IOSR Journal of Business and Management (IOSR-JBM)
e-ISSN: 2278-487X, p-ISSN: 2319-7668. Volume 21, Issue 3. Ser. IV (March. 2019), PP 51-56
www.iosrjournals.org

Analysis of Effect Profitability, Liquidity and Solvability to Firm Value

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Abstract: *This study aims to analyze the effect of profitability on firm values, to analyze the effect of liquidity on firm value, to analyze the effect of solvency on firm value, to analyze the effect of profitability, liquidity and solvency on firm value. The research sample is a Plantation Sub-Sector Company listed on the IDX from 2013 to 2016. There are 9 Plantation Sector Sub-Companies that meet the criteria as research samples. The analytical method in this study is path analysis which is the development of multiple regression analysis and panel data analysis. The results of this study indicate that, profitability that partially has a significant positive effect on firm value, liquidity which partially has a positive and not significant effect on firm value, solvability partially has a significant positive effect on firm value profitability, liquidity and solvability both equally influence firm value.*

Keywords: *Profitability, Liquidity, Solvability, Firm Value*

Date of Submission: 05-03-2019 Date of acceptance: 22-03-2019

I. Introduction

Initially long before Europeans came to Indonesia, Indonesia was the largest clove commodity producing region and this was the beginning for Western nations to sail to find spices which caused the Indonesian economy to come alive. Furthermore, during the reformation period, Indonesia experienced a monetary crisis where at the time of the incident, the economy of Indonesia fell and was destroyed. However, it was in this condition that the plantation sector provided the greatest benefit to the perpetrators. Not only did the windfall profit come as a result of the weakening of the rupiah against the dollar. important support for the Indonesian people in facing the monetary crisis.

At present, the plantation industry is the strength and support of the national economy. This is evidenced by the contribution made by the plantation industry to the national Gross Domestic Product (GDP) of Rp. 429 trillion. The income of this plantation sector has exceeded the oil and gas sector. only Rp. 365 trillion. In this case, plantations provide a very important role for the economic fundamentals of the Indonesian people. The form of a plantation business company is divided into 3 large groups of business actors consisting of ± 18% of land owned by the state-owned enterprise (BUMN) plantation sector, ± 60% of land owned by private plantation companies (large / foreign) and the remaining ± 32 % of land is owned by smallholder and small-scale plantation companies.

Growing plantation business in Indonesia is also accompanied by environmental damage issues such as forest fires, habitat destruction from animals or animals and climate change due to the greenhouse effect. These issues are very influential on plantation companies engaged in oil palm plantations because the company must convince the world that their company does not operate the company at all which causes environmental damage and harms others. Furthermore, these issues were rejected by plantation companies by obtaining certificates from national or international institutions or organizations relating to the protection of the environment from the company's operational activities.

Maximizing stock prices is a goal achieved by the company so that the company's value is also maximized. Increased company value is influenced by the company's ability to generate profits (profitability). Profitability can reflect the benefits of financial investment, meaning profitability has an effect on firm value due to large internal sources. The profitability of a company will influence investors' policies on investments made. The company's ability to generate profits can attract investors to invest their funds to attract expand their business, whereas a low level of profitability will cause investors to withdraw their funds. Whereas for the company profitability is the ratio used to measure the evaluation of the effectiveness of the management of the business entity.

Initially company theory was based on the assumption that the purpose of establishing a company is to maximize current or short-term profits. However, based on observations made by companies often companies sacrifice short-term profits to increase future or long-term profits. Because both short-term and long-term benefits are very important, company theory (theory of the firm) often postulates that companies recognize profit maximization as the company's main target. First, the company will make short-term profit maximization. Furthermore, for the long term the company will maximize the expected value. The value of the company does not only depend on the ability of cash flow but also depends on the operational and financial characteristics of the company being taken over. The value of the company can be seen from the selling price of its shares, because investors can judge that the company has high profits or cannot be seen at high prices value of the company is very important because it reflects the performance of the company that can affect investors' perceptions of the company. According to the theory of the firm, the company's main goal is to maximize the value of the firm (Salvatore, 2005). represents the market value of a company's equity plus debt market value.

Profitability ratios also have goals and benefits, not only for business owners or management, but also for parties outside the company, especially those who have relationships or interests with the company. In this study researchers used the ROE ratio to calculate profitability ratios due to ROE. measure the company's ability to obtain profits available to the company's shareholders or to find out the amount of change given by the company for every rupiah of the owner's capital. This ratio is influenced by the size of the company's debt, if the debt proportion is greater, this ratio will also be greater.

Liquidity is related to the company's ability to fulfill its financial obligations which must immediately be fulfilled. The number of payment instruments (liquid assets) owned by a company at one time is the paying power of the company concerned. A company that has the power to pay is not necessarily able to fulfill all its financial obligations which must immediately be fulfilled or in other words the company does not necessarily have the ability to pay. The ability to pay is new to the company if the company has such a large amount of power that it can fulfill all its financial obligations that must immediately be fulfilled. The ability to pay can be known after comparing the power of paying on one party with financial obligations that must immediately be fulfilled on the other. A company that has the power to pay so much that it is able to fulfill all its financial obligations that must immediately be fulfilled, said that the company is liquid, and vice versa who does not have the ability to pay is illiid.

From the understanding of some experts above, it can be concluded that solvency is a financial ratio used to measure a company's ability to fulfill its long-term obligations. Every debt usage (financial leverage) by the company will influence the risk and return. Solvability ratio can be used to see how much the company's financial risk (financial risk). Long-term debt is a debt with a period of more than 1 year. In other words, how much debt burden is borne by the company compared to the assets.

The Securities Exchange is one of the important institutions that operate in providing investment opportunities and funding sources in an effort to support national economic development. Indonesian Stock Exchange also plays a role in efforts to develop local investors to create a stable Indonesian capital market. Seeing the development of the capital market that is associated with global influences, the crisis that hit Indonesia at this time, the increasingly difficult challenges and increasingly unclear prospects of the company, the assessment of the performance of a business entity in the capital market is absolutely necessary.

Based on the background, the main problem to be solved by this research is "Analysis of Effect Profitability, Liquidity and Solvability to Firm Value (Case Study of Plantation Subsector Companies Listed on the Indonesia Stock Exchange for the 2013-2016 Period)".

II. Theoretical Review

2.1 Firm Value

Company value is an investor's perception of the level of success of the company that is often associated with stock prices (Soebiantoro, 2007). High stock prices make the value of the company also high. High corporate value will make the market believe not only in the company's current performance but also in the company's prospects in the future. In establishing a company, the company's goal is to maximize shareholder value. Shareholder value will increase if the value of the company increases which is marked by a high return on investment in shareholders. According to (Soliha, 2002), high corporate value is the desire of the owner of the company, because with high corporate value shows the prosperity of shareholders is also high. To achieve company goals, managers make investment decisions that produce positive net present value.

2.2 Profitability

Profitability is the main ratio in a financial report, because the company's main goal is the result of operations / profits. Profit is the end result of policies and decisions taken by management. The profit ratio will be used to measure the effectiveness of the company's operations so as to generate profits for the company.

Profitability is a net result of a number of company policies and decisions. Profitability measures how much the company's ability to generate profits.

2.3 Liquidity

The term liquidity is one of the economic terms that is often used to indicate the financial position or wealth of a company organization. The level of liquidity of a company organization is usually used as one of the benchmarks for stake-holders in decision making related to the company. is a ratio that is often used to measure how liquid a company is. The way is to compare all components in current assets with components in the current liabilities. Some parties are usually related to the level of liquidity of a company, namely shareholders, suppliers, company management, creditors, consumers, government, insurance institutions and financial institutions. The higher the level of liquidity of a company organization, the better the performance of the company. Companies that have a high level of liquidity are usually more likely to get various kinds of support from outside parties such as financial institutions, creditors and raw material suppliers. The company's liquidity level is usually indicated in the form of certain numbers such as fast ratio numbers, current ratio numbers, and cash ratio figures.

2.4 Solvability

According to Subramanyam (2010) solvency shows the ability of a company to fulfill its long-term obligations. This ratio is used to measure a company's ability to fulfill its long-term obligations. Solvability describes the company's ability to pay its long-term obligations or obligations when the company is liquidated. can be calculated from long-term posts such as fixed assets and long-term debt. To carry out its operations each company has various needs, especially those related to funds so that the company can run as it should. Funds are always needed to cover all or part of the costs required, both short and long term funds. Funds are also needed to expand or expand new businesses or investments. In practice to cover the lack of funding needs, the company has several choices of funding sources that can be used. The choice of funding sources depends on goals, terms, benefits, and so on. Each source of funds has advantages and disadvantages of each.

2.5 Signaling Theory

According to (Soliha, 2001) signals or signals are actions taken by company management that provide guidance for investors about how management views company prospects. Signaling theory explains why companies have incentives to report information to the capital market even though there is no mandate from the regulatory body . Information reporting by management aims to maintain investors who are interested in the company. Signaling theory is prepared based on the assumption that there is asymmetric information between managers and shareholders. Because of the asymmetric information, managers try to signal to investors. The signal must be something that is trustworthy and not easy to imitate or expensive to imitate.

III. Materials and Method

3.1 Types of Research

The type of research in this study uses a comparative method. The comparative research method is research that aims to identify a causal relationship between one or more independent variables and one dependent variable. This method aims to test hypotheses and is a research that describes phenomena in relationships between variables. The main benefit of this research is to analyze profitability, liquidity and solvency as independent variables (free) on firm value as the dependent variable (bound).

3.2 Research sites

The research location used by researchers is the Indonesia Stock Exchange. The location of this research can be accessed through the internet network because the data taken is secondary data that has been processed by the Indonesia Stock Exchange.

3.3 Method of Collecting Data

The method of collecting data used in this study is the method of documentation, namely by collecting, recording and reviewing secondary data in the form of the company's annual financial statements of plantation sub-sectors listed on the Indonesia Stock Exchange and the data used is secondary data so that methods of data collection use methods non-participant observation.

3.4 Multiple Regression Analysis

According to Ghozali (Gujarati, 2005) regression analysis is basically the study of dependent variable dependence with one or more independent variables (independent variables), with the aim of estimating and / or predicting the population average or the average value of the dependent variable based on the value of the known independent variable. The results of the regression analysis are in the form of coefficients for each independent variable. This coefficient is obtained by predicting the value of the dependent variable with an equation (Gozali, 2011). The dependent variable used is the value of the company and its independent variables are profitability, liquidity and solvency.

IV. Research Results and Discussion

4.1 Analysis of the Effect of Profitability, Liquidity and Solvability to Firm Value

The first hypothesis in this study is Profitability, Liquidity and Solvability affect the value of the company. Based obtained Fcount value of 2.93 < Ftable of 2.87 and sig = 0.047 < 0.05, this indicates that simultaneously the independent variables (ROE, CR and DER) have an effect simultaneously on the Firm Value or H_1 accepted. This is reinforced by a common test conducted by researchers where the value obtained is < 0.05.

The composition of debt and capital in calculating the capital structure influences the value of the company, reflected in the stock price. A company will carry out debt policy, especially long-term because the interest payments can reduce corporate tax (tax deductable) so that it can increase profits. If the company is able to take advantage of the debt used in optimizing the company's performance, then a high level of debt will be followed by an increase in assets and sales, this will be a positive thing for investors, so that the company's valuation will continue to increase. When companies are able to manage the funds they get by making loans, the company will be able to generate profits for the company which will lead to dividend distribution. In addition, from its operational activities the company is able to earn profits, all forms of obligations that the company has both short and long term will be fulfilled. From these results it can be concluded that H1 or which means the simultaneous influence of predictor variables on the respondent variables proved to be statistical significance.

4.2 Analysis of the Effect of Profitability to Firm Value

The second hypothesis in this study is that ROE has a positive effect on Company Value. Based the variable X_1 (ROE) has a probability level of 0.01 and smaller than the significance level of 0.05 and the coefficient is positive at 0.019, meaning that the ROE has a significant positive effect on company Value or H_2 is accepted.

High profitability is highly anticipated by companies and investors. A high level of profitability can be seen from the company's net profit that the company is able to run the company well, in gaining profits for the company's operations for the coming year. For companies, high net income can be used company to expand the company, pay dividends both to investors and to employees and also to corporate CSR. This will provide opportunities for companies to get even higher profits in the future where their expansion adds to the company's income, high stock prices because the company is valued well by the market due to companies that can use the resources they have to generate profits. which will later provide welfare to owners and management. . For investors, high profits are good news, because with high profits, the company is considered to be able to survive in a competitive environment. Therefore, profitability is the ratio with the greatest influence on the value of the company. The results of this study have the same conclusions as the research conducted by (Hasibuan, 2016) and (Sedana, 2015) conclude that profitability has a significant positive effect on firm value.

4.3 Analysis of the Effect of Liquidity to Firm Value

For variable X_2 (CR) has a probability level of 0.23 and greater than the significance level of 0.05 and the coefficient is positive at 0.002 means that CR has a positive and not significant effect on the value of the company. The results of this study indicate that CR has a positive and insignificant effect or H_3 is rejected.

From the results of this study it can be concluded that when a company is able to fulfill its short-term obligations, the company is in good condition. When a company is able to fulfill each of its obligations. When a company is unable to fulfill its obligations, this will greatly affect the company's perasional. The company's operations will be disrupted because the capital resources they have are not sufficient to cover all costs incurred by the company in carrying out the company's operations. When a company is difficult to fulfill its short-term obligations, there will be many big question marks from the investor that the independent company is unable to fulfill its short-term obligations, how to provide dividends for the shares they invest and how the stock price can increase if the company does not able to fulfill its short-term obligations. Even if the existing stock price will decline because of this. The results of this study have the same results as the research (Oetomo, 2016). Liquidity has a positive and not significant effect on firm value. Liquidity can significantly increase the value of the company. It can be concluded that investors in assessing a company see its liquidity. can fulfill its short-term obligations with current assets owned.

4.4 Analysis of the Effect of Solvability to Firm Value

For variable X_3 (DER) which has a probability level of 0.031 and smaller than the significance level of 0.05 and the coefficient is positive at 0.005 so it can be concluded that DER has a positive and significant effect on Corporate Value H_4 is rejected

This shows that the higher the solvency possessed by the company is able to significantly increase the value of the company. Because the high amount of capital will increase the trust of the market, causing a rise in the value of the company. Increasing capital will cause an increase in the value of the company, with market responses increasing if there is an increase in capital, then management can exercise control over market valuation, especially in valuing company assets, this valuation will affect how much the value of a company is sold this value will benefit the company. when the asset is sold when needed it will add cash from the company and can be used to cover its long-term obligations. The results of this study have the same results as the research conducted (Wingsih, 2013) which concluded that solvency has a positive and significant effect on firm value.

4.5 Managerial Implications

Based on the results of the analysis and the conclusions of this study, it is expected to provide benefits to the Plantation Subsector Company on the Indonesia Stock Exchange in terms of the influence of profitability, liquidity and solvency. The implications of the benefits of this study are as follows:

1. For plantation subsector companies listed on the IDX that profitability and solvency are important to be considered in order to increase the value of the company. companies can increase company value through sources that can be used by companies as income. High profitability will increase the value of the company, because investors who invest in companies will expect high returns. Companies that have low profitability need to improve their company's performance so as not to reduce investor interest in investing in the company. When the performance of a company is good, investors will catch up on it and they will flock to buy shares of the company and the company will get an injection of funds to continue to develop a good business so that the welfare of investors can be carried out. Companies can improve performance by optimizing the use of capital and debt in order to improve the performance of companies that can increase company profits.
2. High profitability will increase the value of the company, because investors who invest in companies will expect high returns. Companies that have low profitability need to improve their company's performance so as not to reduce investor interest in investing in the company. When the performance of a company is good, investors will catch up on it and they will flock to buy shares of the company and the company will get an injection of funds to continue to develop a good business so that the welfare of investors can be carried out. Companies can improve performance by optimizing the use of capital and debt in order to improve the performance of companies that can increase company profits. Furthermore, a good solvency value will make investors confident that the company is able to fulfill all the company's long-term obligations where the company has a good capital structure and performance so that it is able to fulfill its long-term obligations. When the company has been able to fulfill its long-term obligations, the company is able to process the assets they have so that they have profits that can be used by the company to fulfill the company's long-term activities.
3. A very high level of liquidity will give the opportunity to the company to be valued well by investors because the cash they currently have is able to fulfill all the short-term obligations that arise. But in this case it does not have an impact on the value of the company because when the company has been indebted to meet its short-term obligations, the company is said to be unhealthy because companies usually borrow money to expand the business or expand. Therefore, the company needs to calculate current liabilities that must be paid appropriately so that excess current assets can be allocated and used in the company's operations so that it can increase the value of the company.
4. For companies of similar companies, the results of research on plantation companies listed on the IDX can be used as a comparison, so that they can contribute to the knowledge of financial ratios that are actually very influential to increase the value of the company.

V. Conclusion and Suggestion

Conclusion

This study aims to determine the analysis of the effect of profitability, liquidity and solvency on firm value both partially and simultaneously. In addition, this study also aims to find out whether based on the results of the study it can be concluded as follows:

1. Profitability projected with ROE partially has a significant positive effect on company value projected with PBV
2. The liquidity projected with curent ratios partially has a positive and not significant effect on the company's value projected with PBV

3. Solvency projected with debt to equity ratios partially has a significant positive effect on the firm value projected with PBV.
4. Profitability, liquidity and solvability jointly influence the value of the company.

Suggestion

The researcher realizes that this research is far from perfect, so here are some suggestions for future researchers that can be taken into consideration for conducting research on the same topic.

1. For further research, it is expected to expand the research sample and add to the research period so that it can see trends that occur in the long term.
2. For further research can use other additional variables so that the results of the study are better able to predict the value of the company more accurately and accurately.
3. The next researcher is expected to be able to re-examine solvability as an intervening variable, because it can be used as a comparison and support for the results obtained.

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IOSR Journal of Business and Management (IOSR-JBM) is UGC approved Journal with Sl. No. 4481, Journal no. 46879.

Silvia Yunita Dewi. " Analysis of Effect Profitability, Liquidity and Solvability to Firm Value." IOSR Journal of Business and Management (IOSR-JBM), Vol. 21, No. 3, 2019, pp. -.51-56