Profitability Factor in Boosting the Company's Value During Pandemic Spreads

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ABSTRACT

This paper aims to determine how to increase the food value and beverage companies' stock or companies during a pandemic. The five research variables are liquidity, working capital turnover, firm size, profitability, and firm value, where profitability as a moderating factor in determining firm value. This study examines 23 beverage and food companies publicly traded on the Indonesian Stock Exchange. The research sample includes 13 companies and 130 pieces of data spanning 2011 to 2020. As an analytical tool, the data processing method makes use of the WarpPLS application version 5.5. The study's findings indicate that liquidity, working capital turnover, and firm size have a significant negative impact on profitability. Profitability has a significant positive effect on the value of a business, whereas other variables do not affect the value of a business. This means that profitability cannot act as a moderating factor in enhancing firm value. The purpose of this study is to make recommendations based on the company's desire to generate profits to increase the company's value or stock market prices.

Keywords: *profitability, company value, manufacturing companies*

1. INTRODUCTION

The global COVID-19 pandemic has ushered in a post-crisis era marked by low-interest rates and growth, a scarcity of liquidity, rising stock markets, volatility, and low inflation (Chen, 2021). Due to the determination of the Indonesian government's policies, particularly in public health, the Covid-19 pandemic has also resulted in a drastic decrease in profits and capital turnover for companies in Indonesia. 2020 (Siraj et al.). According to the Ministry of Industry of the Republic of Indonesia (2019), the beverage and food industry is one of the manufacturing sectors contributing the most to Indonesia's economic growth. The food and beverage industry is one of the few business sectors that maintained a positive growth rate of 0.22 % in the second quarter of 2020, despite the impact of the Covid-19 pandemic. (Toni & Nelly, 2020). The business industry, dominated by the beverage and food industries, employs 3.3 million people, or 21.34 % of the workforce. Domestic investment from beverage and food business actors reached IDR 38.54 trillion in 2017, while foreign investment totalled US $ 1.97 billion or IDR 26.4 trillion.

Additionally, consumer demand for food and beverage products is constantly increasing, providing an opportunity for businesses with sound management to succeed. (Toni & Nelly, 2020). The market price of the company's stock can be used to determine its value, as the market price of the company's stock is a proxy for the public's perception of its actual performance. On the other hand, maximizing stock prices is not synonymous with maximizing company profits (Almomani et al., 2021). Figure 1 summarizes the profit or profitability and company value of manufacturing companies in Indonesia:

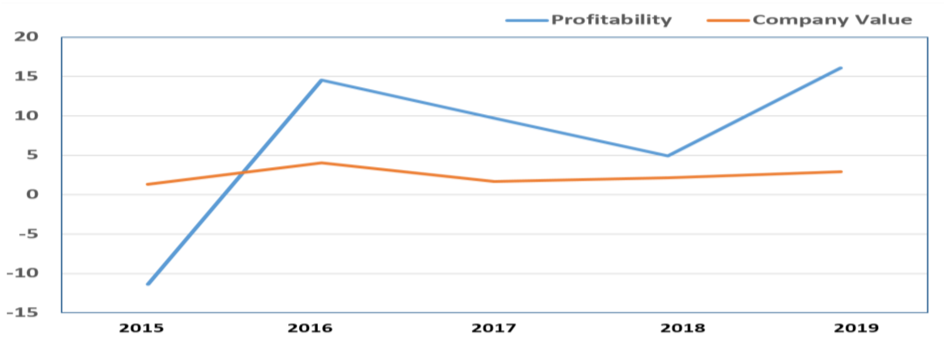

Figure. 1. Company Value of Manufacturing Entreprises in Beverage and Food Sector 2015-2019 (Source: Indonesia Stock Exchange, 2021)

According to Figure 1, manufacturing enterprises in Indonesia's beverage and food sectors lost money or did not generate profits in 2015, with a profitability value of minus 11.39. However, profitability increased significantly in 2016, by 14.55 percent. Profitability growth was also accompanied by an increase in the company's value in 2016. Profitability decreased by 49.22% in 2018, but the company's value increased by 28.48 percent. This demonstrates that a decline in profitability does not necessarily translate into a reduction in firm value. This statement contradicts Modigliani and Miller's theory, according to which the value of a business is determined by the present value of future revenue or profits (Jihadi et al., 2021).

Three objectives were pursued with this study. The first objective is to investigate the relationship between or influence of liquidity, working capital turnover, and firm size on the profitability of beverage and food manufacturing firms. The second objective is to determine the extent to which liquidity, working capital turnover, company size, and profitability affect the stock market value of a company. The purpose of the most recent study is to determine whether profitability is related to the impact of liquidity, working capital turnover, firm size, and company value. The purpose of this research is to determine the factors that accelerate the growth of company value in beverage and food companies during a pandemic so that businesses can implement appropriate strategies for increasing profits and company value as reflected in stock prices.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Profitability and the Effects of Liquidity, Turnover Work Capital, and Company Size Affluence (LQD). Liquidity risks arise when supply and demand for goods do not match. In a given period, liquidity keeps the balance of incoming and outgoing funds (Ahamed, 2021). The survival of a business's continuity is highly dependent on its ability to manage its liquidity—the inability to generate optimal profits results in an illiquid position (Mohanty & Jathurika, 2018). Liquidity has a sizable impact on profitability (Mohanty, 2018; Madushanka & Jathurika, 2018; Lestari & Khafid, 2021). These variables had a negligible effect on profitability (Al-Matari, 2021). Thus, the first hypothesis (H1) is as follows:

H1. LQD has a significant impact on manufacturing companies' profitability (ROE). Working Capital Turnover (ToWC). ToWC plays a critical role in determining businesses' profitability and liquidity ratios. According to the trade-off theory, ToWC efficiency is crucial because it faces bankruptcy if it does not prioritize ToWC efficiency (Mohanty, 2018). Effective working capital management establishes solid economic fundamentals that determine a company's level of success and increase its ability to adapt to market changes. Changes in interest rates and raw material prices are examples of these market changes. Adaptability can help you win the market (Basyith et al., 2021).

Manufacturing firms typically allocate relatively more minor or more working capital over fifteen years. (2017) (Chauhan, 2019).

The working capital financing strategy has a marginally negative effect on profitability (Basyith et al., 2021; Farooq, 2019; Siraj et al., 2020); Working capital turnover has a significant impact on a firm's profitability (Sharif & Islam, 2018; Boisjoly, 2020; Almomani et al., 2021; Alvarez et al., 2020). The second hypothesis **(H2)** can be stated as follows:

H2. ToWC has a significant impact on manufacturing companies' profitability (ROE). The Size of the Business (SIZE). Larger businesses typically have more robust internal control mechanisms than smaller businesses. A powerful internal control mechanism promotes the smooth and optimal operation of the company to meet stakeholders' expectations. Companies with significant operations will adhere to sound business practices to maximize profits following generally accepted accounting principles

(Lestari & Khafid, 2021). Size has a negative effect on banks' performance (Al-Matari, 2021; Lestari & Kharmsy's size reflects the company's scale. Large-sized businesses have matured and are relatively more stable, generating higher profits (Lestari & Khafid, 2021). Hypothesis three (H3) is as follows:

H3. SIZE has a significant impact on a manufacturing company's profitability (ROE).

Profitableness (ROE). Profitability reveals the company's high and low performance. Profitability refers to a business's strength and capacity to profit over a specified period. (2018) (Mulyana et al.). Profitability ratios quantify a company's ability to generate profits and value from the assets it owns or the costs it incurs over a specified period. Return on equity (ROE) is a profitability ratio that indicates how much profit a business earns on its capital (Jihadi, 2021). Profitability has no bearing on the value of a business (Kalbuana et.al, 2020). Profitability has a positive effect on the stock price, or profitability has a significant impact on the company's value. (Tahu & Susilo, 2017; Jordan et al., 2021). According to the preceding description, hypothesis four (H4) is as follows:

H4. Profitability (ROE) has a material effect on manufacturing firms' Company Value (PBV).

Value of a Business (PBV). Investors' assessment of the company's success can be seen in the relationship between its book value (PBV) and its share price. A high company value can instil market confidence in a company's prospects. The Price to Book Value (PBV) formula can determine the company's value (Kalbuana et.al, 2020). A significant source of funding for businesses is the company's market value in the securities market. The increase in the company's value will improve its image and the quality of its relationships with stakeholders, most notably investor trust. (Mili et al., 2019; Lee, 2019). Liquidity has a significant impact on the value of a business (Mulyana et.al, 2018; Kalbuana et.al, 2020). Liquidity has a negligible effect on the company's value (Tahu & Susilo, 2017). According to previous research, the following six hypotheses exist:

H5. Liquidity (LQD) significantly impacts the Profitability of Beverage and Food Companies (PBV).

H6. ToWC has a significant impact on the Public Business Value (PBV) of beverage and food companies.

H7. In beverage and food companies, company size (SIZE) significantly impacts company value (PBV).

H8. Profitability (ROE) may act as a moderator between LQD and PBV.

H9. Profitability (ROE) may act as a moderator between ToWC and PBV.

H10. Return on equity (ROE) may be a moderator in the relationship between SIZE and PBV.

3. RESEARCH METHOD

The purpose of this section is to determine the factors that can increase the value of beverage and food companies during a pandemic. The analytical technique was used to investigate the relationship between liquidity (LQD), working capital turnover (ToWC), firm size (SIZE), and profitability (ROE) as mediating variables on beverage and food firm value (PBV). The financial statements of beverage and food companies were obtained legitimately from the Indonesia Stock Exchange's official website, namely www.idx.co.id. The economic data used in this study is derived from the financial statements of manufacturing companies in the food and beverage industry over ten years, from 2011 to 2020. The population for this study is 23 manufacturing companies in the food and beverage sector listed on the Indonesian Stock Exchange (IDX). The sample for this study is 130 data points from 13 manufacturing firms in the food and beverage industry, as ten firms failed to issue a complete report for ten years. The descriptive quantitative research method with an SEM approach was used in this study. WarpPLS version 5.5 was used for analysis. Warp PLS is capable of deciphering indirect and total effect values, as well as p-values and standard errors. This output indicates whether or not the mediating variable (mediating/intervening variable) supports hypothesis testing.

4. RESULTS AND DISCUSSION

The WarpPLS analysis demonstrates a causal relationship between liquidity (LQD), turnover working capital (ToWC), firm size (SIZE), and profitability (ROE) as a mediating variable on firm value (PBV). As shown in Figure 2, the complete research model is as follows.

By examining the path coefficient of the model equation and the P-value in Table 1, it is possible to conclude that liquidity (LQD) has a significant but negative effect on profitability (ROE). The first hypothesis (H1) is not rejected due to the 0.001 p-value and the -0.455 p-value of the LQD coefficient. The second hypothesis analysis (H2) reveals that working capital turnover (ToWC) has a significant and detrimental effect on profitability. The second hypothesis (H2) is acceptable due to the p-value of 0.001 and coefficient of -0.264 against ToWC. Additionally, other findings indicate that firm size has a significant negative impact on profitability (ROE), with a coefficient of -0.268 and a p-value of 0.001. As a result, H3 is accepted. The fourth hypothesis (H4) is also accepted, as the profitability (ROE) coefficient is

0.741 and the p-value is 0.001. Thus, profitability (ROE) has a positive and significant effect on the value of a business (PBV). Hypotheses five (H5), six (H6), and seven (H7) are all rejected because the p-value is less than 0.001. This means that LQD, ToWC, and SIZE have no direct effect on the company's value (PBV). As shown in Table 1, profitability (ROE) can mediate the relationship between all variables (LQD, ToWC, and SIZE) and firm value. As indicated by the p-value of 0.001, hypotheses 8, 9, and 10 can all be accepted.

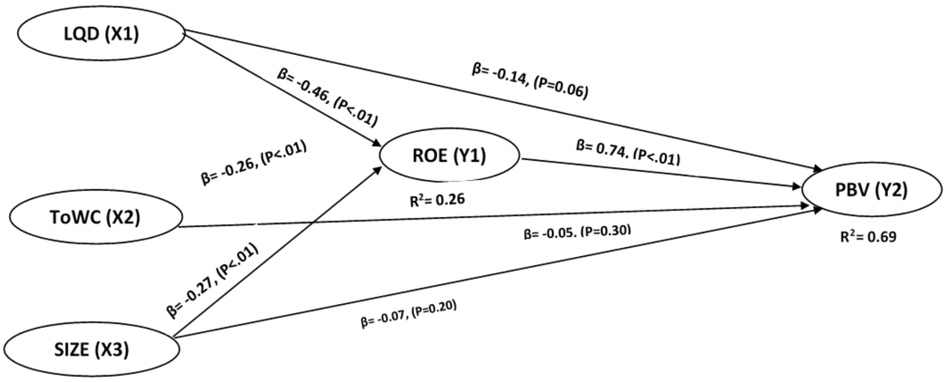

Fig. 2. Full Research Model

Table 1. Direct Effect and Indirect EffectCoefficient and P-Value Results of All Variables

Path	Coefficient	*P-value*
LQD →ROE	-0.455	<0.001***
ToWC → ROE	-0.264	<0.001***
SIZE → ROE	-0.268	<0.001***
LQD → PBV	-0.136	0.057
ToWC → PBV	-0.046	0.30
SIZE → PBV	-0.072	0.20
ROE → PBV	0.741	<0.001***

Table 2. Full Collinearity and R Squared

	LQD	ToWC	SIZE	ROE	PBV
Full collinearity	1.160	1.233	1.125	2.698	2.783
R *squared*				0.260	0.689

Additionally, to observe the variation in profitability (ROE) at R squared 0.260 or 26%. This means that LQD, ToWC, and Size vary in their effect on profitability (ROE) of only 26%. In comparison, the remaining 74% is explained by other variables not included in this study. The adjusted R squared value for the effect of LQD, ToWC, Size, and ROE on company value (PBV) is 0.689 or 68.9 %. It demonstrates that variations in LQD, ToWC, Size, and ROE have a 68.9 % effect on company value (ROE), while the remaining 31.1 % is explained by other variables not included in this study.

5. CONCLUSION AND RECOMMENDATION

The study's initial objective is to determine the effect of liquidity, working capital turnover, and firm size on profitability. All variables, including liquidity, working capital turnover, and firm size, have a significant negative impact on profitability. This demonstrates that the first three hypotheses are accepted. The second objective of this research is to examine the relationship between firm value and liquidity, working capital turnover, firm size, and profitability. As a result, only profitability variables affect firm value, whereas liquidity, working capital turnover, and firm size variables have no effect. The third objective of this study is to determine whether profitability can act as a bridge or mediator between the variables of liquidity, working capital turnover, and firm size when it comes to increasing firm value. The findings indicate that profitability cannot bridge or mediate the relationship between liquidity, working capital turnover, and firm size to increase firm value. Thus, profitability is the only variable that can increase the value of a beverage or food company.

Recommendations for manufacturing companies in the food and beverage sector to focus exclusively on profit generation, as profit is a factor that directly affects a company's value. A high company value is critical in the current pandemic situation, as it can boost its reputation and investor confidence. It is recommended that future research incorporates external variables such as corporate social responsibility, inflation, and currency exchange rates. Additionally, other research objects such as service companies, government-owned enterprises, and banks could be used in the future.

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