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The Effect of Financial Performance on the Value of Manufacturing Companies

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Abstract

This study aims to determine the effect of financial performance on the value of manufacturing companies in the cosmetics sub-sector on the Indonesian stock exchange. The sample selection technique used was purposive sampling and obtained six cosmetic sub-sector companies with a research period of five years so that 30 samples were obtained in this study. The data analysis method in this study is descriptive analysis, classical assumption test, multiple linear regression analysis. The results showed that the liquidity ratio had a positive and insignificant effect on firm value, profitability had a positive and significant effect on firm value, solvency had a negative and insignificant effect on firm value, and activity had a positive and significant effect on firm value.

1 Introduction

The current rapid development of the Indonesia Stock Exchange cannot be separated from the role of investors conducting transactions on the Indonesia Stock Exchange (Wijayanto et al., 2019). In the world of capital markets, being careful with the correctness of information submitted by issuers is the most important the part before an investor will decide to invest their funds in the capital market (Ahmad et al., 2018). So that the trading system on the exchange can be trusted, and no other party manipulates information in trading (Arsyad et al., 2021). Investors hope that the value of the company can increase so that it can provide maximum shareholder prosperity. Firm value reflects the addition of the company's total equity to the company's debt. Several factors affect the company's value, namely funding decisions, dividend policy, investment decisions,

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capital structure, company growth, and company size. Some of these factors have an inconsistent relationship and influence on firm value. Financial statement analysis is one way to determine the company's performance in a period. The objective of maximizing shareholder wealth can be achieved by maximizing the present value or present value of all shareholder profits, which will increase if the share price increases (Sartono et al., 2008).

Objectively, we conducted this study on manufacturing companies that have been listed on the Indonesia Stock Exchange. The current phenomenon is that the company value component for the 2015-2019 period has fluctuated, which caused several cosmetic companies to experience a drastic decline in 2019. For example, companies that experienced a decline in 2019 were (PT. Unilever Indonesia Tbk, PT. Mandom Indonesia Tbk, and PT. Martina Berto Tbk) caused by the decline in the market value of equity and the book value of the total assets of PT. Mustika Ratu Tbk. The equity market value of PT. Mustika Ratu Tbk decreased even though its total assets increased. It was, furthermore, caused by the total debt of PT. Kino Indonesia, which increased drastically. At the same time, the company has experienced an increase in PT. Akasha Wira Internasional Tbk, although it decreased for three consecutive years in 2019, this company was able to improve its company value.

Several literature studies and previous research results, such as those conducted by Destyatik (2019), show that profitability positively affects firm value, and leverage hurts firm value. Lesmana, T., Iskandar, Y., & Heliani, H. (2020) examined four cigarette sub-sector companies on the IDX for 2017 to 2019 using the financial ratios of ROA and ROE as independent variables. The results of this study ROA and ROE do not affect firm value simultaneously. This study examines the effect of financial performance on the value of the cosmetic sub-sector manufacturing companies listed on the Indonesian stock exchange. The study was conducted on manufacturing companies in the cosmetics sub-sector on the Indonesian stock exchange for 2015-2019.

Financial performance is a formal effort to evaluate the efficiency and effectiveness of the company in generating sure profits and cash positions (Wang & Sarkis, (2017). Measurement of financial performance can be seen from the company's prospects for growth and financial development (Hasanuddin, Darman, Taufan, Salim, Muslim & Putra, (2021). A healthy company will be able to provide profits for the owners of capital; a healthy company can also pay debts on time (Ahmad et al., 2018). The financial performance that has reached one period is a picture of the state of a company. Fajrin (2016) mentions that elements of the company's financial performance are directly related to the measurement of company performance presented in the income statement; net income is often used as a performance measure or a basis for other measures. According to Winarno, (2017) stated that the purpose of measuring the financial performance of companies are: 1) knowing the level of liquidity, 2) knowing the level of solvency, 3) knowing the level of profitability, 4) knowing the level of activity.

Financial ratios are numbers obtained from comparing one financial statement item with other items that have a relevant and significant relationship (Kusumo, 2002). Sofyan, (2019) explains that financial ratios are activities to compare the numbers in the financial statements by dividing one number by another. This comparison can be made between components in one financial report or between components in the financial statements. Then the numbers being compared can be in the form of numbers in one period or several periods. Financial ratios are as follows: Liquidity ratio, profitability ratio, solvency ratio, activity ratio. Liquidity Ratio shows the company's ability to meet its financial obligations that must be met immediately, or the company's ability to meet financial obligations when billed, the company's liquidity level can be calculated by the current ratio and the Quick Ratio (Bogdan, Bareša, & Ivanović, (2012). The current ratio is the ratio between total assets and total current liabilities (Nuryani & Sunarsi, (2020). This ratio is used to measure the liquidity state of a company as a guide to determine the company's ability to meet its short-term obligations with total current assets owned (Xia et al., 2010) While the Quick Ratio is used to measure the company's ability to fulfill its obligations by not taking into account inventory because inventory is considered to require time to be converted into cash (Warrad, 2014). The company's profitability can earn profits from sales, total assets, and own capital (Anisyah & Purwohandoko, 2017). Profitability is one of the most influential factors in the capital structure (Arsyad et al., 2021). The company wants to rise to a level of profitability that is always high and stable. Companies that have high profitability will reduce debt. This is because the company holds most of its profits on cut earnings to rely on internal resources and relatively reduce the use of debt. The profitability ratio consists of ROA, ROE, NPM. Return on assets (ROA) is a ratio that shows how significant the contribution of assets is

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in creating net income. In other words, this ratio is used to measure how much net profit will be generated from each rupiah of funds embedded in total assets. Return on Equity (ROE) This ratio measures the company's ability to generate profits by utilizing the company's share capital. Net Profit Margin (NMP) is the sales profit after calculating all costs and income taxes. Leverage is an illustration of the use of a company's debt to finance the company's operational activities (Adrian & Shin, 2010). Leverage management is crucial because the decision to use high debt can increase the company's value. This is due to a reduction in income tax (Suwardika & Mustanda, 2017). There are two solvency ratios: the Debt to Equity Ratio is the ratio used to assess debt to equity. This ratio is sought by comparing all debt, including current debt, with all equity. The debt to asset ratio is a debt ratio used to measure the ratio between total debt and total assets. Activity ratio is a ratio used to measure the level of efficiency in using company resources (sales, inventory, collection of receivables, and others) or a ratio to assess the company's ability to carry out daily activities. The use of the activity ratio compares the level of sales with investment in assets for a period. The activity ratio consists of Working capital turnover is one of the ratios to measure or assess the effectiveness of the company's working capital during a specific period. Fixed Assets Turnover is the ratio used for the number of times the funds invested in fixed assets rotate in one period. Total Asset Turnover is the ratio used to measure the turnover of all assets owned by the company and measure how much sales are obtained from each rupiah of Kasmir assets (2016).

Company management aims to maximize the value of shareholders' wealth (Harmono, 2017). The value of the company can be measured through the stock price in the market based on the formation of the company's share price in the market, which is a reflection of the assessment by the public of the price in the market, which is the convergence of points of stability in government power and points of stability in the price supply strength of sellers (issuers) and investors. Alternatively, often called market equilibrium. The company's value can be reflected through the stock price for companies that issue shares in the capital market. Based on some of the descriptions that we have mentioned previously and referring to the literature review and previous research, the hypotheses we propose in this study are as follows:

H1: Liquidity has a negative and significant effect on firm value.
H2: Profitability has a positive and significant effect on firm value.
H3: Solvency has a negative and significant effect on firm value.
H4: Activities have a positive and insignificant effect on firm value.

2 Research Method

This research was conducted in a cosmetic sub-sector manufacturing company listed on the Indonesian Stock Exchange. The population in this study is a cosmetic sub-sector manufacturing company listed on the Indonesian stock exchange for the 2015-2019 period with a total of 7 companies. Sampling using purposive sampling method, namely the technique of determining the sample with specific criteria. Where the population in this study is seven companies and only six companies meet the criteria.

Table 1. Operational definitions and indicators

Variabel	Definisi	Indikator
Liquidity (X_1)	Availability of company resources (ability) to meet short-term needs that have matured.	CR = $\frac{current\ asset}{current\ liabilities} \times 100\%$
Profitability (X_2)	The company's ability to generate profits in the future.	ROA=$\frac{Net\ profit}{Total\ aktiva} \times 100\%$
Solvency (X_3)	Measuring the company's capacity to meet both short-term and long-term obligations.	*Debt to Asset Ratio* = $\frac{total\ debt}{Total\ asset} \times 100\%$
Activity (X_4)	Measuring the effectiveness of the company in using its assets.	*Total Asset Turnover* = $\frac{sales}{Total\ assets}$
Firm Value (Y)	Value that shows a reflection of the company's equity and book value.	The value of the company (Q) =$\frac{EMV+D}{EBV+D}$

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3 Result and Discussion

Result

After the classical assumption test results are carried out, and the overall results show that the regression model meets the classical assumptions, the next step is to evaluate and interpret the multiple regression model. Multiple linear regression is used to determine the effect of the independent variable on the dependent variable.

Table 2. Results of Multiple Linear Regression Analysis

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95,0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-131024,166	266073,000		-,492	,627	-679011,768	416963,435
	X1	24283,045	15727,042	,330	1,544	,135	-8107,404	56673,494
	X2	488832,570	209364,215	,787	2,335	,028	57638,898	920026,243
	X3	-57223,666	99647,620	-,123	-,574	,571	-262451,781	148004,449
	X4	72638,896	22322,467	,905	3,254	,003	26664,915	118612,878

a. Dependent Variable: Y

Based on the results of data processing as shown in table 2, the regression equation obtained in this study is as follows:

$$Y = -131024,166 + 24283,045x_1 + 488832,570x_2 - 57223,666x_3 + 72638,896x_4 + e$$

- The constant value is (-131024,166), which means that the firm value (Y) will be constant at (-131024,166), which is influenced by the variables of Liquidity (X1), Profitability (X2), Solvency (X3), and Activity (X4).
- The regression coefficient value of the Liquidity variable (X1) is 24283,045, meaning that Liquidity (X1) has a positive effect on firm value (Y). This shows that with the addition of 1% to firm value, there will be an increase in Liquidity of -24283.045 and vice versa, assuming that other variables remain.
- Profitability variable regression coefficient value (X2) of 488832,570 means that profitability positively affects firm value (Y). This shows that with the addition of 1% in Profitability, there will be an increase in firm value of 488832,570 and vice versa, assuming other variables remain.
- The regression coefficient value for the solvency variable (X3) is equal to (-57223.666), meaning that solvency hurts firm value (Y). This shows that with a 1% reduction in insolvency, there will be a decrease in firm value of (-57223.666) and vice versa, assuming other variables do not change or remain.
- The value of the regression coefficient for the Activity variable (X4) is 72638,896, meaning that the activity positively affects the firm value (Y). This shows that with the addition of 1% activity, there will be an increase in the company's value by 72638,896 and vice versa, assuming other variables remain.

Hypothesis testing is a well-defined statement about the characteristics of the population. The hypothesis testing used in this research is the t test (partial) and the determinant test (R2).

Table 3. Results of t-test

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-131024,166	266073,000		-,492	,627
	X1	24283,045	15727,042	,330	1,544	,135
	X2	488832,570	209364,215	,787	2,335	,028
	X3	-57223,666	99647,620	-,123	-,574	,571

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X4	72638,896	22322,467	,905	3,254	,003

The criteria for testing the t-test are if the value of t-count > t-table, then Ha1 is accepted, and H01 is rejected. Table 3 shows the magnitude of the t-count value is 1.544, while the magnitude of the t-table at the 95% confidence level and degrees of freedom (30-1-1 = 28) then obtained a value of 2.048407142. Because the t-count value is smaller than the t-table value with an error rate of 5%, then Ha1 is rejected, and H01 is accepted. This means that liquidity has no significant effect on firm value. The value of this on the X2 variable is 2.335, while the magnitude of ttab at the 95% confidence level and degrees of freedom (30-1-1 = 28) then obtains a value of 2.048407142. Because the value of t-count is greater than the value of the t-table with an error rate of 5%, then Ha1 is accepted, and H01 is rejected. This means that profitability has a significant effect on firm value. The magnitude of the thit value on the X3 variable is (-.574), while the magnitude of the t-table at the 95% confidence level and degrees of freedom (30-1-1 = 28) then obtains a value of 2.048407142. Because the t-count value is smaller than the t-table value with an error rate of 5%, then Ha1 is rejected, and H01 is accepted. This means that solvency has no significant effect on firm value. The value of the t-count on the activity variable (X4) is 3.254, while the magnitude of ttab is at the 95% confidence level and degrees of freedom (30-1-1 = 28), so the value is 2.048407142. Because the value of t-count is greater than the value of the t-table with an error rate of 5%, then Ha1 is accepted, and H01 is rejected. This means that activity has a significant effect on firm value. In this study, the coefficient of determination used is the adjusted R square value.

Table 4. Coefficient of Determination Test Results (R2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,640[a]	,410	,316	368138,60184	1,247

Based on table 4, the value of R square shows a value of 0.410 which means that the independent variable can explain the dependent variable by 41%. This means that the independent variables in this study, namely Liquidity (X1), Profitability (X2), Solvency (X3), and Activity (X4), can explain the dependent variable (firm value) of 41%. In comparison, the remaining 59% is explained or influenced by other factors that were not included or were not observed in this study.

Discussion

Liquidity is the company's ability to meet its short-term obligations when they fall due. We get in this study that the Liquidity variable has no significant effect on firm value. This means that the high or low liquidity ratio of a company does not guarantee that the company's value will also improve. This indicates that liquidity is not considered too much by external parties in evaluating a company and has a less significant influence on changes in a company's stock price. The results of this study are in line with previous research conducted by Fatima, (2017); the results of the study show that liquidity has no significant effect on firm value. In contrast to the research results conducted by Fang & Tice, (2009), liquidity has a negative and significant effect on firm value.

Profitability is to measure the ability of a company to earn a profit or profit with a size in percentage to assess the extent to which the company can generate profits or profits. The profitability variable has a significant effect on firm value. This means that the higher the profitability ratio of a company, the company's value will also be higher. Vice versa, the company's value will be low or decrease if the company's profitability is also low. The results of this study are in line with research by Nurminda, (2017), which shows that profitability simultaneously has a significant effect on firm value. This result is inconsistent with the research results from Lesmana, Iskandar & Heliani, (2020), which shows that profitability does not simultaneously affect firm value.

Solvency measures the company's ability to meet all obligations, long-term debt and short-term debt, or its ability to pay off existing debts using all of its assets (Herzog, Longobardi & Maj, 2018). The solvency variable has no significant effect on firm value. This shows that the company's low solvency ratio does not impact the value of the company. So, the company's value may remain high even though the solvency ratio of the company is low, and vice versa. Investors do not consider the size of the debt owed by the company to invest their funds

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or buy shares of a company and only see how the company's management uses these funds effectively and efficiently to achieve added value for the company's value.

Activity is a ratio that measures how effective the company is in utilizing all available financial resources (Jadiyappa, Saikia & Parikh, 2019). The activity variable has a significant effect on firm value. This indicates that the higher the company's activity ratio, the higher the company's value will be. On the other hand, if the activity ratio is low, the firm value will also be below. This indicates that the high and low activity ratios will affect the value of the company.

4 Conclusion

This study aims to determine the effect of financial performance on the value of manufacturing companies in the cosmetics sub-sector on the Indonesia Stock Exchange. Based on the data that has been collected and processed by descriptive analysis, classical assumption test, and multiple linear regression analysis, the conclusions of this study are as follows: Liquidity has no significant positive effect on firm value. Profitability has a positive and significant effect on firm value. Solvency has no significant adverse effect on firm value. Activities have a positive and significant effect on firm value. For companies, the results of our study are expected to encourage companies to improve their financial performance to be even better in the future. For further researchers, it is expected to add other variables that identify the influence of financial performance on firm value.

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