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Influence of Profitability, Financial Structure, and Liquidity on Firm Value in the Food and Beverages Sector 2016-2021 Period

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Abstract

This study aims to investigate the influence of profitability, financial structure, and liquidity on firm value. It employs quantitative research methodology, analyzing numerical data through statistical analysis. Non-probability sampling technique, specifically saturation sampling, is utilized to gather data from 26 food and beverage companies listed on the Indonesian Stock Exchange (IDX) from 2016 to 2021. Data analysis involves multiple linear regression and descriptive analysis. The result reveal that collectively, profitability, financial structure, and liquidity positively impact firm value. Additionally, individually, profitability, financial structure, and liquidity each exhibit a positive influence on firm value.

Keywords: *profitability, financial structure, liquidity, firm value*

Introduction

In the realm of corporate operations, companies strive to achieve multifaceted objectives catering to the interests of both owners and management. These objectives typically revolve around maximizing profitability, enhancing prosperity for stakeholders, and optimizing firm value, as indicated by stock prices. The significance of firm value, especially from an investor's perspective, is underscored by Ernawati and Widyawati (2015), who emphasize its pivotal role in investment decisions.

One prominent tool for assessing firm value is the Price to Book Value (PBV) ratio, which compares market price per share to book value per share. A lower PBV signifies potential undervaluation, making it attractive for long-term investment. However, it's essential to consider the broader context, as a low PBV may also signal declining fundamental performance, as noted by Hery (2016).

Profitability, measured through Return On Equity (ROE), is another critical factor influencing firm value. High profitability indicates robust company performance, attracting both shareholders and potential investors, as highlighted by Brigham and Houston (2012). However, conflicting findings exist regarding the relationship between profitability and firm value, as evidenced by various studies.

Financial structure, represented by the Debt to Equity Ratio (DER), also impacts firm value. A high DER suggests reliance on debt financing, potentially increasing the company's risk profile and affecting stock prices, as illustrated by Hamidy et al.

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(2014). Nevertheless, research outcomes regarding the influence of financial structure on firm value vary.

Likewise, liquidity, assessed through the Current Ratio (CR), plays a crucial role in determining firm value. A high CR indicates better liquidity, potentially enhancing investor confidence, while a low CR may raise concerns about the company's ability to meet short-term obligations, as depicted by Iman et al. (2021).

This study aims to empirically analyze the relationships between profitability, financial structure, liquidity, and firm value using PBV as a measure.

Literature Review

Firm Value

Hery (2016) defines firm value as a certain condition that is achieved by a company, that reflect public trust in the company after going through a process that has been going on several years, from its establishment to the present. Firm value indicates how well a company is performing and the perception of its value in the market. This is a measure that indicates investors and public confidence in the firm's potential to achieve continued success and profitability.

Profitability

Profitability refers to a company's ability to generate profit in relation to its sales, total assets, or equity. Brigham & Houston (2018) state that profitability ratios comprise a group of metrics indicating the combined influence of liquidity, asset management, and debt on operational results. These ratios also measure the effectiveness of a company's management, demonstrated by the profit generated from sales and investment income.

Financial Structure

Sujianto (2013) explains that financial structure encompasses all visible financial sources on the right side of a company's balance sheet. Typically, the financial structure consists of long-term debt, preferred stock, common stock, and current liabilities.

Liquidity

Brigham & Houston (2018) assert that liquidity ratios provide an overview of a company's ability to pay its short-term debts within one year. These ratios illustrate the relationship between cash and other current assets of the company with its current liabilities.

Hipothesis

This hypothesis is developed based on the understanding that various financial factors collectively impact a firm’s value. Profitability, financial structure, and liquidity are crucial aspects that investors consider when evaluating a company's performance and growth prospects. By examining the combined effect of these factors, we can understand their holistic impact on firm value.

H1. Profitability affects firm value in food and beverage companies listed on the Indonesian Stock Exchange from 2016 to 2021.

H2. Financial structure affects firm value in food and beverage companies listed on the Indonesian Stock Exchange from 2016 to 2021.

H3. Liquidity affects firm value in food and beverage companies listed on the Indonesian Stock Exchange from 2016 to 2021.

Methods

Sample and Procedures

The population used in this study consists of food and beverage companies listed on the Indonesian Stock Exchange (IDX) from 2016 to 2021. The population size in this study, as recorded on the official website of the IDX, indicates that there are 26 companies in the food and beverages listed on the Indonesian Stock Exchange (IDX). Data collection is performed using research instruments, while data analysis is quantitative or statistical in nature, aiming to test predetermined hypotheses (Sugiyono, 2016).

Measures

Firm value can be calculated using the following formula:

$$\textit{Price to Book Value}\ (\text{PBV}) = \frac{\text{Stock Price}}{\text{Book Value per Share}}$$

Profitability can be calculated by this formula:

$$\textit{Return on Equity}\ (\text{ROE}) = \frac{\text{Net Income after Tax}}{\text{Total Equity}} \text{ x } 100\%$$

Financial Structure can be calculated by this formula:

$$\text{DER} = \frac{\text{Total Liabilities}}{\text{Equity}}$$

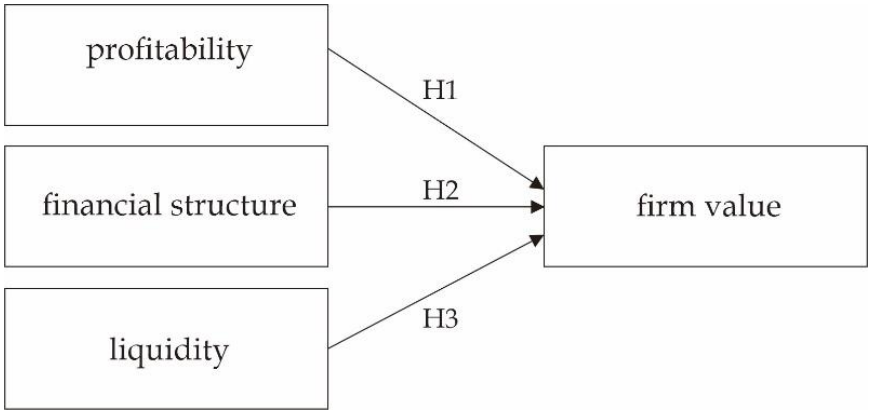

Figure 1. Conceptual framework

Liquidity can be calculated using the following formula:

$$Current\ Ratio = \frac{\boldsymbol{Current\ Assets}}{\boldsymbol{Current\ Liabilities}}\ x\mathbf{100}\%$$

Data Analysis

Data was analyzed using Multiple Linear Regression. The independent variables in this study are Profitability (X1), Financial Structure (X2), Liquidity (X3). The dependent variable in this study is the Firm Value (Y).

Result and Discussion

Result

Classic assumption test

Normality test

As seen in Table 1, the asymptotic significance value is 0.328, which is greater than 0.05. Therefore, it can be concluded that the data are normally distributed.

Heteroscedasticity Test

According to the Table 2, it's evident that the probability value exceeds 0.05, indicating the absence of heteroscedasticity among the variables examined in the study.

Autocorrelation Test

Based on the Table 3, the value of DU falls within the range of DU < DW < (4-DU) or 1,743 < 2,104 < 2,257, indicating that there is no autocorrelation among the variables proposed in the study.

Multicollinearity Test

Based on the Table 5, it can be observed that the tolerance value is > 0.10 or the VIF value is < 10, indicating the absence of multicollinearity.

Goodness of Fit the Model

Coefficient of Determination (R^2)

Based on the Table 3 results, the coefficient of determination (R Square) is 0.459, indicating that the independent variables collectively influence the dependent variable by 45.9%, while the remaining 54.1% is influenced by other variables not included in the research model.

F test

Based on the Table 4 results, multiple linear regression analysis yielded an F value of 36.951 with a significance level of 0.000 (sig. 0.000 < 0.05). Therefore, it can be concluded that the model is fit.

Table 1. Normality Test Results

One-Sample Kolmogorov-Smirnov Test
Unstandardized Residual

N		128
Normal Parameters[a,b]	Mean	.000
	Std. Deviation	.275
Most Extreme Differences	Absolute	.084
	Positive	.043
	Negative	-.084
Kolmogorov-Smirnov Z		.949
Asymp. Sig. (2-tailed)		.328

a. Test distribution is Normal.

b. Calculated from data.

Table 2. Heteroscedasticity Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.236	.067		3.528	.001
	Financial Structure	.067	.041	.151	1.610	.110
	Liquidity	-.052	.051	-.094	-1.020	.310
	Profitability	-.027	.066	-.037	-.410	.683

a. Dependent Variable: ABS_ReS

Table 3. Determination Coefficient and Autocorrelation Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.687[a]	.472	.459	.27785	2.104

a. Predictors: (Constant), Profitability, Liquidity, Financial Structure

b. Dependent Variable: Firm Value

Table 4. F Test Results

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.558	3	2.853	36.951	.000[b]
	Residual	9.573	124	.077		
	Total	18.130	127			

a. Dependent Variable: Firm Value

b. Predictors: (Constant), Profitability, Liquidity, Financial Structure

Table 5. Result of Multiple Linear Regression

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.082	.113		.725	.470		
	Financial Structure	.282	.070	.280	4.035	.000	.881	1.135
	Liquidity	.695	.087	.546	8.016	.000	.917	1.090
	Profitability	.625	.111	.376	5.639	.000	.957	1.044

Dependent Variable: Firm Value

Hypothesis testing

Based on Table 5, the regression calculations can be known as follows:

$Y_{\text{Firm Value}}$= 0.082 + 0.282DER + 0.695CR + 0.625ROE

The results of the multiple linear regression analysis indicate a coefficient B value of 0.282 and a t-value of 4.035 for the Financial Structure variable, suggesting a positive influence on Firm value. This implies that as the Financial Structure increases, the Firm value also increases. The significance value is 0.000 (sig. 0.001 < 0.05), indicating a significant influence. Therefore, the hypothesis stating "Financial Structure has a positive and significant effect on Firm value" is supported.

Similarly, the analysis reveals a coefficient B value of 0.695 and a t-value of 8.016 for the Liquidity variable. This indicates a positive impact on Firm value, suggesting that as Liquidity increases, Firm value also increases. The significance value is 0.000 (sig. 0.001 < 0.05), signifying a significant influence. Consequently, the hypothesis stating "Liquidity has a positive and significant effect on Firm value" is supported.

Furthermore, the analysis shows a coefficient B value of 0.625 and a t-value of 5.639 for the Profitability variable. This suggests a positive influence on Firm value, indicating that as Profitability increases, Firm value also increases. The significance value is 0.000 (sig. 0.001 < 0.05), indicating a significant influence. Therefore, the

hypothesis stating "Profitability has a positive and significant effect on Firm value" is supported.

Discussion

Based on the results of this testing, it is indicated that profitability, financial structure, and liquidity collectively influence the firm value of companies listed on the IDX from 2016 to 2021. This is evidenced by the significance value of the F test, which is 0.000, lower than 0.05. This means the model is fit.

Effect of profitability on firm value

Based on the results of the conducted test, the regression coefficient of profitability measured by ROE obtained a significance of 0.000 with a coefficient of 0.524. The profitability value is less than 0.05 and shows results with a positive coefficient. This means that profitability has a significant positive influence on firm value. Therefore, H1 is supported.

Effect of financial structure on firm value

Based on the conducted test, the regression coefficient of financial structure measured by DER is 0.264 with a probability value of 0.001. The probability value of financial structure shows results less than 0.05, and the coefficient value is positive. This means that financial structure has a significant positive influence on firm value. Therefore, H2 is supported.

Effect of liquidity on firm value

Based on the conducted test, the regression coefficient of the liquidity variable measured by Current Ratio (CR) obtained a probability value of 0.885 with a coefficient of 0.000. The probability value of liquidity is less than 0.05, indicating results with a positive coefficient value. Therefore, H3 is supported.

Conclusion

- ☑ Profitability have a significant effect on firm value in food and beverage companies listed on the Indonesian Stock Exchange (BEI) in 2016- 2021 Period.
- ☑ Financial Structure have a significant effect on firm value food and beverage companies listed on the Indonesian Stock Exchange (BEI) in 2016- 2021 Period..
- ☑ Liquidity have a significant effect on firm value in food and beverage companies listed on the Indonesian Stock Exchange (BEI) in 2016- 2021 Period.

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