

## THE EFFECT OF PROFITABILITY AND OTHER FACTORS ON THE VALUE OF COMPANIES IN THE APPAREL & LUXURY GOODS SUB-SECTOR

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**Abstract:** *To be able to achieve proper financial management, a company must pay attention to financial decision making, these decisions will have a big impact on the company's future. One of them is in the apparel & luxury goods subsector companies, there is a lot of market competition for apparel & luxury goods companies in Indonesia which have high competitiveness with foreign apparel & luxury goods companies, plus the Covid-19 pandemic has made everyone have the power to buy quite low. This research aims to determine the effect of independent variables, namely profitability, liquidity, company size, capital structure, and TATO on the dependent variable, namely company value. By using a research method, namely causality or cause and effect between independent and dependent variables, by measuring each variable using statistical analysis techniques with 187 samples in 17 companies for 11 years. The research results show that in the profitability variable, company size, and capital structure have a positive effect on firm value, while the liquidity and TATO variables have no effect on firm value.*

**Keyword:** Capital structure, company size, firm value, liquidity, profitability

### INTRODUCTION

The current competition in the business world has caused the economy in Indonesia to grow rapidly. As a result, companies must be able to compete with companies by conducting developments such as market expansion so that the company can maintain the company's survival and increase the value of company ([Nuradawiyah & Susilawati, 2020](#)). A company can be said to be an economic entity that is built to use the company's resources with the aim of maximizing the company's profits and company value ([Nur Fadhilah & Kurniati, n.d.](#)). Maximizing the value of a company is maximizing profits or prosperity of income by considering the risk factor and the time value of money (Hamidah et al., 2015). The company's goals can be achieved due to the implementation of the appropriate financial management function because every financial decision taken will affect

other financial management decisions and will have an impact on the company's value. The optimal combination of three financial management decisions, namely investment decisions, funding decisions, and policies, can maximize the value of the company and every decision taken by the company will be interrelated with each other ([Ernayani & Sari, 2017](#)).

### The Effect of Profitability on Company Value

High profitability shows that the company's prospects in the future will be predicted to be profitable by investors so that investors will be interested in responding to the positive signals given, so that the company's value increases ([Kusumayanti, 2016](#)). ROA (Return On Assets) is used in this study to measure profitability variables. ROA has advantages such as management focusing on

maximum profit, ROA analysis is used by companies in terms of planning, as a tool to measure management performance in overall capital use efficiency. Chen and Chen (2011), Pratama (2016), and Garmayuni (2015) conducted research and obtained results that profitability proxied with ROA has a positive influence on the company's value because the higher the ROA, the company's ability to pay dividends is also high, which will attract investors so that the company's value will increase through an increase in stock price.

### **Effect of Liquidity on Company Value**

The liquidity ratio is a necessary ratio in analyzing the company's financial statements, because the liquidity ratio is a ratio to show the company's ability to pay short-term debts that must be fulfilled immediately by the company (Dewi & Abundanti, 2019). Good liquidity is a positive signal that the company gives to investors. A company with good liquidity will give a signal that the company has optimal financial performance. A liquid company will have total current assets greater than total current liabilities. In other words, the company has the ability to pay short-term loans as well as long-term loans at maturity. Reasonable financial conditions can attract foreign interest, especially investors, to invest their capital in the company. This statement is in line with previous research that states that liquidity has a positive effect on the value of companies (Oktaviani, 2019).

### **The Effect of Company Size on Company Value**

The size of the company is considered to be able to affect the value of the company. Larger companies have higher company values. Theoretically, this is based on the ease of access for large companies to obtain external funding. The expenditure incurred will be less when compared to small companies (Al-Malkawi, 2008; Al-Najjar, 2009; Mollah, 2011). The size of a company has a negative effect on the value of a company can also be caused by investors who consider that companies with large total assets tend to set retained earnings

to be greater than dividends distributed to shareholders. In a study conducted by Nwamaka & Ezeabasili (2017) shows that dividend policies have a positive effect on the value of companies.

### **The Effect of Capital Structure on Company Value**

According to (Miller and Mardiyanto, 2009) the more a company uses its debt, the higher the value of the company and its share price.

According to Sugeng (2017) Company policies in managing its finances, investments and profit sharing that aim to improve the company's welfare or increase the value of the company.

### **The Effect of TATO on Company Value**

And the next option for growing companies is to use debt financing which means that the growing company will have high leverage (Drobotz & Fix 2003). On the other hand, agency fees for emerging companies are expected to be higher as they have more flexibility with respect to future investments. Different research studies use different measures of growth; such as market value to book value of equity, research expenditure to the size of total sales, and the percentage increase in total annual assets (Titman and Wessels, 1988).

### **Company Values**

The value of a company depends on its business growth opportunities and also depends on the company's ability to obtain capital from outside. Companies can obtain capital from outside more easily than other types of businesses, therefore companies can grow or develop faster (Brigham and Houston, 2019, p. 8). Maximizing the value of a company means running the company's business for the benefit of shareholders. In efficient market conditions (a market that uses the actual share price for securities companies that sell and allocate funds) the price of a stock is an unbiased estimate of the actual value of the company

(Gitman and Zutter, 2015, p. 85). According to Pioh et al. (2018) the value of a company is one of the important things and must be considered by investors to make investment decisions in a company. A high company value is the desire of company owners, because with a high value it shows that the prosperity of shareholders is also high. This is what investors want to invest their funds in a company.

Based on the below research model, the hypothesis is as follows:

**H<sub>1</sub>: There is an effect of profitability on the value of companies in sub-sectors Apparel & Luxury Goods in 2012-2022.**

**H<sub>2</sub>: There is an effect of liquidity on company value in the Apparel & Luxury Goods consumer cyclical subsector in 2012-2022.**

**H<sub>3</sub>: There is an effect of company size on the value of companies in the Apparel & Luxury Goods sub-sector in 2012-2022.**

**H<sub>4</sub>: There is an effect of capital structure on company value in the Apparel & Luxury Goods consumer cyclical sub-sector in 2012-2022.**

**H<sub>5</sub>: There is an influence of TATO on the value of companies in the Apparel & Luxury Goods sub-sector in 2012-2022.**

## RESEARCH MODEL

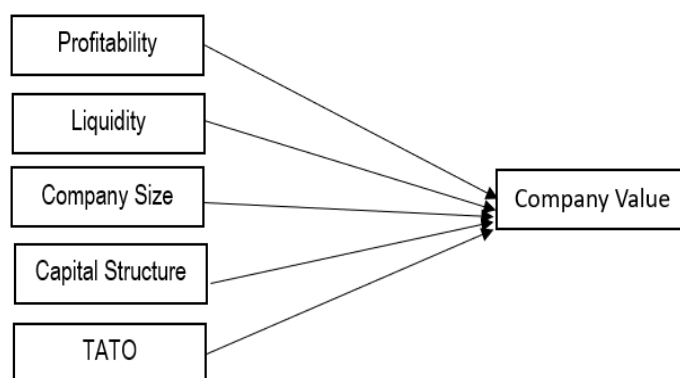


Figure 1 Thought Framework

## RESEARCH METHODS

The form of this study is causality, where the causal and causal relationship between independent and dependent variables is different. This study uses causality research, which according to Sugiyono (2019,66) research Causality between variable independent and dependent which is causal due to the occurrence of an event.

Proxy:

The dependent variable used in this study is Company Value (PBV), Company value is a description of the welfare of the company and its shareholders. The value of a company can be measured by the price-to-book value (PBV) ratio. PBV ratio is a ratio that compares

the price per share with the book value per share (Deli & Kurnia, 2017). Which can be formulated as follows:

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

Profitability is the ability of a company to earn profits through its business operations by using the company's assets. Referring to previous research conducted by Kholis et al. (2018), profitability can be proxied with ROA:

$$ROA = \frac{\text{Net Income}}{\text{Total Asset}}$$

Liquidity is a measure of a company's ability to meet its short-term needs of

commitments. Referring to previous research conducted by Lisda and Kusmayanti (2021), liquidity can be measured by Current Ratio (CR).

$$CR = \frac{\text{Current Asset}}{\text{Current Liabilities}}$$

The size of a company is the size of a company. The size of a company is determined by the total assets owned by the company. According to Zuhroh (2019), the size of the company is proxied as follows:

$$\text{Size} = \text{Ln} \times \text{Total Asset}$$

The capital structure is the probability of the amount of short-term debt, long-term debt, preferred stock, and common stock. Capital structure can be measured as the ratio of total liabilities to equity. This is commonly known as the debt to capital ratio (DER). According to Yanti & Damayanti (2019), capital structure can be measured using DER.

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

Total asset turnover or total asset turnover ratio or (TATO) is an activity ratio (efficiency ratio) that measures a company's

ability to generate sales of its total assets with net sales with average total assets.

The measurement of total asset turnover uses the following calculations, Utami and Welas (2019):

$$TATO = \frac{\text{Sales}}{\text{Total Asset}}$$

## RESULTS AND DISCUSSION

Multiple regression analysis is used to determine the relationship between dependent variables and independent variables where there are several independent variables (Widarjono 2015, 4.1).

Regression analysis with more than one independent variable, the equation is:

$$Y(\text{PBV}) = \beta_0 + \beta_1 X_{1i} (\text{Profitabilitas}) + \beta_2 X_{2i} (\text{Liquidity}) + \beta_3 X_{3i} (\text{Company Size}) + \beta_4 X_{4i} (\text{Struktur Modal}) + \beta_5 X_{5i} (\text{TATO}) + e_i$$

### Descriptive Statistical Analysis

Descriptive Statistical Analysis is used to see how the general picture of the data sample in the study, can be seen from the results of the mean value, maximum value, minimum value, and standard deviation. Data processing can be seen as follows:

**Table 1 Results of Descriptive Statistical Analysis**

	Nilai Perusahaan	ROA	CR	SIZE	DER	TATO
<b>Mean</b>	1.392904	-36.81410	1.299722	7.011123	57.06796	52.22182
<b>Median</b>	0.710000	0.040000	1.200000	6.790000	1.340000	0.710000
<b>Max</b>	40.90000	120.0400	4.820000	9.520000	9152.370	924.0200
<b>Min</b>	-15.36000	-6784.000	0.001000	2.890000	-51.21000	0.010000
<b>Std. Dev</b>	4.287117	497.2589	0.912970	1.233253	669.6889	164.8838
<b>Observations</b>	187	187	187	187	187	187

Source: Statistic output

Table 2 t test result

Variabel	Coefficient	Std.Error	Statistic	Prob.
PBV	2.917134	1.918951	1.520171	0.0130
ROA	1.013477	0.081994	1.164372	0.0369
CR	0.156349	0.354376	-0.441196	0.6596
SIZE	1.132977	0.251016	3.527005	0.0498
DER	1.002926	0.004140	1.706890	0.0280
TATO	0.012789	0.018796	0.680394	0.4971

Source: Statistic output

The profitability variable (ROA) has an average value of -36.81410, a median value of 0.040000, the largest value of 120.0400, the smallest value of -6784.000, and a standard deviation of 479.2589.

The liquidity variable (CR) has an average value of 1.299722, a median value of 1.200000, the largest value of 4.820000, the smallest value of 0.001000, and a standard deviation of 0.912970.

The company size variable (SIZE) has an average value of 7.011123, a median value of 6.790000, the largest value of 9.520000.

The results of this study show that there is an influence of profitability on the value of the company. This conclusion was made based on the results of a hypothesis test that showed a p-value (Prob.) of 0.0369 < 0.05. Profitability affects the value of the company, which means that the high or low profitability of the company cannot be determined whether a company will consistently distribute dividends to its shareholders. The results of this study are consistent with the results of research conducted by Chen and Chen (2011), Pratama (2016), and Garmayuni (2015) obtained from research conducted by ROA has advantages such as management to focus.

Focusing on maximum profit, ROA analysis is used by companies in terms of planning, as a tool to measure management performance in the efficiency of overall capital use.

The results of this study show that there is no significant and negative influence of liquidity on the value of the company. This conclusion was made based on the results of the

hypothesis test which showed a p-value (Prob.) of 0.6596 > 0.05. In this study, liquidity has no effect on the value of the company, which means that it is in line with the results of the study (Deli & Kurnia (2017), Yanti & Darmayanti (2019), Astuti & Yadnya (2019) shows that liquidity has a positive effect on the value of the company.

The results of this study show that there is an influence of company size on company value. This conclusion was made based on the results of a hypothesis test that showed a p-value (Prob.) by 0.0498 < 0.05. The results of this study are consistent with the research conducted by Al-Malkawi, 2008; Al-Najjar, 2009; Mollah, 2011 namely The size of the company is considered to be able to affect the value of the company. Larger companies have higher company values. Theoretically, it is based on the ease of access of large companies It is easier to get external funding. The expenditure incurred will be less when compared to small companies (Al-Malkawi, 2008; Al-Najjar, 2009; Mollah, 2011).

The results of this study show that there is an influence of capital structure on the value of the company. This conclusion was made based on the results of a hypothesis test that showed a p-value (Prob.) of 0.0280 < 0.05. The results of this study are consistent with the results of research conducted by Juanita and Prajitno, 2019, namely Capital structure affects in achieving the company's goals, namely maximizing returns on investment and minimizing risks (Junitania and Prajitno, 2019) It can be concluded that capital structure is a comparison between total debt and total capital owned by the company. If the rate of return is

high, then the company's profits increase.

The results of this study show that there is no influence of TATO on the company's value.

This conclusion was made based on the results of the hypothesis test which showed a p-value (Prob.) of  $0.4971 > 0.05$ .

## CONCLUSION

Based on the research results above, it can be concluded that:

1. There is an influence of profitability on the value of the company. This conclusion was made based on the results of a hypothesis test that showed a p-value (Prob.) of  $0.0369 < 0.05$ .
2. There is no significant and negative influence of liquidity on the value of the company. This conclusion was made based on the results of the hypothesis test which showed a p-value (Prob.) of  $0.6596 > 0.05$ .
3. There is an influence of company size on

This study has several limitations consist of (1) This research is only focused on Apparel & Luxury Goods Sub-Sector Companies; (2) this research only uses 5 independent variables, while there are still other variables that can affect company value; (3) this

company value. This conclusion was made based on the results of a hypothesis test that showed a p-value (Prob.) by  $0.0498 < 0.05$ .

4. There is an influence of capital structure on the value of the company. This conclusion was made based on the results of a hypothesis test that showed a p-value (Prob.) of  $0.0280 < 0.05$ .
5. There is no influence of TATO on the company's value. This conclusion was made based on the results of the hypothesis test which showed a p-value (Prob.) of  $0.4971 > 0.05$ .

research is limited to 11 periods. Recommendations for further research are (1) use or add other variables that may affect firm value; (2) extend the research period to produce a larger number of samples and can also increase the accuracy of the results of the study.

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