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The Effect of Profitability, Liquidity, Firm Growth and Firm Size on Firm Value (Emperical Study on Manufacturing Companies Listed on the Indonesia Stock Exchange for the 2019-2021 period)

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ABSTRACT: *The purpose of the study was to determine and analyze the effect of profitability, liquidity, firm growth and firm size on firm value in manufacturing companies listed on the Indonesia Stock Exchange in the 2019-2021 period. Sampling was carried out using purposive sampling technique based on the criteria determined by the researcher, so the number of samples in the study was 75 companies. The data analysis technique used is descriptive statistical analysis, classical assumption test, multiple regression analysis and hypothesis testing using the SPSS version 26 program.* The results of this study indicate that profitability and liquidity have a significant effect on firm value. Meanwhile, firm growth and firm size do not significantly influence firm value

Keywords: *Profitability; Liquidity; Firm Growth; Firm Size; Firm Value*

I. INTRODUCTION

Current economic growth affects the life of the country's population and affects the welfare of the people. One way to improve the Indonesian economy is through investment. This method is also an effort by the government and companies to encourage Indonesia's economic growth. The higher the profit a company generates, the more valuable the company is and the more shareholders are interested in investing.

In principle, every company should have a goal. This goal can be categorized as a short term, the company aims to maximize current profits and increase the value of the company in the long term. When the value of the company increases, so does the value of its shareholders. This is indicated by a high rate of return on investment for shareholders (Pratiwi, 2018). Companies listed on the Indonesia Stock Exchange (IDX) hope that the price of the shares they sell has a high price capacity and will attract investors to buy. The higher the share price, the more valuable the company is. The value of a company is measured by PBV (high price-to-value) which is the aspiration of the company owner and the company's goal so far is to increase the wealth of its shareholders.

Value for investors is also reflected in the share price, which reflects the value of the company. The value of a business is the price that buyers usually pay when the business is sold (Suryanto et al, 2021, p. 9). One of the most important metrics for investors when evaluating the future prospects of a profitable company is more likely to generate higher returns and increase shareholder value if management manages company resources well.

The size that affects the value of a company is also the level of liquidity of the company. A company is

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said to be liquid if its current assets are greater than its current liabilities. This liquidity indicator allows investors to know that a company can meet its short-term obligations. This is in accordance with Anggraini (2020) which states that the more liquid a company is, the more valuable it will be because its obligations can be guaranteed by the company's current assets.

Company growth is also an important factor in company evaluation. According to Suwardika and Mustanda (2017), company growth is an indicator of economic growth and the company's ability to maintain its economic position in its business sector. The research results of Parta and Sedana (2018) explain that company growth has a large positive impact on company value.

Company size is the size of the company which is calculated from total assets, total sales and market capitalization (Agatha & Irsad, 2021). Previous researchers Hendraliany (2019) and Oktaviarni (2019) showed that company size has a negative effect on company value.

Based on the background that has been described, the researcher is interested in conducting research entitled "The Effect of Profitability, Liquidity, Firm Growth and Firm Size on Firm Value (Empirical Study on Manufacturing Companies Listed on the Indonesia Stock Exchange for the 2019-2021 period)).”

II. LITERATURE REVIEW

2.1 Signaling Theory

Brigham and Houston (2019, p. 499) state that signal theory is a management indicator that provides clues to investors about how a company views its prospects. In other words, it is a shareholder's perspective on a company's ability to increase shareholder value in the future as information is conveyed to them by management. According to Paramitha Parta and Sedana (2019), signal theory is a management action to provide direction to investors regarding management's view of the company's prospects.

2.2 Agency Theory

Agency theory is a theory commonly used by researchers when studying corporate entities and is usually also related to economics. There are several main problems posed by this theory. In other words, shareholder control over management. Costs associated with agency relationships, avoid and minimize agency costs. This relationship can motivate individuals to achieve harmonious and good goals. This theory describes the contractual relationship between principal and agent. The principal is the party giving instructions to the other party, and the agent is the person making decisions on behalf of the principal.

2.3 Profitability

Profitability is a ratio to assess how much a company's ability to gain profit or profit. This ratio also provides a measure of the effectiveness of a company's management. This is shown by the profit earned from sales and investment income (Kasmir, 2016: 196). Profit or profit is a very important element in creating company value which can show the continuation of the company to survive in the future. Based on the theory of profit or profit signals obtained by the company will be a signal from management to show the prospects of a company which can be seen based on the level of profit or profit obtained by the company. Profits or profits earned by the company will directly impact the value of the company which can be seen from the price of the company's shares on the stock market. The greater the profit earned by the company, the higher the profit for shareholders to get dividends. Based on this description, the proposed hypothesis formula is as follows:

H1: Profitability has a significant positive effect on firm value.

2.4 Liquidity

Liquidity is a company's ability to meet obligations in the short term or that must be paid immediately (Sumarni and Soeprihanto, 2014: 331). If a company is able to fulfill its obligations, then the company is said to be liquid. However, if the company cannot fulfill its obligations, then the company is said to be illiquid or illiquid. High liquidity can minimize a company's failure to fulfill its obligations to creditors. So that it can influence investors to invest their capital. The higher the company's liquidity indicates that the company's risk of debt is low. This means that the company is at a safe or good level from the possibility of failure to pay current liabilities, but an impact will appear where the company's value is in a low position.

H2: Liquidity has a significant effect on firm value.

2.5 Firm Growth

Companies with good asset growth are companies that are able to manage resources to generate profits so that they can increase the company's sales assets. Growth (growth) measures how far the company places itself in the overall economic system. The company's growth describes the benchmark of the company's success. This success is also a benchmark for investment for future growth. The company's growth can be shown from the growth of the company's assets. The information provided by the company about the company's growth will be responded positively by investors. From an investor's point of view, The high growth rate of a company shows that the company has a profitable aspect so that investors are interested in investing so that the stock price will increase and the company value will also increase. Based on this description, the proposed hypothesis formula is as follows:

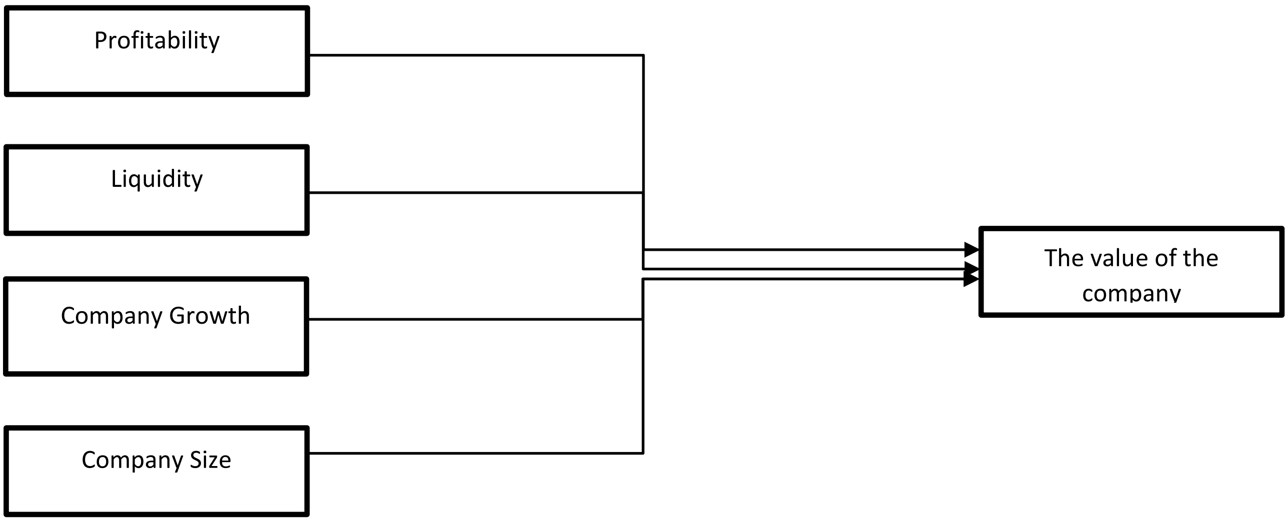
H3: Company growth has a positive and significant effect on firm value.

2.6 Firm Size

Company size can be seen from the total assets owned by one company. Large company size reflects that the company is experiencing good development and growth thereby increasing the value of a company. Increased company value can be indicated by the company's total assets which have increased and are greater than the amount of company debt. According to Pratama and Wiksuana (2016) company size can be seen from the size of the company's ability to manage its assets properly. If the total assets in the company are high, this will attract investors to invest their shares. When the stock price rises, it will affect the value of the company. The results show that large company size guarantees high company value, because large companies may dare to make new investments related to expansion, before their obligations or debts have been paid off. Based on this description, the proposed hypothesis formula is as follows:

H4: Firm size has a positive and significant effect on firm value.

The framework of thought in this study is presented as follows:



III. RESEARCH METHODOLOGY

This research is a quantitative research. The population in this study are manufacturing companies listed on the IDX in 2019-2020. The sample in this study was taken using a purposive sampling method with the following criteria:

1. Manufacturing companies listed on the IDX in 2019-2021.
2. Manufacturing companies that publish financial reports consecutively for the 2019-2021 period.
3. Manufacturing companies whose financial statements are presented in rupiah.

Manufacturing companies that did not experience losses during the 2019-2021 periodBy using this sampling method, the samples used in this study were 225 companies for 3 years. For data analysis, researchers used multiple linear regression analysis using the SPSS 26 program.

IV. DISCUSSION

Research result

Table of Multiple Linear Regression Analysis Test Results

Variable	Regression Coefficient	tcount	*Sig*	Ket
Constanta	5,785	1.129	0.260	
Profitability	1.037	4,984	0.000	H1 is accepted
Liquidity	-0.810	-2,773	0.006	H2 is accepted
Company Growth	-0.158	-0.159	0.874	H3 is rejected
Company Size	0.018	0.104	0.918	H4 is rejected
R2 = 0.127		Fcount =	7,994	
Adjusted R2 = 0.111		Sig =	0.000	

Source: Processed data, 2023

The model of this research is:

PBV = 5.785 + 1.037 PROF – 0.810 LIQU – 0.158 GROW + 0.018 SIZE + ε

Discussion

Profitability EffectAgainst Company Value

Based on the t test performed, it obtained a $t_{count} > t_{table}$ profitability of 4.984 > 1.97190 and a significant value of 0.000 <5%, so that H1 is accepted, which means that profitability affects firm value. In this study, profitability is measured using Return on Assets by comparing profit after tax with total assets. And the negative direction means that the smaller the profitability, the smaller the company value obtained. The company has a profitability that is not high enough so that the company can improve its performance which results in a decrease in the level of company value. Companies that succeed in increasing profitability every year will attract the interest of many investors. Investors will trust companies that are able to generate large profits because the returns are low, so this is a negative signal for investors from the company. This situation will be used by company managers to obtain sources of capital in the form of shares. The results of this study are in line with research conducted by Bagaskara (2021) and Dewantari (2019) that profitability affects company value.

The Effect of Liquidity on Firm Value

Based on the results of testing the second hypothesis, the results of the t test obtained a $t_{count} > t_{table}$ of liquidity of -2.773 > -1.97190 and a significant value of 0.006 <5%, so that H2 is accepted, which means that liquidity affects firm value. This can be interpreted that the higher the liquidity, the firm value will decrease. Information about liquidity is responded to and considered by investors and external parties in assessing a company's financial performance. Sawir (2005) states that a low current ratio can have an impact on decreasing the company's stock price, but if it is too high it can reduce the company's profit ability due to the large number of idle funds. The existence of uncollectible accounts and inventories that have not been sold can cause a high current ratio. If this dominates other components of current assets, of course this will have an impact on the company's current ratio which will be high and it will appear as if the company is in a liquid condition. The results of this study are in line with research conducted by Widati (2022) and Uli (2020) which state that liquidity has an effect on firm value.

Effect of Company Growth on Firm Value

Based on the results of testing the third hypothesis, the results show that company growth has no effect on firm value. This is evidenced by the results of the $t_{count} > t_{table}$ variable for company growth of -0.159 < -

1.97190 and a significant value of 0.874 > 5%, so H3 is rejected, which means that company growth has no effect on firm value. This means that if the company's growth increases, it will reduce the value of the company. This means that the faster the growth of the company will result in a decrease in the value of the company. this can happen if the sooner the greater the funds that must be available for company investment, both funds originating from within the company and outside the company. In this position the company is in a developmental condition that requires more funding so that profits generated from the company's operations will be used for re-investment not for dividend payments to investors (Suwardika and Mustanda, 2017). These activities will receive a negative response from the shareholders resulting in a decrease in the company's share offering in the capital market. The results of this study are in line with research conducted by Adfentari (2020) and Anggara (2019) which state that company growth has an effect on company value. 2017). These activities will receive a negative response from the shareholders resulting in a decrease in the company's share offering in the capital market. The results of this study are in line with research conducted by Adfentari (2020) and Anggara (2019) which state that company growth has an effect on company value. 2017). These activities will receive a negative response from the shareholders resulting in a decrease in the company's share offering in the capital market. The results of this study are in line with research conducted by Adfentari (2020) and Anggara (2019) which state that company growth has an effect on company value.

Effect of Firm SizeAgainst Company Value

Based on the results of testing the fourth hypothesis, the results of the t test obtained a $t_{count} > t_{table}$ of firm size of 0.104 < 1.97190 and a significant value of 0.918 > 5%, so H4 was rejected, which means that firm size has no effect on firm value. If the company has large total assets, the management is more flexible in using the existing assets in the company. This freedom that management has is proportional to the concern that the owner has over his assets. A large number of assets will reduce the value of the company when assessed from the perspective of the owner of the company. The results of this study are in line with research conducted by Sari (2019) and Hermawan (2019) that company size has no effect on company value.

V. CONCLUSION

This research is a quantitative study with the aim of looking for empirical evidence regarding the effect of profitability, liquidity, company growth, and company size on firm value. The results of this study indicate that profitability and liquidity have a significant effect on firm value. Meanwhile, firm growth and firm size do not significantly influence firm value.

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