Analysis of the Effect of Company Performance on Company Value with Profitability as an Intervening Variable

Lulu’atul Azizah and Misbahul Munir

ABSTRACT

The existence of a company in the capital market can be seen by investors and potential investors as a benchmark for its performance, not only focusing on the high profits achieved by the company, but also looking at the value of the company. The objective of the research is to examine the effect of company performance on company value with profitability as an intervening variable. The sample in this research were 7 health sector companies listed on the Indonesia Stock Exchange in 2017-2020 with the samples selection by using the purposive sampling technique. The data analysis technique used in this research is Partial Least Square (PLS) analysis. The results show that Size and Growth do not affect ROA while DER has a negative and significant effect on ROA. Size, DER, and ROA have a positive and significant effect on PBV while Growth has a negative and significant effect on PBV. Then ROA does not mediate the relationship of size, growth, and DER to PBV.

Keywords: DER, Growth, PBV, ROA, Size.

I. INTRODUCTION

Business competition in the globalization era is increasing faster and this is not far from the rapid development of the economic, socio-political, and technological environment. According to (Putri et al., 2021) in business competition, to be able to compete with competitors, a company is required to always develop its company business. Every company must have a goal to increase the company value to retain and attract investors. The increase in the company value indicates the good quality of the company in the future.

The increase in the value of the Health Sector companies, namely in 2018 it was 2.93, in 2019 it was 3.87 and in 2020 it increased by 3.88. The increase in company value in the health sector is the positive impact of the Covid-19, in which the health sector is one of the sectors with high money turnover and has an impact on the company's stock price (idxchannel, 2021). Company value can be influenced by several factors in the company's performance. Company performance is the result of all company activities that measure the company's success. The company performance that will be studied in this research is Company Size (Size), Company Growth (Growth), Capital Structure (DER), and Profitability (ROA).

Based on the level of company size (Size) and company growth (Growth) the Health Sector during 2018–2020 has increased. This is due to the total assets of the health sector, which in the IDX data in 2020, stated that the largest total assets are owned by issuers of the 5 Health Sectors. From the PBV and DER levels, the Health Sector has increased from 2018–2020, due to the health sector stocks being hunted by investors, especially during the pandemic because of their services and products. The ROA level of the Health Sector has increased from 2018–2020, this is due to the increasing need for drugs, medical devices, and others and has an impact on increasing profitability. From the data obtained, it is explained that both size, growth, DER, and ROA are related to PBV, namely by both experiencing an increase from 2018–2020.

Some of the previous research results regarding financial performance, namely the research (Fajartania, 2018) explains that Size and DER have a positive and significant effect on PBV. Another research was conducted by (Tumangkeng & Mildawati, 2018) which explains that Size and DER have no significant effect on PBV while Growth has a negative and significant effect on PBV. Then (Mohklas, 2019) states that DER has a positive and significant effect on PBV while Growth has no significant effect on PBV. The relationship between Size, Growth, DER, and ROA on PBV, and the results inconsistency from previous researchers, encourage the interest of the researcher to re-examine the analysis of Company Performance on Company Value with Profitability as an Intervening Variable.

II. LITERATURE REVIEW

A. Company Value

According to Indrarini (2019: 15) company value is investors' perception on managers in managing the resources entrusted to the company, often associated with stock prices.
(Pratiwi & Wiksuana, 2020) explains that the value of a company is used by investors as a reference in monitoring the company’s performance in the future. The company value formula (PBV) is:

\[ PBV = \frac{Market\ Price\ per\ Share}{Earnings\ per\ Share} \]

B. Company Size

According to Riyanto (2008: 313) company size is the size of the company seen from the value of equity. The size of the company will determine investor confidence. With the size of the company, it will be known to the public and it will be easier to get company information which will have an impact on the company value (Fajartania, 2018). The formula for company size (Size) is:

\[ Size = \ln \text{Total Asset} \]

C. Company Growth

According to Herfet (1997: 333) company growth is the effect of company cash flow from business changes resulting from an increase or decrease in business volume. According to investors, the company’s growth is a sign that the company is making a profit, and investors expect a good return on investment from the company (Tumangkeng & Mildawati, 2018). The company growth formula (Growth) is:

\[ Growth = \frac{Total\ Asset\ t - Total\ Asset\ t-1}{Total\ Asset\ t-1} \]

D. Capital Structure

According to Sudana (2015: 164) capital structure is a company’s long-term cost, which is measured by its long-term debt to equity ratio. (Fajartania, 2018) argues that capital structure is one of the most important aspects of investment and is related to the risks and rewards received by investors. The formula for capital structure (DER) is:

\[ DER = \frac{Total\ Debt}{Equity} \]

E. Profitability

According to Sudana (2015: 25), profitability is the company’s ability to use its resources such as assets, capital, or sales to generate profits. Profitability is an important indicator of a company’s ability to meet investor commitments and the factors that generate company value while ensuring long-term sustainability that drives the company’s future outlook (Ardiana & Chabachib, 2018). The profitability formula (ROA) is:

\[ ROA = \frac{Profit\ After\ Tax \times 100\%}{Total\ Asset} \]

III. RESEARCH METHODOLOGY

This research is quantitative research which aims to test theories, explain between variables, and generalize on the object of research objectives. The research object is the Health Sector Companies Listed on the IDX for the 2017–2020 period. The type of secondary data was taken from the annual financial statements of the Health Sector Listed on the IDX for the 2017–2020 period, the data in this research was obtained from data published on the Indonesia Stock Exchange website, namely https://www.idx.co.id/ Population consisting of Health Sector Companies Listed on the IDX for the 2017–2020 period, totaling 20 companies. The sample selection used the purposive sampling technique by producing 7 companies. This research used data analysis techniques Partial Least Square (PLS).

IV. RESULTS AND DISCUSSION

A. Variable Descriptive Statistics

Descriptive statistics are statistics used to analyze data by analyzing data to draw generalizations or conclusions that are generally accepted.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Mean</th>
<th>Median</th>
<th>Min</th>
<th>Max</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>0.107</td>
<td>0.090</td>
<td>0.010</td>
<td>0.340</td>
<td>0.073</td>
</tr>
<tr>
<td>DER</td>
<td>0.414</td>
<td>0.250</td>
<td>0.080</td>
<td>2.47</td>
<td>0.447</td>
</tr>
<tr>
<td>PBV</td>
<td>3.777</td>
<td>3.320</td>
<td>1.000</td>
<td>9.850</td>
<td>2.382</td>
</tr>
<tr>
<td>ROA</td>
<td>11.54</td>
<td>12.040</td>
<td>2.980</td>
<td>24.260</td>
<td>4.896</td>
</tr>
</tbody>
</table>

In Table I, it can be concluded that the Mean, Median, Min, Max, and Std Deviation fulfill for each variable.

B. Convergent Validity

Convergent validity refers to the principle that component sizes should be highly correlated. The reflective test is rated based on Loading Factor.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Loading Factor</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Size</td>
<td>1.000</td>
<td>Valid</td>
</tr>
<tr>
<td>Company Growth</td>
<td>1.000</td>
<td>Valid</td>
</tr>
<tr>
<td>Capital Structure</td>
<td>1.000</td>
<td>Valid</td>
</tr>
<tr>
<td>Company Value</td>
<td>1.000</td>
<td>Valid</td>
</tr>
<tr>
<td>Profitability</td>
<td>1.000</td>
<td>Valid</td>
</tr>
</tbody>
</table>

In Table II, it can be concluded that the Loading Factor > 0.7 so that each research indicator is declared valid.

C. Discriminant Validity

Discriminant Validity can be seen and assessed with the value of Cross Loading for each variable must be > 0.70.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>PBV</th>
<th>Growth</th>
<th>ROA</th>
<th>DER</th>
<th>Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td>0.169</td>
<td>0.425</td>
<td>-0.020</td>
<td>-0.244</td>
<td>1.000</td>
</tr>
<tr>
<td>Growth</td>
<td>-0.403</td>
<td>1.000</td>
<td>-0.393</td>
<td>0.113</td>
<td>0.425</td>
</tr>
<tr>
<td>DER</td>
<td>0.246</td>
<td>0.113</td>
<td>-0.599</td>
<td>1.000</td>
<td>-0.244</td>
</tr>
<tr>
<td>PBV</td>
<td>1.000</td>
<td>-0.403</td>
<td>0.410</td>
<td>0.246</td>
<td>0.169</td>
</tr>
<tr>
<td>ROA</td>
<td>0.410</td>
<td>-0.393</td>
<td>1.000</td>
<td>-0.599</td>
<td>-0.020</td>
</tr>
</tbody>
</table>

Table III shows that each indicator has a Cross Loading value > 0.7 so that each research indicator is declared valid.

Another method used to test discriminant validity is to compare the roots of the Average Variance Extracted (AVE) for each construct with other constructs in the model.

Table IV shows that the root of the Average Variant Extracted (AVE) on each indicator is > 0.5, which means the discriminant validity is good.
D. Reliability Test

The reliability test consists of Cronbach's Alpha and Composite Reliability. A variable is said to be reliable if it gives Cronbach's Alpha and Composite Reliability values > 0.7.

Table V shows that Cronbach's Alpha and Composite Reliability on each indicator > 0.7. It means that all indicators are reliable.

E. Evaluation of Structural Model (Inner Model)

Evaluation of the structural model can be seen from its R-square value. R-square value 0.75 is strong model, 0.50 is moderate, and 0.25 is weak.

Table VI shows that the R-square value of 0.848 is included in the strong category. It can be seen that the variability of the company value variable can be explained by 84.8% and 15.2% is explained by variables other than those studied.

F. Hypothesis Testing

Table VII shows the path coefficient of the effect of each variable on the other variables. The higher the company value, the greater the company's principal debt obligations, which will make profitability decline.

1) Effect of company size (size) on profitability (ROA)

H1 indicates that Size has a positive and significant effect on ROA. It is explained if the T-statistic is 0.317, the P-value is 0.751, the t-table is 1.961, and the original sample is -0.059 and produces T-statistic < t-table and p-value > 0.05, indicating that a high level of investor confidence will have an impact on stock prices and increase the value of the company.

2) Effect of company growth (growth) on profitability (ROA)

H2 indicates that Growth has a positive and significant effect on ROA. It is explained if the T-statistic is 1.468, the P-value is 0.143, the t-table is 1.961, and the original sample is -0.265 and produces T-statistic < t-table and p-value > 0.05, indicating that a high level of investor confidence will have an impact on stock prices and increase the value of the company.
signal for investors, which results in a decrease in stock offerings and has an impact on company value.

6) Effect of capital structure (der) on company value (PBV)

H6 indicates that DER has a positive and significant effect on PBV. According to the results, it is explained that the T-statistics are 3.279, the P-value is 0.001, the t-table is 1.961, and the original sample is 0.842 and produces T-statistic > t-table and p-value <0.05, indicating that DER has a positive and significant effect to PBV and H6 is accepted. These results support the research of Ardiana & Chabachib, (2018), Prativi & Wiksuana (2020), Fajartania (2018), Amelia & Anhar (2019) and Mohkлас (2019). Ardiana & Chabachib, (2018) states that based on signaling theory, it is good news for investors if the company uses a lot of debt as a source of funding, it indicates that the company has good performance, and the company dares to take large debts.

7) Effect of profitability (ROA) on the company value (PBV)

H7 indicates that ROA has a positive and significant effect on PBV. According to the results, it is explained that the T-statistic is 3.882, the P-value is 0.000, the t-table is 1.961, and the original sample is 0.773 and produces T-statistic > t-table and p-value <0.05, indicating that ROA has a positive and significant effect to PBV and H7 is accepted. These results support the research of Fajartania (2018), Tumangkeng & Mildawati (2018) and Dhani & Utama (2017). According to H7 is accepted. These results support the research of Fajartania (2018), the results are due to the higher the profitability of a company, the higher the expected rate of return for investors, and the higher the value of the company. Supporting signaling theory (Tumangkeng & Mildawati, 2018) states that it is good news for investors and has an impact on company value.

8) Effect of profitability (ROA) in mediating the relationship of company size (size) to company value (PBV)

H8 indicates that ROA can mediate the relationship between Size and PBV. According to the results, it is explained that the T-statistic is 0.289, the P-value is 0.773, the t-table is 1.961, and the original sample is -0.044 and produces T-statistic < t-table and p-value > 0.05, indicating that ROA cannot mediate Size relationship to PBV and H8 is rejected. These results support the research of Pratama & Jaharuddin (2018) and Chandra et al. (2016) that ROA can mediate the relationship between Size and PBV. This is due to investors who do not only focus on the size of the assets owned by the company but also look at the factors in the financial statements and policies set by the company's management.

9) Effect of profitability (ROA) in mediating the relationship of company growth (growth) to company value (PBV)

H9 indicates that ROA can mediate the relationship between Growth and PBV. According to the results, it is explained that the T-statistic is 1.618, the P-value is 0.106, the t-table is 1.961, and the original sample is -0.198 and produces T-statistic < t-table and p-value > 0.05, indicating that ROA cannot mediate Growth relationship to PBV and H9 is rejected. These results support the research of Kelana & Amanah (2020), Zulfa, (2020) and Mohkлас (2019). According to Kelana & Amanah (2020), as the company develops, the company needs more funds, so that profits that should be distributed as dividends are not executed and used for company activities such as asset acquisition and company management. That is, company growth can have a direct impact on company value, but company growth does not affect company value through profitability.

1) Effect of profitability (ROA) in mediating the relationship of capital structure (DER) to company value (PBV)

H10 indicates that ROA can mediate the relationship between DER and PBV. According to the results, it is explained that the T-statistic is 1.864, the P-value is 0.063, the t-table is 1.961, and the original sample is -0.376 and produces T-statistic < t-table and p-value > 0.05, indicating that ROA cannot mediate DER relationship to PBV and H10 is rejected. These results support the research of Imanah et al. (2021), Syafiri (2021), Zulfa, (2020) and Amelia & Anhar (2019) which state that ROA could not mediate the relationship between DER and PBV. (Imanah et al., 2021) state that DER which can increase company profits does not have a significant impact on company value, because ROA cannot convey the impact of DER on company value. Therefore, if an increase in DER cannot increase ROA, then an increase in company value cannot increase DER and indirectly cannot increase company value.

V. CONCLUSION

Based on the results above, it can be concluded that size and growth have no effect on the ROA of the Health Sector Listed on the IDX for the 2017–2020 period, this is due to the company asset maximization that is not good at earning profits. Meanwhile, DER has a negative and significant effect on the ROA of the Health Sector Listed on the IDX for the 2017–2020 period, this is due to the high level of corporate debt which results in the company principal debt obligations getting bigger. Size, DER, and ROA have a positive and significant effect on the PBV of the Health Sector Listed on the IDX for the 2017–2020 period, due to the high level of size, DER and ROA are good news for investors and have an impact on PBV. While the negative and significant growth of the PBV of the Health Sector Listed on the IDX for the 2017–2020 period, this is due to high growth which will increase the need for funds for company operations so that it becomes a negative signal for investors. ROA cannot mediate the effect of size, growth, and DER on the PBV of the Health Sector Listed on the IDX for the 2017–2020 period, this is caused by investors who do not only focus on the profits of the company but also look at financial statement factors.

REFERENCES


