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The Effect of Profitability And Liquidity on The Value of Non Cyclical Consumer Sector Companies Listed on The Indonesia Stock Exchange (IDX) In 2019-2023

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Abstract: The purpose of this study is to examine how productivity and liquidity affect the value of non-cyclical buyer division companies listed on the Indonesia Stock Exchange between 2019 and 2023. Return on Assets (ROA) is used in this study to quantify productivity, while the Debt to Equity Ratio (DER) is used to measure liquidity. Quantitative data that is based on reliable information from relevant firm budgeting explanations is employed. Different straight relapse is the explanatory technique linked, allowing researchers to identify significant relationships between the subordinate variable (firm esteem) and the autonomous components (ROA and DER). In addition to providing important information for financial experts and business management to use when making critical decisions, this study is expected to yield deep insights into how benefit and liquidity impact firm value. The results of this study are expected to enhance writing about factors that affect firm value and increase knowledge of the importance of controlling profitability and liquidity in advancing business performance in the capital display.

Keywords: Profitability, Liquidity, Company Value, Return on Assets (ROA), Debt to Equity Ratio (DER)

Introduction

Companies are established with the aim of achieving maximum profit and increasing company value. Company value reflects the company's financial condition and performance. In addition, firm value is also one of the factors considered by potential investors in the decision-making process. Company management always tries to increase company value, which in turn will increase shareholder welfare. An increase in firm value is the result of effective management performance in managing company operations in accordance with shareholder expectations. Thus, an increase in firm value will also increase shareholder welfare.(Komala et al., 2021)

In 2019-2021, the Covid-19 pandemic hit the world and had a significant impact on the performance of companies listed on the Indonesia Stock Exchange. Analysis of company financial statements shows that the non-cyclical consumer sector is more stable compared to other sectors during the Emergency PPKM period (Setianingrum, 2017). However, financial statement data collected from www.idx.co.id shows that as many as 33 companies still suffered losses during the period. Therefore, companies need to prioritize efforts to increase profits and ensure that profits earned can continue to increase every year.(Aprilliana et al., 2021)

The degree of profitability, specifically the Return on Assets (ROA) ratio, can be used to gauge monetary execution in the non-cyclical consumer sector. In order to improve a company's capabilities and foster innovation, intellectual capital—which comprises consumer, structural, and human capital—is crucial. A company can create additional value more efficiently by using its resources when its intellectual capital is valued more.(Al Shadeni & Nr, 2022).

One of the most significant economic sectors is the primary consumer goods business, which produces and distributes necessities like food, clothing, and personal hygiene products that are required by regular customers. Investors' evaluations of the company's overall performance, typically reflected in its share price, have a significant impact on the value of businesses in this industry (Sumani, 2017). Variations in business value are influenced by a number of factors, including financial parameters pertaining to profitability, liquidity, and firm size. For instance, profitability statistics that demonstrate the company's capacity to earn a profit, like Return on Equity (ROE) and Return on Assets (ROA), can have an impact on firm value. By demonstrating the company's capacity to settle its debts, liquidity ratios like the current ratio and quick ratio can have an impact on a company's value. Stakeholders, including managers and investors, must comprehend these dynamics in order to make informed judgments about investments and company plans. They may make better judgments and accomplish their company objectives more successfully if they are aware of the elements that influence firm value (Sudaryo, 2021).

The Return on Assets (ROA) statistic, which emphasizes a company's capacity to earn a profit, is used in this study to gauge profitability. ROA gives information on future profit potential in addition to evaluating a company's historical profitability. The company's overall wealth, which comes from both internal and external capital invested in running assets, is included in this evaluation. Better business success and a higher return on investment are indicated by a higher ROA number, which also shows how well management uses resources. To evaluate how well a business manages its assets, ROA analysis is therefore crucial.(Hasna Nafia & Sijabat, 2022)

The selection of liquidity is crucial because it indicates how quickly and easily securities can be traded on the financial markets without incurring significant transaction costs or having an adverse effect on pricing. Illiquid equities can result in losses for investors and are challenging to sell. In times of uncertainty, the stock market's liquidity usually declines, particularly when it is most required. Nevertheless, little is known about the dynamics of liquidity supply and demand under these circumstances. Because they are more sensitive to global returns, emerging markets—which lack market makers and have lower levels of expertise and depth—tend to see larger reductions in liquidity during periods of financial turmoil.(Hasna Nafia & Sijabat, 2022) The Debt to Equity Ratio (DER) is one of the solvency ratios that may be used to evaluate a company's capital structure.

Businesses that borrow money have advantages and disadvantages of their own.(Nurul & Prima Jaya, 2023)

There are two types of elements that might raise a company's value: financing factors and investment factors. Then, two subcategories of investment criteria can be distinguished: asset usage efficacy and profitability. However, financial considerations are also separated into two categories: liquidity and debt policy. Therefore, the impact of business size, liquidity, and profitability on firm value will be the main emphasis of this study.(Sinta Dewi & Ekadjaja, 2020)

The company's profit is a measure of how well it is performing in meeting its responsibilities to investors and generating value that represents the company's possibilities for the future. The ability of the business to promptly fulfill its short-term obligations is referred to as liquidity. A company's reputation among shareholders will improve if it can pay off all of its short-term debts on time (Kisman, 2020). A company's size is a reflection of its scale and capacity, as seen by its market share, frequency of sales, and asset count, among other metrics. Larger businesses typically have greater access to outside funding and present a more convincing image of operational viability than smaller businesses.(Sinta Dewi & Ekadjaja, 2020)

Research Method

Analyzing the effects of profitability and liquidity on company value in the non-cyclical consumer sector listed on the Indonesia Stock Exchange between 2019 and 2023 is the goal of this quantitative study. The following steps are part of the approach employed in this study :

A. Population and Sample

Businesses in the non-cyclical consumer sector with full financial reports from 2019–2023 make up the study's population. Purposive sampling is the sampling method employed, in which researchers choose businesses according to predetermined standards including consistency, accuracy, and availability of data. Ultimately, 33 businesses were used in this study (Moch, 2019).

B. Variabel and Parameters

In this research, there are 2 independent variables and 1 dependent variables, which every variable had parameters (formula) to gain the data needed in this research :

Table 1. Variables and Parameters

Variable	Definitions	Parameter
Profitability (XI)	(Agustiani, 2019) states that return on assets (ROA), a metric used to quantify profitability, highlights the company's capacity to make money from operations by using its assets.	$\boldsymbol{ROA = \frac{Net\ Income}{Total\ Assets}}$
Liquidity (X2)	(Hery, 2021) states that DER is one way to evaluate financial health. Total debt divided by total capital yields this ratio.	$\boldsymbol{DER = \frac{Total\ Debt}{Total\ Equity}}$

Company Value (Y)	The Price to Book Ratio (PBV), as defined by Saddam et al. (2021), is a ratio that compares a company's market price per share with its book value per share in order to evaluate it. PBV also provides an indication of the market's valuation of a company's share book value. Therefore, a high PBV suggests that the market has a high level of trust in the company's prospects.	$\boldsymbol{PBV = \frac{Market\ Price\ per\ Share}{Book\ Value\ per\ Share}}$

Results And Discussion

In this study, the coefficient of determination, F test, Multicolinearity Test, T test, and multiple regression analysis were tested.

A. Determination Coefficient Test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.585[a]	.343	.333	1.18551

a. Predictors: (Constant), X2, X1
b. Dependent Variable: Y

The percentage of variance in the dependent variable (Y) that can be accounted for by the independent variables (X1 and X2) is displayed by the coefficient of determination (R^2). In this instance, profitability (X1) and liquidity (X2) account for approximately 34.3% of the variation in business value (Y), as indicated by $R^2 = 0.343$.

B. F Test (Simultaneous)

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	97.453	2	48.727	34.670	.000[b]
	Residual	186.921	133	1.405		
	Total	284.375	135			

a. Dependent Variable: Y
b. Predictors: (Constant), X2, X1

The F test is conducted to evaluate the simultaneous significance of the independent variables, namely profitability (X1) and liquidity (X2), on the dependent variable, namely firm value (Y). Based on the ANOVA output, the F value obtained is 34,670 with a significance value (Sig.) of 0.000. Since this Sig. value is much below the 0.05 criterion, it may be argued that there is a simultaneous significant effect of profitability and liquidity on firm value. This result suggests that both independent variables significantly influence changes in company value and that the regression model employed can adequately explain variations in firm value. Therefore, organizations must take into account both profitability and liquidity when developing their financial and managerial strategies, as these elements play a significant role in defining firm value (Kartika, 2020).

C. Multicolinearity Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.029	.341		.084	.933		
	X1	.188	.023	.652	8.293	.000	.800	1.249
	X2	.871	.288	.238	3.026	.003	.800	1.249

a. Dependent Variable: Y

The output of the regression analysis shows that the VIF value for both variables is 1.249 and the tolerance values for variables X1 and X2 are 0.800 each. It may be inferred that this model does not have a substantial multicollinearity issue because both of these numbers are much over the predetermined thresholds (Tolerance > 0.10 and VIF < 10).Therefore, it is possible to regard the profitability (X1) and liquidity (X2) variables as independent variables that are not influenced by one another, allowing the regression model to be trusted for additional study (Asikin, 2021).

D. T Test (Hypothesis Test)

Hypothesis for Multiple Linear Regression Analysis

In the context of multiple linear regression analysis with the dependent variable Y (firm value) and independent variable X1 (Profitability) and X2 (Liquidity), the hypothesis that can be formulated are as follows :

No.	Hypothesis	Hypothesis Results
1.	Null Hypothesis (H0)	For X1 (Profitability) : H0 : There is no significant effect of profitability on firm value.
		For X2 (Liquidity) : H0 : There is no significant effect of liquidity on firm .value.
		Combined Null Hypothesis : H0: There is no significant effect of profitability and liquidity on firm value simultaneously.
2.	Alternative Hypothesis (H1)	For X1 (Profitability) : H1: There is a significant effect of profitability on firm value.
		For X2 (Liquidity) : H1: There is a significant effect of liquidity on firm value.
		Combined Alternative Hypothesis :

		H1: There is a significant effect of profitability and liquidity on firm value simultaneously.

According to the Null Hypothesis (H0), there is no correlation between the independent and dependent variables, indicating that liquidity and profitability have no bearing on company value. The Alternative Hypothesis (H1), on the other hand, suggests a strong correlation between business value and changes in profitability and liquidity (Chandra, 2022).

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.029	.341		.084	.933
	X1	.188	.023	.652	8.293	.000
	X2	.871	.288	.238	3.026	.003

a. Dependent Variable: Y

One can utilize the comparison of the T count and T table to ascertain whether the independent variable has an impact on the dependent variable if the significance value is less than 0.05, which indicates a substantial influence (Wahjudi, 2020).

Test Analysis

1) Significant value X1 variable is 0.000 (<0.05), it is concluded that the X1 variable has a significant effect on Variable Y.
2) Significant value X2 variable is 0.003 (<0.05), it is concluded that the X1 variable has a significant effect on Variable Y.

Comparison of T Count and T Table

No.	Test	Discussions
1.	T Count	From the analysis conducted, the calculated T values for each variable were obtained as follows a) X1: 8.293 b) X2: 3.026
2.	T Distribution Table	To determine the value of T table, it is important to calculate the degrees of freedom (df), which can be calculated by the formula : $df = n - k - l$ Where (n) is the total number of observations and (k) is the number of independent variables.
3.	Find T Table	Using the T distribution table and considering the predetermined df and significance level (alpha), we can find the T table value. For example, for (df = 27) and (alpha = 0.05) (two-way), the T table value obtained is about 2.052.

4.	Comparison	The comparison for Probability (X1) : a.) T count = 8.293 b.) T table ≈ 2.052 Since 8.293 > 2.052, the null hypothesis is rejected, indicating that X1 has a significant effect on Y. The comparison for Liquidity (X2) : a.) T count = 3.026 b.) T table ≈ 2.052 Since 3.026 > 2.052, the null hypothesis is also rejected, indicating that X2 also has a significant effect on Y.

Based on the foregoing study, both variables X1 and X2 are proven to have a significant influence on the dependent variable Y, which suggests that both independent variables contribute statistically to the model evaluated.

Multiple Linear Regression Equation Analysis

The regression equation obtained :

$$Y = 0.029 + 0.188X1 + 0.871X2$$

a) The constant value 0.029 shows the prediction of firm value (Y) when profitability (X1) and liquidity (X2) are both zero. In this case, if the company has no profitability at all and its liquidity is also zero, then the company value is predicted to be 0.029.
b) The regression coefficient value of variable X1 is positive (+) of 0.188, it means that if variable X1 increases, variable Y will also increase, and vice versa.
c) The regression coefficient value of the X2 variable is positive (+) of 0.871, it means that if the X2 variable increases, the Y variable will also increase, and vice versa.

When firm value (Y) is the dependent variable and profitability (X1) and liquidity (X2) are the independent variables, multiple regression analysis reveals that both have a considerable impact on company value. With a significant level of 0.000, the profitability regression coefficient is 0.188, meaning that for every unit improvement in profitability, firm value will rise by 0.188 units. This suggests that increased profitability represents the effectiveness of management in turning a profit, which might boost investor confidence. With a significance level of 0.003, the regression coefficient for liquidity is 0.871, meaning that a one-unit increase in liquidity will result in a 0.871-unit rise in company value (Sukandi, 2021). A company's ability to meet short-term obligations is reflected in its level of liquidity, which enhances financial stability and draws in new investors. Therefore, firm value is positively impacted by both profitability and liquidity, and companies that are able to effectively manage both tend to have greater values. Even while these regression models offer helpful insights, it is crucial to keep in mind that these associations are statistical in nature and may not always indicate a causal relationship; hence, additional research may be necessary for a deeper comprehension (Novatiani, 2021).

The study's conclusions shed important light on how profitability, liquidity, and firm value interact in non-cyclical consumer sector businesses that are listed on the Indonesia Stock Exchange between 2019 and 2023. Using multiple linear regression, the study found that the independent variables of profitability (as determined by Return on Assets, or ROA) and liquidity (as determined by the Debt to Equity Ratio, or DER) account for about 34.3% of the variance in company value. This illustrates the complexity of evaluating financial success as, even though these two financial metrics are important, other factors may also affect firm value.

The F value of 34.670 and the significance level of 0.000 in the test findings indicate a high simultaneous effect of both profitability and liquidity on company value. This supports the idea that increasing business value requires efficient management of both profitability and liquidity. It emphasizes how crucial it is for businesses to implement plans that maximize these financial metrics in order to enhance their market positioning and investor appeal (Pazarskis, 2024).

Furthermore, the results of the T test confirm the importance of both liquidity (X2) and profitability (X1) in affecting business value (Y). Strong correlations are indicated by the significance values of 0.000 for profitability and 0.003 for liquidity. In particular, a one-unit rise in DER corresponds to a 0.871-unit increase in firm value, and a one-unit increase in ROA is linked to a 0.188-unit gain in company value. This implies that liquidity affects business value more than profitability, highlighting how important financial stability is for drawing in investment and maintaining growth. Although both profitability and liquidity are necessary to increase a company's value, the analysis shows that liquidity's impact is more noticeable. This may be explained by the direct relationship between liquidity and a company's capacity for risk management and operational flexibility. Strong liquidity increases a company's chances of surviving and growing during uncertain or troubled economic times, which in turn attracts investors and raises its market value (Godoy, 2022).

Furthermore, there is a complicated relationship between profitability and liquidity. Long-term profitability may occasionally suffer from an overemphasis on short-term liquidity management, even if profitability can improve liquidity through retained earnings and cash flow generation. For example, a business may decide to keep cash reserves in order to preserve high liquidity rather than reinvesting in expansion plans that could increase profitability. To maximize total business performance, management must thus find a balance between these two financial indicators.

Conclusions

For stakeholders including management, investors, and financial analysts, it is critical to note that both profitability and liquidity have a positive impact on firm value, as demonstrated by the multiple regression analysis of company value (Y), profitability (X1), and liquidity (X2). Although it has little practical meaning in real-world situations, the baseline constant value of 0.29 provides a benchmark for assessing the contributions of these independent variables (Caroline, 2023).

Profitability is a major factor in determining business value, as evidenced by the coefficient for profitability (0.188), which shows that every unit increase in profitability increases the company value by 0.188 units. The liquidity coefficient (0.871), on the other hand, indicates a more substantial effect, with each unit increase in liquidity predicted to result in a 0.871 unit increase in firm value. This emphasizes how important liquidity is to a business's financial stability since it allows for efficient cash flow management and resiliency in times of adversity. Overall, while both factors are essential, prioritizing liquidity may yield greater benefits for enhancing company value, highlighting the need for effective management of both metrics to optimize financial performance and market valuation. Future research could explore additional variables that influence company value, offering a more comprehensive understanding of its determinants.

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