue. Profitability is the ultimate consequence of the various decisions and choices a company takes (Brigham &Houston, 2006). The greater the company's capacity to generate profits, the higher the expected rate of return for investors, increasing the value of the company. In addition, according to Fama and French (1998) in (Dewi & Wirajaya, 2013), stated that the optimization of the company's value which is the company's goal can be achieved through implementing financial management functions, where every financial decision taken will affect other financial decisions and impact on the value of the company.

The company needs more capital because the company does not have adequate capital to meet the needs of customer demand; the company borrows capital, which is a way out to finance and generate customer demand, so that the company can increase the return on fulfillment or sales to customers. This is in line with the signaling theory that positive signals are sent to investors because proper use of debt is a positive signal for investors, where companies can survive despite being funded by debt. It also supports trade-off theory that offsets the benefits and sacrifices arising from the use of debt. According to (Singh & Bagga, 2019), (Charles & Veronica, 2018) stated that the more debt increases, the more profitability increases. Based on the description, the hypotheses that can be formed are:

H_1: There is a positive influence of capital structure on profitability

A company's growth reflects a company's ability to maintain its economic position amid economic growth and the business sector. Higher company growth will increase the value of the company's profitability. The profitability of the company is high because of an excellent strategy, so it becomes a good signal for investors to invest in the company. (Astakoni, Swaputra, Harwathy, &Ratini, 2019) showed that the company's growth (company growth) had a significant positive effect on profitability. Based on this description, the hypotheses formed are:

H_2: There is a positive impact on the growth of companies against profitability

The number of sales generated can increase a company's net income, the increase may be a clue for investors to consider investing in the business. (John &Adebayo, 2013) shows the size of the company affects the profitability of the company. Similarly (Doğan, 2013) shows that the size of the company, both in terms of total assets and in terms of total sales, has a positive impact on the profitability of the company. Based on the description, the hypotheses that can be formed are:

H_3: There is an appositive impact on the size of the company on profitability

The more profits made, the more able the business is to pay dividends, which affects the increase in the company's value. Firm value theory shows the main purpose of a business is to maximize its wealth or value. Research (Manurung, Suhadak, & Nuzula, 2014) provides support for this theory. Similarly (Tahu &Susilo, 2017) show that there is a positive relationship between profitability and stock prices, and high stock prices affect business value. Based on this description, the hypotheses that can be formed are:

H_4: There is an appositive impact on profitability to the value of the company

The source of funds can be sourced through funding through kept earnings, business debt and equity funding. In pecking order theory, raising equity is a last resort for financing. Therefore, internal funds are used first, and when the funds run out, debt is issued, and when it is impossible to issue any more debt, equity is issued. For this reason, the company as much as possible uses kept profit deposition as the main funding because of its small risks and process it quickly in funding operating activities that impact the company's wealth, so that debt and equity as the last alternative in obtaining funding. Pecking order theory proves the company's prospects, risks, and value to investors. It is very important for management to use existing capital to generate better stock value. Research (Bestariningrum, 2015) lends support to this theory that capital structure has a positive and significant effect on a company's value. Thus, the hypotheses that can be formed are:

H_5: There is an appositive impact of capital structure on the value of the company

The company's assets show decisions about the utilization of funds or investment decisions in the past. Assets are defined as resources that have the potential to provide economic benefits for companies in the future. The more assets owned, the better the value of the company in the eyes of stakeholders. This is in line with the Firm value theory that the better the use of the amount of assets owned, to get dividends / wealth generated by the owner of the company. Effective use of assets is reflected through the speed of a company's performance, large amounts of production, labor savings and many other benefits that the company gets. Research (Hestinoviana, Suhadak, & Handayani, 2012) proves this theory that asset growth has a significant effect on the Value of the Company. Based on this description, the hypotheses that can be formed are:

H_6: There is an appositive impact of the company's growth in the value of the company

Companies that can increase total sales can show that they have excellent prospects and can make a profit compared to companies that have small total sales. When a company generates high sales and can operate efficiently, it can affect the company's wealth, which is the responsibility of management in controlling the sales generated. Increased sales are a good signal for investors to invest in companies that investors believe the size of large companies to be a guarantee for them to invest in the company. This is reinforced by the results of research (Estiasih, Yuniarsih, &Muh, 2019); (Husna & Satria, 2019) which shows that the size of the company has a positive effect on the value of the company. Thus, the hypotheses that can be formed in this study are:

H_7: There is a positive impact on the size of the company against the value of the company.

The proper use of capital financing from debt and equity sources will cause a profit on the use of this model. For example, the use of debt capital sources in meeting customer demand resulting in large sales to get profits that affect the value of the company. Thus, capital structure decisions have a positive effect on the profitability of the company that can affect the value of the company (Singh / Bagga, 2019), (Sucuahi & Cambarihan, 2016), as well as the better the value of the company's shares, the more investors will glance at the company to be used as an investment place which is also supported by previous research stating that "Profitability is also this menu showing positive influences that show positive influence. Significant to the value of the company, ", so it can be said that the capital structure affects the value of the company through profitability (Sucuahi / Cambarihan, 2016). Thus, the hypotheses that can be formed are:

H_8: There is a capital structure to the value of the company through profitability

Using the right amount of assets can produce various benefits, including savings in production costs. In producing several gassed availabilities can be used by companies to operate at economies of scale and production can be done at a lower cost of goods. So that profitability will increase. Increased profitability will provide an opportunity for the company to increase its assets again in the future to increase investor confidence. Thus, asset growth can provide an opportunity for the company to increase its profitability, which will impact the value of the company. (Hestinoviana, Suhadak, & Handayani, 2012), (Tofu and Susilo, 2017), (Salvatore, 2005). Thus, the hypotheses that can be formed are:

H_9: There is a growth in the company's value through profitability.

The growing level of sales shows the potential market that the company uses to get profit. The level of sales that big will be a guarantee for companies in investing their capital. To achieve a large return on capital, the company must be able to operate efficiently. As the company's profitability increases, it will signal good news for investors about the returns they can expect to also increase. Thus, growing sales provide profitability opportunities for the company that will ultimately affect the value of the company. Based on this, the hypotheses that can be formed are:

H_{10}: There is a measure of the company to the value of the company through profitability

3. Research Method

This is a study of causality. The research population comprises companies engaged in the food and beverage business listed on the Indonesia Stock Exchange. Sampling techniques use purposive sampling techniques, which are sampling methods based on criteria determined by researchers, so that the number of companies that meet the criteria is twelve companies. There are sixty observational data in the study. The data analysis method used in this study was to use regress data panel through 2 Stage Least Square. The research models formed according to the research hypothesis are as follows:

Stage 1 regression equation with profitability variable (ROE) as dependent variable:

ROEit = α + β1DERit + β2GTAit + β3SIZEit + e1 (1)

Stage 2 regression equation with enterprise value variable (PBV) on dependent variable:

PBVit = α + β1ROE1it + β2DER2it + β3GTA3it + β4SIZE4it + e 2 (2)

Table 3.1
Variable Measurement

Variable	Measurement Methods	Scale
Firm Value	$PBV = \frac{MPS}{BPS}$	Ratio
Capital Structure	$DER = \frac{Total\ Hutang}{Total\ Ekuitas}\ x\ 100\%$	Ratio
The Company's Growth	$GTA = \frac{\text{Total Asett - Total Aset t}-1}{\text{Total Aset t}-1}$	Ratio
Company Size	$\text{Size} = \text{Ln Total Penjualan}$	Nominal
Profitability	$ROE = \frac{\text{Laba Setelah Pajak}}{\text{Modal Sendiri}}$	Ratio

Source: processed data (2021)

4. Results and Discussions

The best model test results for predicting a company's profitability and value are outlined as follows:

Table 4.1
Hasil Uji Pemilihan Model

Testing	Profitability Dependent Variables (ROE)	Firm Value Dependent Variable (PBV)
Chow Test	rho > 0.5	Data *Generalized least squares* (GLS)
	0.79162744 (FE)	
***Lagrange Multiplier* (LM) Test**	Prob > chibar2	
	0.0006 (RE)	
Hausman Test	Prob > chi2	
	0.000 (FE)	
Selected Models	*Fixed Effect*	*Random Effect*

Data source: Data Seconder processed (2021)

Based on the results of the classical assumption test and the best model selection test for profitability dependencies (PBVs) is Generalized least squares (GLS). This is used because of the occurrence of heteroscedasticity and Autocorrelation. So that treatment is done using generalized least squares (GLS) as the best estimate according to (Gujarati, 2012) and also (Sarwoko, 2015). Meanwhile, the panel data estimation model selected for profitability dependent variables (ROE) is a fixed effect.

Table 4.2
Hypothesis Test Results

Independent Variables	**Profitability Dependent Variables**		**Company Value Dependent Variables**		**Dependent Variables of Company Value through profitability**	
	Koef.	p>t	Koef.	p>t	Koef.	p>z
ROE			0.073	0.002		
DER	0.008	0.701	0.006	0.167	-0.008	0.008
GTA	0.005	0.938	0.006	0.697	0.006	0.306
SIZE	0.583	0.916	0.188	0.182	0.145	0.039

Source: secondary data processed (2021).

4.1 Effect of capital structure on profitability

The results of the data show that the capital structure policy (DER) has no effect on profitability. Using enormous debts will be a factor in tax savings, so that the profits that will be taxed become small. Debt management that can be managed appropriately on investment opportunities or profitable projects will increase the profit that can be got by the company.

Conversely, large debt funding also poses a risk to the interest that must be covered by the company's income. Thus, the results the trade-off theory that suggests the optimal benefits of debt is a balance between sacrifice and benefits (Kontesa, 2015). When the use of enormous debts there will be high interest costs on loans as well, it will not affect profitability. This shows that increased debt does not increase the profitability of the company (Riski Swastika, 2017).

4..2 Effect of Business Growth on Profitability

The results showed that the growth of the company influenced profitability. The results showed that companies that had a greater increase in assets with the comparison of the previous year (SKBM and SKLT) earned not too much profit compared to CEKA and DLTA businesses by obtaining a fairly small increase in assets but gaining greater profits. There is even a decrease in assets in ALTO i.e., by the sale or release of assets. This is done because the assets owned do not contribute to the profit got. Therefore, the increase in assets greater than the previous year did not affect profitability. This proves that business growth variables do not determine. Profitability (Sunarto, 2009). The results do not support the signaling theory that states that business growth is good information to investors, or investors ignore the information in the company's financial statements that record the growth of the company's assets.

4.3 The effect of firm size on profitability

The results showed that the growth of the company influenced profitability. The results showed that companies that had a greater increase in assets with the comparison of the previous year (SKBM and SKLT) earned not too much profit compared to CEKA and DLTA businesses by obtaining a fairly small increase in assets but gaining greater profits. There is even a decrease in assets in ALTO i.e., by the sale or release of assets. This is done because the assets owned do not contribute to the profit got. Therefore, the increase in assets greater than the previous year did not affect profitability. This proves that business growth variables do not determine. Profitability (Sunarto, 2009). The results do not support the signaling theory that states that business growth is good information to investors, or investors ignore the information in the company's financial statements that record the growth of the company's assets.

4.4 The Effect of profitability on firm value

Research data shows that profitability can affect the value of the company. The company's ability to generate profits becomes a guarantee for investors because it can maximize shareholder prosperity. The results are supported by (Tahu & Susilo, 2017) there is a relationship between profitability and company value. Thus, the results of research (Manurung, Suhadak, & Nuzula, 2014), that increased profitability will affect increasing the value of the company. Thus, the results the theory of the firm that maximizing wealth and firm value is the point of purpose for a business (Salvatore, 2005).

4. 5 Influence of Capital Structure on firm value

Research data shows PSDN has a greater proportion of debt sources compared to the proportion of equity, but DLTA which has a low debt composition, actually has a higher share price. This shows that the amount of debt does not affect the value of the company. (Maneerattanarungro, 2018) states that debt financing does not determine firm value. This research does not support a pecking order that states that the prospect, risk, and value of the company will affect investor opinion, the better the use of sources of funds from both debt sources and equity can increase the value of the company. This research shows that food and beverage company stock investors do not make the capital structure as a benchmark for making their investments. However, investors see external factors that can affect stock prices such as tax regulation, interest rates, protection of investor rights or other factors such as politics, rumors that develop (hoaxes) or disease outbreaks such as the current Coronavirus pandemic.

4.6 The Effect of The Company's Growth on firm value

The results of the data showed that ICBP which has a lower asset increase than Subbu ICBP actually has a better share price than SKBM. This shows that high asset increases do not affect the company’s value (Paminto, Setyadi, & Sinaga, 2016). This research does not support the theory of the firm, which states that the right asset management owned, the greater the profitability, so that the greater the ability of the company to provide a rate of return for investors. This research states that investors do not make growth as a benchmark to make their investments. Investors do not focus on the asset growth information that is on the financial statements, but investors pay more attention to how price movements that occur at the time of investment decisions will be made or rely more on technical analysis than on fundamental analysis.

4.7 Influence of Firm Size on Firm Value

B it-scale businesses get low risk when compared to small businesses. Basins is great while being able to face economic competition and also able to control it. But the results of the data showed the total sales of this company could not affect firm value. MYOR companies that have lower sales than INDF actually have a better stock price. Therefore, high sales do not affect the company. The results provide evidence similar to (Siahaan, 2013) that firm size can not determine firm value. Reset also does not support signaling theory that states that firm size can form a positive opinion of a business to investors so that the size of the company can increase firm value.

4.8 The influence of capital structure on firm value through profitability

Increased debt can reduce net income after corporate taxes. It is because of the risk of interest expense on debt that can reduce profits and will also affect the company's wealth. This is clear from the research (Kontesa, 2015). Meanwhile (Sucuahi & Cambarihan, 2016) states that profitability shows a significant influence on stock prices. The results of the data test showed that an improved capital structure would decrease profitability, and this increased capital structure would increase the value of the company. The results order, in that remaking both processing funds sourced from debt and equity can affect the stock price. Investors strongly consider the structure of capital in their investment decisions.

4.9 The Influence of the Company’s growth on firm value through profitability

The results of the data show that an increase in the number of assets does not increase the company's net income and also the company's wealth. Invests as increased fixed assets have the consequence of increasing depreciation expense and asset maintenance expense but will not contribute to the company's net income and also the owner's wealth. The results are in line with (Sunarto, 2009) that business growth has no effect on profitability, and (Hirdinis, 2019) that the value of the company is not affected by profitability. This research does not support the theory of the firm that corporate wealth is the primary goal of the company (Salvatore, 2005).

4.10 Influence of firm size on Firm Value through profitability

The results showed that the size of the business shown through sales and managed by a manager who’s experience in driving profitability to increase the company’s wealth. The results of the study (Babalola & Abiodun, 2013) revealed that profitability can be influenced by the size of the company in the manufacturing business in Nigeria. Similarly, research (Tahu &Susilo, 2017) that the value of the company can be increased through increased profitability. This research is in line with the signal theory that business growth can affect the achievement of profitability and profitability will be a guarantee for investors to invest.

5. Conclusion

5.1 Conclusion

The results showed that the structure of capital, company growth and the size of the company had no effect on profitability. Profitability directly affects the value of the company. Profitability can mediate the influence of capital, the size and growth of the company, on the value of the company. The results of the study provide support for firm value theory and signaling theory.

5.2 Managerial Implications

The company's inflated assets will be good information for investors to invest in. Careful management through capital structure decisions made, effective asset management and sales growth followed by efficiency in operating in increasing the profitability of the company. The profitability of the company will provide a good news signal for the value of the company. This increased profitability will form a positive opinion on the company's prospects from now on.

5.3 Limitations and Suggestions

Research objects include the food and beverage sector, which earned profits during the period 2015 - 2019. For further research, the research can be retested with different research objects and more updated periods.

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