Volume 3, Issue 1, September 2021 E-ISSN : 2686-522X, P-ISSN : 2686-5211

DOI: https://doi.org/10.31933/dijms.v3i1
Received: 14 August 2021, **Revised:** 24 August 2021, **Publish:** 15 October 2021

DIJMS
DINASTI INTERNATIONAL JOURNAL OF MANAGEMENT SCIENCE
https://dinastipub.org/DIJMS
editor@dinastipub.org
0811 7401 455

THE EFFECT OF FUNDING DECISION, PROFITABILITY, AND LIQUIDITY IN COMPANY VALUE ON LQ45 MANUFACTURING ISSUERS 2014-2019

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Abstract: The reason for this study is to analyze the effect of funding decisions, profitability and liquidity on firm value in LQ45 manufacturing issuers. Annual data reports of the company from 2014 to 2019 are the data for this study. Sampling of companies using purposive sampling method. From the predetermined criteria, only 8 companies can meet the criteria as research samples. The analytical strategy used in this study is panel data regression analysis and uses the Common Effects model with R2 value of 93.87%. Output of this study to show that fund decision, profitability and liquidity are affecting towards firm value and profitability is the most affecting variable on company value.

Keywords: Firm Value, Funding Decision, Profitability, Liquidity

INTRODUCTION

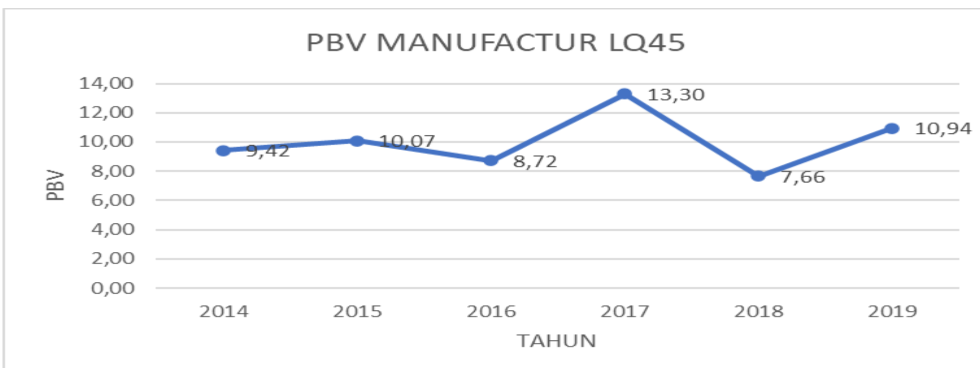
Nowadays, investment development that is booming is investing in the capital market. According to IDX Development Director Fawzi, until May 2020 total of capital market investors who invested their funds in mutual funds, stocks and applications increased by 13% from the initial 2.48 million investors to 2.81 million investors. (investasi.kontan.co.id). Currently, Indonesian capital market has a high ability to participate in the economy because of the current state of the capital market. Based on existing data about the number of investors recorded as of the end of July 2020, it reached 3.02 million.

According to Indonesia Stock Exchange's data, the largest listed issuers are in the manufacturing industry. The manufacturing industry has a fairly large role in development due to the large capitalization of invested capital, large employment absorption, and they also able to create added value from each input or basic material that is processed.

According to the Purchasing Managers' Index (PMI) achievement data for Indonesian manufacturing released by IHS Market, in February 2020 it was in position 51.9 or the highest since 2005 (Kemenperin, 2020), this means that the condition of the manufacturing sector is relatively stable and not easy. affected by the current global economic situation. Even though there is an economic crisis, the smooth running of the manufacturing industry products will still be guaranteed, because the industry is engaged in the basic human field.

To avoid speculation and unexpected losses, investors have to assess the shares to be purchased. Therefore, investors have to predict how much return that could be obtained on their investment by measuring the stock price. Company value summarizes collective assessment investor about company performance, both current performances and future projections (Richard A. Brealey, Stewart C. Myers, 2013)

The phenomena that occur in manufacturing issuers listed on LQ45 shares in 2014-2019 are listed in the following average price book value (PBV) data:



Source: idx.co.id

Picture 1. Average PBV manufacturing LQ45 2014-2019

Based on Picture 1, It’s explained that the Price Book Value (PBV) for 2014-2019 shows a good value, which is more than two. The average value of the PBV ratio of manufacturing companies listed on LQ45 shares in 2014-2019 fluctuated. The instability of the PBV value indicating an Up and down in the company's management, but the state of the stock market value of manufacturing companies is classified as good because it is above the normal value.

However, From the Picture 1, there was a fairly large declining that occurred in 2018 reaching a value of 7.66 and increasing in 2019 by a value of 10.94 (IDX, 2019). The reason of the declining in 2018 was the fluctuation value of the Rupiah, as well as the effects of trade war which made industrial products from China flood in Indonesian market, so that domestic business competition is tougher but public demand is still not strong.

PBV ratio can be used by investors to consider the price of the shares to be purchased, whether the shares are classified as fair, overvalued, or undervalued. In general, this appraisal utilized to comparing price to book value with the estimated stock value and utilizing potential variables that might influence price to book value. Based on the financial statements of manufacturing companies LQ45, average financial ratio which consisted of funding decisions, profitability and liquidity is showing unstable conditions and there was a very large decline in 2018. Increasing in company value will have a good impact on the welfare of shareholders through profits in the form of dividends or capital gains from the their shares (Bahraini et al., 2021)

Based on the exposure to the background, this research empirically examines the effect of funding decisions (DER), profitability (ROE), and liquidity (CR) on firm value (PBV) in LQ45 manufacturing companies in 2016-2019.

LITERATURE REVIEW

Agency Theory

Agency problems are problems that occur between shareholders and managers. In the concept of theory of the firm (Jensen and Meckling, 1976), the company's financial goal, namely increasing firm value by maximizing shareholder wealth, will not be achieved if there is an agency problem. The stock held by the management reflects that everything the management does is to improve the company's performance, make profits, and up increasing the value of the company. By managing ownership, companies do not need agency fees to gain confidence in company management, so these costs can be used to make profitable investments for the company (Endri, 2019)

Signaling Theory

A signal according to (Brigham et al., 2011) is " an activity taken by the company's management that gives enlightening for financial specialists around how management sees the company's prospects"". In this theory, the assessment made by investors can be seen through the company's signals. Profitable companies have a signal that the company has a upper worth and the company is relatively difficult to go bankrupt (financial distress) compared to less profitable companies. The prospect of the company that will continue to increase in the future can be seen by the increasing share price of the corporate. With a positive signal through the judgment of the financial statements, suppositions from interested parties can be impacted.

Stakeholder Theory

The value of the company is based on the theory of stakeholders (Freeman 1983), responsibility of the company is not only on the shareholders, but the company is also responsible for the social environment or can be referred to as social responsibility. The existence of demands from the community causes a phenomenon like this to occur, namely the result of negative externalities that arise and the occurrence of social inequality. Currently the company is not only responsible for the financial statements but must also be responsible for the company's internal and external environment. External and internal parties in question are similar companies, government, workers, institutions outside the company, nd numerous more that can influence the company. With the things that can affect the company, the company must be able to pay attention to the company's environment.

Trade of Theory

The target capital structure used must be understood by every company, namely by balancing the marginal profit and cost of debt, so that value of the company will reach its maximum position (Brigham and Houston 1999). This theory reveals that the use of large debt will create a large shareholder risk (equity) but will increase the expected return.

The value of the company

According to (Indriani, 2019), investors' understanding of the achievement of management in managing company resources and sometimes linking it with stock prices is called company value. (Brealey et al., 2013) stating that the value of the company is an investor's evaluation of the company's current performance and future assessments. PBV is one of indicator can measure the value company. The PBV formula is:

$$PBV = \frac{\text{Market Price}}{\text{Book Value}}$$

Funding Decision

The funding decision shows a comparison of the use of debt and equity used by the company. In this study, funding decisions are measured using the debt to equity ratio. The higher the value of debt to equity obtained by the company, the greater the amount of debt used by the company in obtaining profits. DER formula is:

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

Profitability

Meanwhile, according to (Brigham et al., 2011) , profitability is the final result that is reflected in every operational decision and financial policy issued by the company. By using the profitability ratio, the strength and weakness of the company's financial condition can be known. Investors will invest their funds by buying shares of companies that have profitable and promising conditions in the future. In this way, the stock price will rise and reflect the good value of the company. ROE formula is:

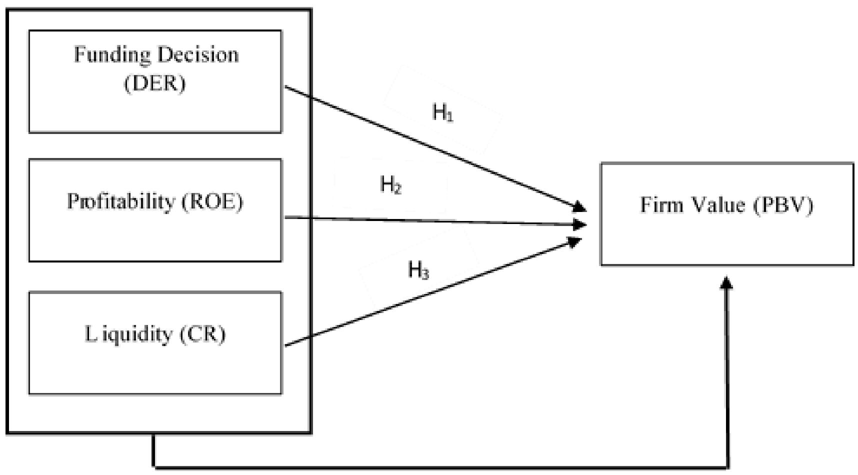
$$ROE = \frac{\text{Profit After Tax}}{\text{Equity}}$$

Liquidity

Liquidity is the obligation of a company to repay debt in the short term. If the company pays attention to its liquidity, because liquidity has a very important role (Owolabi, 2012). Investors assume that companies with good performance are companies that have good liquidity. In this study, the level of liquidity of a company is measured using the current ratio. The formula is:

$$CR = \frac{\text{Current Assets}}{\text{Current Debt}}$$

Framework



Picture 2. Framework
Source: data processed by researchers

The Effect of Funding Decisions on Company Value

One theory that predicts a positive relationship to firm value is the trade-off theory. This theory explains that the value of the company is directly proportional to debt if the capital structure has a position below the optimal point. An increase in corporate debt can be interpreted as a low business risk, it means an increase in debt can give a positive signal because the company can pay its liability in the future (Brigham et al., 2011).

H1: Funding decisions have a positive effect on firm value

The Effect of Profitability on Firm Value

The company's prospects can be illustrated by the presence of signals from the level of profitability and will usually affect the price level and the value of the company. The distribution of dividends made by the company usually refers to the high and low level of profitability it has. Investors will be more interested to investing the companies that regularly provide dividends. With the distribution of dividends, more investors will invest their funds, thereby increasing the value of the company.

H2: Profitability has a positive effect on firm value

Effect of Liquidity on Firm Value

Liquidity ratio lavel owned by the company is directly proportional to the company's ability to pay its liability. Companies with good prospects will be in great demand by investors, one of the characteristics of which is the high liquidity owned by the company. The more investors who invest their funds, the stock price will increase and the value of the company will also increase. (Putra & Vivi, 2016), (Mahendra, 2012) research results suggest that liquidity has a positive effect on firm value

H3: Liquidity has a positive effect on firm value

The Influence of Funding Decisions, Profitability, and Liquidity on Firm Value

Companies with high debt ratios will have high loan capital in order to gain profits for the company. A theory that predicts the positive correlation between capital structure and company value is trade off theory. This theory suggests that the best capital can be determined by balancing the benefits of using debt (the benefits of using tax shields) with the costs of financial distress and agency problems. Increased corporate debt can be interpreted as a low business risk because the company can pay its debts in the future, this situation can be used as a positive signal for investors (Brigham et al., 2011). Profitability is the ability of a company to make a profit. Good company performance can be from a high level of profitability, because companies that have high profitability have good prospects and can affect the increase in company value. Company value will increase if the company regularly distributes dividends, this can happen if the company's profitability is high. With the distribution of dividends, more investors will invest their funds, thereby increasing the value of the company. Companies with good prospects will be in great demand by investors, one of the characteristics of which is the high liquidity owned by the company. As more investors invest in funds, the price of the shares will rise and cause an increase in the value of the company (Putra & Vivi, 2016). (Brigham et al., 2011) argues that high company value will increase the wealth of shareholders, therefore high company value is very important. The hypotheses that can be drawn based on the explanations that have been described are:

H4: Decisions Funding, Profitability and Liquidity effect simultaneously on the Company Value

RESEARCH METHODS

This study uses 3 independent variables, namely funding decisions (X1, DER), profitability (X2, ROE), and liquidity (X3, CR). The dependent variable used is only 1 variable, namely firm value (Y, PBV). In this study, we used data of audited financial statements for a manufacturing company LQ45. Sampling of companies is done by purposive sampling method. The criteria utilized in this research about are manufacture companies that remain in LQ45 shares during the research period, namely 2014-2019. From the predetermined criteria, 8 companies were selected as research samples. The data used in this study comes from the Indonesia Stock Exchange website (www.idx.com).

This research is based on the panel data regression model as an analysis tool, using EViews software to process the research. This research aims to analyze the impact of financing decisions, profitability and liquidity on company value. The stages in conducting the analysis in this study began with descriptive statistical tests, panel data regression analysis methods, classical assumption tests and hypothesis testing.

FINDINGS AND DISCUSSION

Panel data regression model selection

Before analyzing the influence between variables, a regression model was tested to determine the most appropriate regression model used in the analysis of this study.

1. The Chow test produces a probability of 0.3411 which means the accepted common effect model
2. Hausman test produces a probability of 0.1147 which means that the random effect model is accepted
3. Lagrange Multiplier Test produces Prob. Breusch-Pagan (BP) of 0.0997 which means the accepted common effect model

It can be concluded that the common effect model is the most appropriate model for analyzing this pael data regression research, because of the three tests that have been carried out, two of them have produced the same results, namely the common effect model.

Classic assumption test

Since this study adopts the common effects model, this study only conducted two classic hypothesis tests, namely multicollinearity test and heteroscedasticity test.

Heteroscedasticity test

Table 1. Heteroscedasticity test

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.921536	Prob. F(3,43)	0.1404
Obs*R-squared	5.556009	Prob. Chi-Square(3)	0.1353
Scaled explained SS	6.672637	Prob. Chi-Square(3)	0.0831

Source: Data of Research

According to the heteroscedasticity test results shown in Table 1, it can be seen that there are no indications of heteroscedasticity because the probability value of Obs*R-squared is greater than the value of or 0.1353 is greater than 0.05.

Multicollinearity Test

Table 2. Multicollinearity Test

Variance Inflation Factors
Date: 07/22/21 Time: 21:21
Sample: 1 48
Included observations: 48

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	12.24977	26.35808	NA
DER	0.000983	23.05910	9.531633
ROE	0.001784	8.935366	5.591188
CR	9.01E-05	12.25908	2.994924

Source: Data of Research

According to the results of the multicollinearity test in Table 2, it can be seen that each free variable contains a VIF esteem less than 10, so it can be concluded that there are no indications of multicollinearity between the free factors.

Panel Data Regression Analysis

The panel data regression model selection test that has been carried out results in the Common Effect Model being the best model that can be carried out in this study. The following are the results of the common effects model

Table 3. Panel Data Regression Common Effect Model

Dependent Variable: PBV
Method: Panel Least Squares
Date: 07/21/21 Time: 22:51
Sample: 2014 2019
Periods included: 6
Cross-sections included: 8
Total panel (balanced) observations: 48

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-12.67875	3.499891	-3.622612	0.0008
DER	0.084009	0.031355	2.679246	0.0103
ROE	0.366820	0.042241	8.684010	0.0000
CR	0.023259	0.009494	2.449876	0.0183

R-squared	0.938767	Mean dependent var	9.947917
Adjusted R-squared	0.934592	S.D. dependent var	18.46750
S.E. of regression	4.723069	Akaike info criterion	6.022450
Sum squared resid	981.5247	Schwarz criterion	6.178383
Log likelihood	-140.5388	Hannan-Quinn criter.	6.081377
F-statistic	224.8547	Durbin-Watson stat	3.365557
Prob(F-statistic)	0.000000		

Source: Data of Research

Based on the results of the regression analysis of the general effects model, the regression equation can be obtained as:

PBV = -12.67875 + 0.08409DER + 0.366820ROE + 0.023259CR

This equation explains that:

1. The constant C of -12.67875 states that If the value of each independent variable is 0 (constant), PBV (Y) is -12.67875
2. DER regression coefficient of 0.08409 states that If the DER variable increases by one unit, then the PBV (Y) will increase by 0.08409 and vice versa, assuming the variables X2 and X3 are constant.
3. ROE regression coefficient of 0.366820 states that if there is an increase in the ROE variable by one unit, then the PBV (Y) will increase by 0.366820 and vice versa, assuming the variables X1 and X3 are constant.
4. CR regression coefficient of 0.366820 states that If the CR variable increases by one unit, then the PBV (Y) will increase by 0.023259 and vice versa, assuming the variables X1 and X2 are constant.

Simultaneous Significance Test (Test Statistics F)

Simultaneous Significance Test or can be called the F Test is a test to explain the influence of variables simultaneously by looking at the prob value (F-Statistics). The prob value (F-Statistic) is 0.000000 with 5% alpha, p-value less than 0.05. Therefore, this model can explain the influence of the independent variable on the dependent variable. The conclusion is H4 is accepted, meaning that the Funding Decision (DER), Profitability (ROE), and Liquidity (CR) have an impact on the value of the company. (PBV) in LQ45 manufacturing industry issuers.

Test of Goodness of Fit (R2)

In the common effect model regression analysis table, the R-square (R2) is 0.938767 which indicates that 93.87 percent of the PBV variance can be explained by changes in the DER, ROE, and CR variables. The rest are affected by variables other than this regression equation or the variables being studied.

Partial Test

According to Table 3, it can be seen that the influence of each variable X on variable Y is the following:

1. Debt to Equity Ratio (DER), this variable has a positive coefficient value of 0.08409, a statistical t value of 2.679246 and a significance value of 0.0103. The resulting significance value is less than alpha 0.05, so the first hypothesis can be accepted. This means that the variable of the debt-to-equity ratio has a positive and significant impact on the price book value of the manufacturing company LQ45.

2. Return on Equity (ROE), this variable has a positive coefficient value of 0.366820. The t-statistic value is 8.684010 and the significance value is 0.0000. The significance value is less than alpha 0.05, so the second hypothesis is acceptable. This means that the return on equity variable has a positive and significant impact on the price book value of the manufacturing company LQ45.
3. Current Ratio (CR), this variable has a positive coefficient value of 0.023259. the t-statistical value is 2.449876 and the significance value is 0.0183. The significance value is less than alpha 0.05, so the third hypothesis is acceptable. This means that the current ratio variable has a positive and significant impact on the price/book value of the LQ45 manufacturing company.

CONCLUSION AND RECOMMENDATION

Conclusion

1. Funding decisions (DER) have a positive effect in the company value of LQ45 manufacturing industry issuers on 2014-2019.
2. Profitability (ROE) has a positive effect in the company value of LQ45 manufacturing industry issuers on 2014-2019.
3. Liquidity (CR) has a positive effect in the company value of LQ45 manufacturing issuers on 2014-2019.
4. Funding decisions, profitability, and liquidity affect in the company value of LQ45 manufacturing issuers on 2014-2019.

Recommendation

For Investors

1. Investors should be more selective in choosing company shares. As a tool in choosing the right stock, investors can use the company's DER, ROE, and CR values in order to see which company's performance is the best and could provided stock returns as expected.
2. For investors who want to invest, they can choose stocks that are classified as manufacturing companies, because manufacturing companies have a pretty good trend, are stable, and are not easily affected by the current global economic situation. Even though there is an economic crisis, the smooth running of the manufacturing industry products will still be guaranteed because the industry is engaged in the basic human field.

For Companies

1. Rearrange the company's capital structure (capital restructuring) so that financial performance becomes healthier. Companies need to reduce equity so that ROE increases. With the same assets, if equity decreases, debt will increase. The use of debt at the optimal point will increase profitability.
2. In order to increase the liquidity or current ratio, the company can use certain current liabilities to add its current assets and with the increase in current assets, the company can try to reduce the company's current liability.

3. Management must be able to use debt optimally in order to achieve an optimal capital structure.
4. Companies must be more careful in setting policies on capital structure, liquidity, and profitability in order to achieve maximum company value for internal and external parties of the company.

For Further Researchers

The author realizes that there are many limitations in writing this research, such as the limitations of research variables, research samples, research methods, and research time. Therefore, it is recommended for further researchers:

1. Because this study uses variables that are classified as internal variables, then for further research, it can examine the manufacturing industry using macro data.
2. Conducting research on the manufacturing industry and using similar variables but by including the COVID-19 pandemic situation.

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